

**MANAGEMENT OF DEPOSIT AND LOAN OF
NABIL BANK LIMITED**

By

KRISHNA PRASAD DHAKAL

Shanker Dev Campus

Campus Roll No : 1781/061

T.U. Regd. No. : 7-1-241-204-96

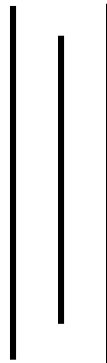
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RECOMMENDATION

This is to certify that the Thesis

Submitted by:

KRISHNA PRASAD DHAKAL

Entitled:

**MANAGEMENT OF DEPOSIT AND LOAN OF
NABIL BANK LIMITED**

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

.....
Prof. Dr. Kamal Deep Dhakal
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head of Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

.....
Shankar Raj Joshi
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by

KRISHNA PRASAD DHAKAL

Entitled:

**MANAGEMENT OF DEPOSIT AND LOAN OF
NABIL BANK LIMITED**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the Degree of Master's in Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

TRIBHUVAN UNIVERSITY

Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Management of Deposit and Loan of Nabil Bank Limited**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Prof. Dr. Kamal Deep Dhakal and Shankar Raj Joshi** of Shanker Dev Campus.

.....

KRISHNA PRASAD DHAKAL

Shanker Dev Campus

T.U. Regd. No. : 7-1-241-207-96

Campus Roll No : 1781/061

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Researcher

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LIST OF ABBREVIATIONS

ABBS	Anywhere branch banking service
A/c	account
Act.	Acting
A. D.	After Death
ADBL	Agriculture Development Bank Limited
ATM	Automatic Teller Machine
B. C.	Before Christ
B. E. A.	Break Even Analysis
BEP	Break- Even Point
BIS	Bank of International Settlements
BOK	Bank of Kathmandu
C.L	Confidence Level
C.M.	Contribution Margin
C.V.	Coefficient of Variation
CAC	Customer Acquisition Cost
CAMELS	Capital adequacy, Asset quality, Management soundness, Earnings, Liquidity, Sensitivity to market risk
CAR	Capital Adequacy Ratio
CBTTD	Cash and Bank balance To Total Deposit
CCR	Core capital Ratio
CRR	Cash Reserve Ratio
CVP	Cost-Volume-Profit
DPS	Dividend per Share
EBL	Everest Bank Limited

EMI	Equal Monthly Installment
EPS	Earnings per Share
etc	et cetra
FCY	Foreign Currency Accounts
F/Y	Fiscal Year
GSTTD	Government Securities to Total Deposit
i.e.	That is
IPO	Initial Public Offering
IRR	Interest Rate Risk
LBL	Laxmi Bank Limited
LC	Letter of Credit
LLPR	Loan Loss Provision Ratio
Ltd.	Limited
MER	Management Efficiency Ratio
MPS	Market Price per Share
NBA	Nepal Bankers Association
NBBL	Nepal Bangladesh Bank Limited
NBL	Nepal Bank Limited
NBLRF	Nabil Bank Limited Retirement Fund
NCC	Nepal Credit & Commerce Bank
NIDC	Nepal Industrial Development Corporation
NPL	Non-Performing Loan
NRB	Nepal Rastra Bank
NRS	Nepalese Rupees
p	page number
P. a.	Per annum
P.E.	Probable Error

P/E ratio	Price Earnings ratio
RBB	Rastriya Banijya Bank
ROA	Returns on Assets
ROE	Returns on Equity
ROI	Return on Investment
RSA	Rate Sensitive Assets
RSL	Rate Sensitive Liabilities
Rs.	Rupees
S.L	Significance Level
SME	Subject Matter Expert
SWIFT	Society for Worldwide Interbank Financial Telecommunication
Tab	Tabulated
TC	Travelers Cheque
TU	Tribhuvan University
U.S.	United States
UBPR	Uniform Bank Performance Report
UK	United Kingdom
USA	United States of America
Viz.	videlicet
WTO	World Trade Organization
www	World Wide Web
%	Per Cent
&	Ampersand

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the least developed countries of the world with per capita income of 472 US dollars, the lowest in South Asia. The economy is currently growing at a rate of 3.5 per cent or less, population of the country is growing at a rate of 1.42 per cent and therefore per capita income has grown by little over 2 percent. Besides, the country is beset with 25.4 per cent of the population in absolute poverty and half of the labour force either underemployed or unemployed. The distribution of income and wealth is uneven with 10 percent of the households enjoying 53 percent of the national income and 6 percent of the households occupying 33 per cent of the agricultural land. (**National Planning Commission, Annual Development Programme 2067/068**).

The unemployment situation is equally alarming. The labor force is growing at a rate of nearly 2.4 percent; and current output growth can create job opportunities for not more than half of the additional labour force. If gainful employment situation is considered, the unemployment rate goes as high as 14 percent. The existing employment elasticity of output growth is very low, somewhere around 0.4 implies that each 5 percent growth of the economy can create job opportunity for only 2 percent of the labour force. In such a situation, if unemployment and underemployment rates are to be reduced, either a significantly higher economic growth rate is required, or a highly labor intensive output growth strategy has to be adopted. It is obvious that the present growth rate of not more than 5 percent in an average, against the population growth rate of 1.42 percent, would take some 24 years for per capita income to double. Such a slow growth in per capita income is very unlikely to reduce the intensity of absolute poverty clutching nearly half of the population. Unless the economic growth rate is reasonably high, alleviation of

poverty and reduction of unemployment problem are very difficult to achieve. **(National Planning Commission, Vikash Journal, Shrawan 2067).**

While discussing about globalization, we must understand that the national economy has not even internally integrated. Market institutions and forces are yet to emerge in a competitive way. Nearly half of the population lives in absolute poverty and illiteracy. More than 80 per cent of the population earns livelihood from agriculture, which, however, constitutes only 40 per cent of the country's national income. For want of proper planning process, commitment, accountability, and integrity of the government, and in lack of people's participation in development activities, forty years of planned development efforts have been little successful in their objectives, hence to solve the problems facing Nepalese people. In an attempt to globalized national economy, the government, elected after the restoration of multiparty democracy in 1990, moved for an open, liberal and private sector led economy. Trade, investment, foreign exchange, financial and industrial sectors were subsequently deregulated, de-licensed, and privatized. Although the euphoria brought about by economic liberalization resulted in a satisfactory performance of the economy for a few years, the so-called success was soon over. Hasty liberalization and improper sequencing of globalization measures subsequently resulted in the slowdown in industrial activities, low economic growth rate, and worsening income distribution.

Opening up the Nepalese economy to the global order in early 1990s created much room for foreign borrowing along with widening market for domestic products. As exports of the country went up by five folds, so did the foreign debt. From less than 37 per cent of the national income in 1990, foreign debt swelled up to 56 per cent in 1998. Part of the surge in debt is due to devaluation of the Nepalese rupee, somewhat wrongly exercised as a tool of export promotion following the outward orientation of the economy. If the experiences of East Asia, South Asia, China, Russia, and some of the Latin American countries are taken into consideration, a big bang approach to liberalization often fails just because it dismantles all the existing institutions and safety nets without necessarily creating market based

ones. And thus leaves off the weak and vulnerable class to the mercy of the market. But it has also to be realized that liberalization has been a reality of the global development paradigm, and liberal economic policies tend to be a part of the multiparty political system we are exercising.

Thus the best option would be a gradual process of liberalization and globalization for the benefit of the country in terms of efficiency, adoption of new technology, inflow of capital, and market expansion. But it should not necessarily displace domestic entrepreneurs, domestic industrial bases, domestic savings and existing social safety nets. The process should be pulled towards the alleviation of poverty and towards the improvement of living standard of the working people.

In any economy the importance of financial sector in general and banking sector cannot be undermined and Nepal is no exception. Banking sector plays a pivotal role in overall development of an economy. Banks provide the platform for development by channeling investment where it is needed and can be put to best use. Banking system supports the investment process by mobilizing household and foreign savings for investment by firms. It ensures that these funds are allocated to the most productive use and spreading risk and providing liquidity so that firms can operate the new capacity efficiently. With regards to the present bleak situation of Nepal, Banks could play a significant role to change the desolate economic scenario of Nepal.

1.2 Meaning of Banking

The development of human civilization has brought forward awareness in many aspects of life and eventually, economy has become a crucial part of human life. With this, monetary system came out of the cocoon of barter system to start in practice. After a long course of development, financial institutions came into existence as bank.

The word 'Bank' originated from the Latin word 'Bancus', which means 'a bench'. In the same manner, its origin is connected to the French word 'Banque' and the Italian word 'Banca', both having the same meaning - 'bench'. This connection is perceived in the sense that in the past, people used benches to deal money.

However, there is an equally meaningful connection to the German word 'Banck' which means 'collecting funds'.

Bank is a legal entity which deals with money and credit. In other words, an institution which provides financial service to its customers is called a bank. The main purpose of a bank is to avoid idle deposits to remain scattered in the public and to channelize such monetary fund from the public for productive use.

Some scholars have provided the definitions of bank in the following manners:

'A bank is an institution whose whole debts widely accepted in settlements of other people's debt'. **R S Sayers**

"A bank is an organization whose principal operations are concerned with the accumulation of temporary idle money of the general public for the purpose of advancing to others for expenditure." **Kent**

"Bank is an institution which collects the money from those who have it to spare and who are saving it out of their income and lends this money out to those who require it." **Crowther**

"Bank is an organization established for the purpose of exchange money deposit lending money and participation in transactions." **Commercial Bank Act 2031 (Nepal)**

"Bank is that institution or individual who is always ready to serve money on deposit to be returned against the cheque of their deposits(savers). **Walter Leaf**

In summary, a bank can be defined as any business organization that offers acceptance of deposits, which is subject to withdrawal on demand (either through check or electronic transfer or both) and grant loans and credits to private individuals and business firms on commercial basis.

A Banker is defined as an individual, partnership or corporation whose role or predominating business is banking, that is, the receipt of money on current or deposit Account, and payment of cheque paid in by a customer.

1.3 History of Banking

The history of banks can be traced to religious temples way back in third millennium B.C. Banks are thought to have predated the invention of money. Greek temples, as well as private and civic entities, conducted financial transactions such as loans, deposits, currency exchange, and validation of coinage. There is evidence too of credit, whereby in return for a payment from a client, a moneylender in one Greek port would write a credit note for the client who could "cash" the note in another city, saving the client the danger of carting coinage with him on his journey. Pythius, who operated as a merchant banker throughout Asia Minor at the beginning of the 5th century B.C., is considered as the first individual banker in the world. Studies suggest that in the late 3rd century B.C., the barren Aegean island of Delos, known for its magnificent harbor and famous temple of Apollo, was a prominent banking center. Ancient Rome perfected the administrative aspect of banking and saw greater regulation of financial institutions and financial practices. Charging interest on loans and paying interest on deposits was more highly developed and competitive in Rome. Banking in the modern sense of the word can be traced to medieval and early Renaissance Italy, to the rich cities in the north like Florence, Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches in many other parts of Europe. The most famous Italian bank was the Medici bank, set up by Giovanni Medici in 1397 while the modern western economic and financial history is usually traced back to the coffee houses of London. The London Royal Exchange was established in 1565 A.D. At that time moneychangers were already called bankers, though the term "bank" usually referred to their offices.

In the east, it is believed that banking was practised at the time of "Manu" as it is referred as Manusmriti while some others report that it was practised during Chanakya's period too as banking has been mentioned in "Kautilya's Arthasastra", the first book on Economics. However the history of modern banks begins from Bank of Venice in Italy in 1157 A.D. and the organized development of bank progressed with the establishment of Bank of Barcelona in 1401 A.D.,

Bank of Geneva in 1407 A.D., Bank of Amsterdam in 1609 A.D. and Bank of England, the first central bank, in 1694.

1.4 Development of Banking in Nepal

The history of banking in Nepal can be described as a component of gradual and ordinary evolution in the financial and economic sphere in the Nepalese life. Goldsmiths, merchants, and money lenders were the ancient bankers of Nepal. Though the monetary history of Nepal dates back to Lichhavi and Malla period "Tejarath Adda" established during the tenure of Ranodipp Singh is considered as the first banking institution. Tejarath Adda used to provide loans to civil servants and public against the salary and gold, silver and collaterals respectively. Some historians report that "Kaushi Tokha Khana" established during the period of Prithivi Narayan Shah also provided loans to government officials and public but it couldn't be considered as bank as it didn't collect deposits.

Modern banking operations were institutionalized in Nepal in the year 1937 A.D./1994 BS when Nepal Bank was established as the first commercial bank in Nepal under the Company Act 1936 A.D, following the replacement of 'Tejarath Addha' as a merger of the government and the private sector. Thus Nepal Bank Limited is considered as the "Pioneer Bank of Nepal".

The government's realization for expanding banks to nooks and corners of the country, ending dual currency system that was prevalent at the time and stabilizing highly volatile exchange rate gave birth to Nepal Rastra Bank, a central bank, in 2013 B.S. It was followed by the establishment of a Cooperative Bank in 2019 which was merged later to Agricultural Development Bank in 2024 B.S. Similarly, another commercial bank, Rastriya Banijya Bank, was set up in 2021 B.S. as a fully government owned commercial bank of Nepal. This period is marked as the second phase of banking development in Nepal.

The process of the development of banking system in Nepal was not satisfactory up to 2040 B.S. (1983 A.D.). Instead of opening new banks to provide further service to the public, mere extension of branches and sub-branches of existing banks took place.

However, the Government of Nepal was observing the events that were taking places in the world too. The Government was deeply studying and searching the sorts of programs, policies, law and regulation that should be brought into practice. A country cannot change its status by using only its own capital and accordingly, law policy were enacted by the state to encourage the foreign investment on banking sector. Thus modern basis for the development of the banking system started in Nepal.

Thus, Nepal Arab Bank Limited (renamed as Nabil Bank Limited) was established in 1985 A.D. under the commercial bank act 1974 A.D. (2031 B.S) and the companies act 1965 A.D. (2021B.S.) as a first bank on the joint investment basis. After that, the second bank established in 1985 A.D. (2042 B.S.) was the Nepal Indosuez Bank Ltd., currently named as Nepal Investment Bank Ltd. In this way, the development of banking of Nepal took its third phase of banking Development.

After the restoration of democracy in Nepal, a tremendous development in banking sector took place as it entered the fourth phase of banking development with Rural Development Bank after which, it entered the fifth phase with the advent of development bank and micro financing and other financial institutions.

At present there is one central bank, 31 commercial banks, more than 83 development banks, more than 79 financial companies, more than 16 co-operatives (registered under NRB), 25 micro credit financial institutions and 45 NGOs operating for financial activities in Nepal. Thus, it is clear that the growth and development of banks in Nepal is in a satisfactory condition.

As mentioned above, the prominent objective of banks is to collect deposits from general public, channelize them to investment sectors and provide loans to the public at considerable rates. Thus, this study is centered on the management of loan and deposit.

Deposits are transactions involving transfer of fund to another party for safeguard. It is a portion of the overall monetary fund that is used for security as collateral for the delivery of goods. In order to collect deposit, banks open Current Account, Saving Account, call Account, Special Account, Recurring Deposit, FCY Account

for the safeguard of money. Loan is the money provided in advance to borrowers as per the common stipulation to repay it in a fixed future date along with a considerable amount of interest. In legal terms, loan is an agreement between the borrower and the lender where the lender promises to lend money to the borrower and the borrower promises to pay it back with an added amount, called interest, in a fixed future date.

Loan can be categorized under various aspects. Some basic types of loan are Commercial and Industrial Loan, Inter Bank's Loan, loan Participation, Real Estate Loan and other consumer loans such as Auto Loan, Home Loan (mortgage) and other forms of consumer installment credit.

With the objective of enhancing efficiency, healthy competition and quality banking service the foremost crucial challenge that banks must face is effective management of Deposit and Loan & Advance.

1.5 Meaning of Joint Venture Banks

A Financial business structure formed by two or more parties for a specific purpose. Joint ventures are similar to partnerships, but are usually limited to one or two projects or countries. In the financial services industry, joint ventures have been widely employed for marketing products or services that one of the parties, acting alone, would have been legally prohibited from doing. Prior to financial modernization legislation enacted in 1999, banks often formed joint ventures with life insurance companies to market annuities and insurance to bank customers. Various authors and experts have defined joint venture in various ways:

As per **Jauch & Glueck in Business Policy and Strategic Management, 5th edition, (New York: McGraw Hill Book Company,1980, p:232)** "when two or more independent firms mutually decide to participate in a business venture, contribute to the total equity or more or less capital and establish a new organisation, it is known as joint venture."

As per **Charles P. Lickson in A Legal Guide for Small Business** "Joint ventures are not business organizations in the sense of proprietorships, partner-ships or

corporations. They are agreements between parties or firms for a particular purpose or venture. Their formation may be very informal, such as a handshake and an agreement for two firms to share a booth at a trade show. Other arrangements can be extremely complex, such as the consortium of major U.S. electronics firms to develop new microchips. A joint venture is, in effect, a form of partnership that is limited to a particular purpose." (www.referenceforbusiness.com)

"An association of two or more individuals or companies engaged in a solitary business enterprise for profit without actual partnership or incorporation; also called a joint venture". (www.lawencyclopedia.com)

In summary, joint venture is a contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking where the parties agree to share the profits and losses of the enterprise. It is similar to a business partnership, with one key difference: a partnership generally involves an ongoing, long-term business relationship, whereas a joint venture is based on a single business transaction. Individuals or companies choose to enter joint ventures in order to share strengths, minimize risks, and increase competitive advantages in the marketplace. Joint ventures can be distinct business units or collaborations between businesses.

1.6 Joint Venture Banks in Nepal

The joint venture banks in Nepal have a short history. These banks came in existence after the reforms in 1980's. Before the reforms such as allowing foreign bank to operate as a joint venture, lifting of control in interest rates and introduction of auctioning of government security, Nepal Bank Ltd and Rastriya Banijya Bank Ltd. were the only commercial banks in Nepal. Being government controlled they lacked efficiency of a private organization and the prompt decision-making. Besides, the absence of other financial institutions in the market gave them a monopoly over the market. So, as the economic development gathered speed and volume of transaction started to grow, government brought those reforms.

The establishment of joint venture banks in Nepal have brought forward various reforms such as improved management and banking techniques, customer oriented marketing, and the creation of competitive environment.

List of Joint Venture Bank of Nepal

After the economic reforms in the 1980 several banks came into existence. The currently operating joint venture commercial banks in Nepal are as follows:

Table 1.1
Joint Venture Commercial Banks

S.N.	Bank	Date of Operation	Paid Up Share Capital (Rs. in Millions)	Foreign Share (%)	Foreign Bank
1	Nabil Bank Limited	2041-03-29	689.2	50	NB International, Ireland.
2	Standard Chartered Bank Nepal Limited	2043-10-16	620.8	75	Standard Chartered Grind Lays Bank Limited. Australia & UK
3	Himalayan Bank Limited	2049-10-05	1013.5	20	Habib Bank Limited, Pakistan
4	Nepal SBI Bank Limited	2050-03-23	877.4	50	State Bank of India, India
5	Nepal Bangladesh Bank Limited	2051-02-23	744.1	25	IFIC Bank, Bangladesh
6	Everest Bank Limited	2051-07-01	831.4	20	Punjab National Bank, India
7	NMB Bank Limited	2065-02-20	1000.0	15	Young Lien Reality SDN BHD; Malaysia

Source: www.bfr.org.np

Thus the Nabil Bank Limited became the first joint venture commercial bank of Nepal which was able to mark a quantum leap in the history of banking in Nepal.

1.7 Introduction to Nabil Bank Limited

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started its operation in July 1984 A.D. with an authorized capital of NRS. 100 Million and paid up capital of NRS. 30 Million. Dubai Bank Ltd. was the initial foreign joint venture partner with 50% equity investment which was later on, transferred to Emirates Bank International Limited, which again sold its entire holding to N.B International, Ireland and it was later on transferred to National Bank Limited, Bangladesh. Hence Nabil Bank Limited is currently operating with joint venture partnership with National Bank Limited, Bangladesh.

Nabil Bank Limited, originally named as Nepal Arab Bank Limited, with its head office in Kamaladi, Kathmandu is the pioneer in introducing many products and marketing concepts in banking sector. It has provided a milestone in the banking history of Nepal by starting an era of modern banking with customer satisfaction. At present, the bank is providing services to its clients through 40 branches that are spread all over the country and 170 correspondent banks all over the globe.

Vision Statement of Nabil Bank Limited

The vision of Nabil Bank Limited is ‘to get the bank ahead in creating values for all its stakeholders.’

Mission Statement of Nabil Bank Limited.

A leader in the financial industry and committed to the mission, to be the ‘**1st Choice Provider of Complete Financial Solutions**’ to all stakeholders, Nabil Bank has lived by a set of core Values, **C.R.I.S.P.**; Customer Focused, Result Oriented, Innovative, Synergistic and Professional. Nabil bank is committed to live by its Values everyday in everything it does, for these Values are the ones that make Nabil Bank unique.

Value statement of Nabil Bank Limited

The value statements of Nabil bank are to work up to excelling the uppermost expectations and satisfactions of its customers keeping up with the directives of the Board, fostering professionalism and career development of the staff along with the accountability towards the community as a whole with the major objective of extending international standard modern banking services to various sectors of the society.

Brand Promise of Nabil Bank Limited

To fulfill its mission and vision statement, the Nabil Bank has been officiating with the brand promise 'Your Bank at Your Service'.

Capital Structure of Nabil Bank Limited

At the beginning the bank has an authorised capital of 60 million & paid of capital of 30 million.

The present capital structure of the bank is as below:

Authorized Capital: NRS 1600 Millions

Issued Capital: NRS 965.747 Million

Paid up Capital: NRS 965.747 Million

With this capital structure and its strong management system, Nabil Bank can currently state that it is in a position to claim that it is the "Bank of first choice" to all its Stakeholders & Customers.

The present share ownership of the Nabil Bank is as follows:

Table 1.2

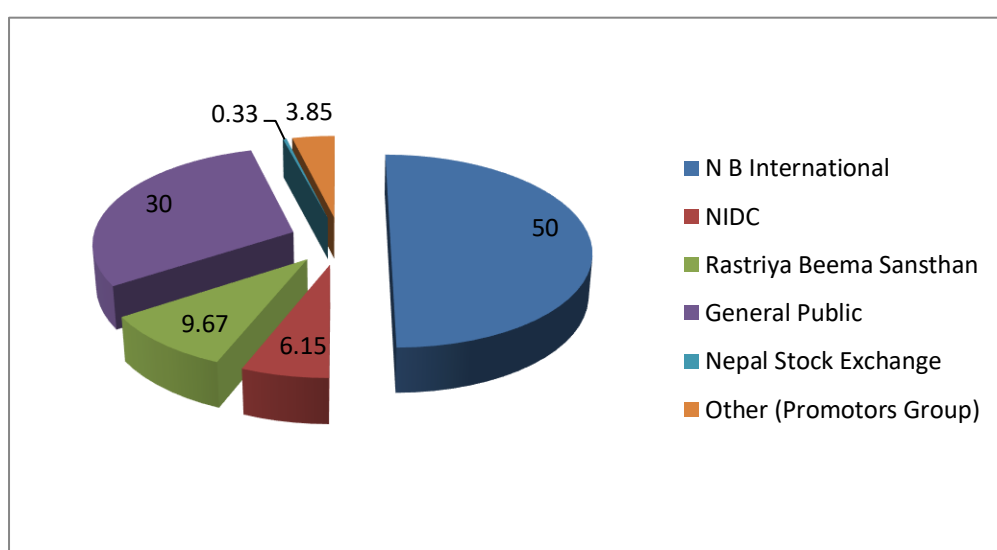
Ownership Structure of Nabil Bank Limited

S.No	Owners Name	Ownership %
1.	NB International (foreign Partner)	50
2.	NIDC	6.15
3.	Ratriya Beema Sansthan	9.67
4.	General Public	30
5.	Nepal Stock Exchange	0.33
6.	Others (Promoter Group)	3.85

Source: Annual Reports of Nabil Bank 066/067

Figure: 1.1

Ownership Structure of Nabil Bank Limited



1.7.1 Deposit offered by Nabil Bank Limited.

Nabil Bank provides various deposit accounts to its customers. Deposits in Nabil Bank are as follows:

- **Current Deposit**

In current deposit account one can withdraw or deposit any amount of cash. However, one has to maintain the minimum balance in the account as set by the bank to avoid ledger fees set by the bank. One will be provided with a cheque book containing as many leaves as required depending on the business transactions. Individuals, profit-making business houses, national and international

non-government organizations and others open current accounts. This is a non-interest bearing account. Normally statements are provided to customers on a periodic basis. Nabil Net (online banking system) is also available to download statements and note transactions.

- **Call Deposit**

Call deposit accounts are those accounts where one can put high-volume short term deposits. These accounts pay interest to account holders based on the rate negotiated with the bank. Cheque books will be provided to the call account holders to withdraw cash. Call deposit accounts are opened in both Nepali Rupee and various other convertible foreign currencies.

- **Time Deposit**

Time deposit accounts are meant for those individuals and corporate houses, who would like to earn interest on the fund not in use otherwise for a period of time. Time deposit accounts are opened for a fixed period of time ranging from 2 weeks to more than a year. These accounts pay interest to account holders at the rates agreed upon with customers at the time of opening time deposits. The interest rate and initial deposit will be fixed for the period as agreed with the bank. In case time deposit holders need fund from the time deposit account prior to its maturity, they can apply for a loan pledging the time deposit certificate on which the bank will have the lien. Time deposit accounts are also opened in Nepali Rupee as well as various other convertible foreign currencies.

- **Saving Deposit**

Savings deposit accounts are meant for those individuals who have a habit of saving money from their earnings so that they can use it when they require. The bank allows holders to withdraw the money as and when they need it. The bank provides a cheque book for withdrawal of cash. Interest rates in savings accounts are subject to change depending on the market conditions. Bank provides statements of transactions on a periodic basis. Normal savings deposit accounts are opened in Nepali Rupee and various other convertible foreign currencies.

- **Nabil Lok Bachat**

Nabil Lok Bachat is a very flexible savings deposit product where one can open account at zero minimum balance requirement and still can earn interest on the monthly minimum balance above Rs 10,000. Under the scheme, the customers are required to avail a Visa Electron Debit Card at a discounted rate of Rs 200 while opening the account. Visa Electron Debit Card gives access to account through the large network of ATMs for withdrawals 24 hours a day. Visa Electron Card can also be used to purchase goods and services at Visa accepting outlets both in Nepal and India. Cheque book is also provided at a very nominal fee. Nabil Lok Bachat account holders can also enjoy the internet banking solution 'NabilNet' and 365 Days Banking with Evening Counters without any additional cost. NabilLokBachat is most suitable for corporate entities for the salary distribution to their staff members. Prospective share investors who need a bank account compulsorily for investing into an IPO by an amount above a certain sum can also take advantage of very relaxed terms of Nabil Lok Bachat scheme.

- **Nabil Bachat**

Nabil Bachat is the premium savings deposit product of Nabil Bank. The minimum balance requirement for this deposit is NPR. 50,000 and the interest rate in this is 6% p.a. for deposits exceeding NPR. 50,000. Account holders of this deposit can enjoy most of the services free of charges just like Debit Card, Anywhere branch banking service (ABBS), Account Statement, Stop Payment, Nabil Net, Cheque Book & Balance Certificate.

- **Nabil Students Saving Account**

Nabil Student Saving accounts are meant for the students. This product is an amalgamation of a Deposit Product and a Loan Product. Students can open this account with a minimum balance of just NPR 500 and enjoy a host of exclusive facilities, better interest rates, instant access on online banking services, privileged education loans; free cheque books special discounts on TCs, and Bank Drafts Swift Transfer.

- **Nabil Bal Bachat**

The product has been designed to promote the habit of savings amongst the parents for a secured future of their children. It has been observed that due to the hectic lifestyles of the parent's today, they tend to ignore the importance of saving for their children. Today's savings in fact can be very precious in the future. The amount can be used later for various purposes viz the educational expenses of the children, investment in fixed assets for the children or for the marriage ceremonies of the children later in future. This account is equally useful to inculcate the banking concept amongst the children from their early ages. 'Nabil Bal Bachat' is aimed at providing a better future for the children populace of today.

- **Nabil Jestha Bachat**

Nabil Jestha Bachat is a special savings scheme for the Senior Citizens who belong to the age group of 50 years and above. The scheme offers an interest rate of 5% p.a. on daily balance. Under this scheme, interest is paid every month which helps the senior citizens to manage their monthly expenses more conveniently.

- **Nabil Bank Limited Retirement Fund(NBLRF)**

Nabil Bank Limited Retirement Fund (NBLRF) with the approval of Government of Nepal, Department of Inland Revenue and Nepal Rastra Bank, has been managing and operating Retirement Fund of its own employees and the employees of Nabil bank's corporate customers. The Fund is an independent trust in accordance with the provision of Income Tax Act 2058 of Nepal, which is managed by a separate board and management team.

- **Nabil Jestha Muddhati**

Nabil Jestha Muddhati is a special Fixed Deposit scheme for the Senior Citizens who belong to the age group of 50 years and above. The scheme offers an interest rate of 9% p.a. Under this scheme the interest is paid on a monthly basis which helps the senior citizens to manage their monthly expenses more conveniently and thus makes their lives more comfortable. The scheme offers the below features which has been introduced for the benefit of the senior citizens. The minimum

Balance of Rs. 500,000 are required for this account and bank provides 9% interest per annum. There should be compulsory opening of Nabil Jestha Bachat account to be used as interest nominated account.

- **Nabil Nari Bachat**

Nabil Nari Bachat is a specially designed deposit product for female customers. The account holders are offered with a customized Visa Electron Debit Card and with this Nabil is the first Bank ever to have crafted a special Visa Electron Debit card for women. This product is suitable for the women from various walks of life. The account holders are also entitled to get special discounts/offers from various organizations/outlets/shops/restaurants/hotels within the valley. The account holders are entitled to get Gift Voucher worth RS. 2,700 while opening account with minimum balance Rs. 500.

- **Nabil Muddati**

In order to cater to the needs and meet the expectations of its valued customers, Nabil Bank has launched Nabil Muddati. As the name suggests, this deposit is fixed in nature and offers a very attractive interest rate. The minimum balance to open this account is Rs 100,000. this account offers interest rate of 9% per annum and has a tenure of one year or above with the availability of overdraft loan up to 90% of total deposit value.

1.7.2 Loans offered by Nabil Bank Limited

Banks provides loans to customers for various purposes. Loans are the sources of income for banks. Banks collect deposits and pay interest on deposits amount and charge interest on loan provided to the customers. Loans are provided against fixed deposits, bonds, Jewelries, stable future income, etc. The various loan products provided by Nabil Bank are as follows:

- **Working Capital Loan**

Working capital loan is Overdraft and Short term loan to finance for day-to-day business activities. Basically, this loan helps to build up inventory and receivables to a desired level, against which the loan will be disbursed.

- **Fixed Capital Loan**

Fixed capital loan is a long term loan which helps to finance projects or to acquire fixed assets. Generally, this loan is used for acquiring or purchasing machinery, equipment, land and building. The tenure of repayment is cash flow based.

- **Import Loan**

Nabil Bank provides import loan for its customers so that they can finance their international and local trade transactions through letter of credit, import the goods in the form of trust receipt or time loan, bank's acceptance etc. Nabil Bank facilitates customers to import using its extensive banking network around the globe.

- **Bills Discounting facility under Suppliers Credit**

Nabil Bank also offers discounting facilities to suppliers against the import usance bills.

- **Export Loan**

Nabil Bank have different products to finance on the funding requirement for completion of various stages of export processes such as pre-shipment loan, post-export loan (post-shipment loan), negotiation/documentary bill purchase etc. Such credit facility can be availed in foreign currency as well as local currency.

- **Hire Purchase**

Nabil bank can finance the purchase of vehicles, exclusively used for commercial purpose.

- **Project Finance**

For any feasible project, Nabil bank is committed to take it up for funding from fixed capital to working capital loan - right from the establishment stage which may include financial services like letter of credit and guarantee.

- **Consortium / Syndication Loan**

With the expertise in diverse field of business Nabil Bank is capable of arranging consortium finance / loan syndications for large projects.

- **Mortgage Loan**

A mortgage loan is a loan secured by real property through the use of a mortgage note which evidences the existence of the loan and the encumbrance of that realty through the granting of a mortgage which secures the loan. A home buyer or builder can obtain loan financing either to purchase or secure against the property from a financial institution, such as a bank, either directly or indirectly through intermediaries. Features of mortgage loans such as the size of the loan, maturity of the loan, interest rate, method of paying off the loan, and other characteristics can vary considerably. Nabil bank provides loans for various purposes by mortgaging land & building to customers.

- **Loan against Deposit and Government Securities**

Depositors and investors keep money in banks and invest in securities for safety, liquidity and to earn income on their money. However, in life, there are times when they need money for personal or business use. At those times Nabil Bank provides loan to meet with their requirements for money. Loans can be obtained by pledging instruments like time deposit certificates or national savings bonds or any other government securities as per the features of the securities. Nabil Bank even lends money by blocking and having a lien on other local currency or foreign currency deposit accounts.

- **Housing Finance**

Nabil Bank provides finance for purchase or construction of land and house. However collateral is required & the land should be 8 feet wide and have a motorable access, free from guthi or mohi, far from high tension line & third party collateral is not acceptable. The prepayment processes are such that 2 % of amount should be paid before a year and 1 % should be paid after a year. Partial payment is allowed after a year only and 1% of loan amount up front is charged for service. The documentation fee structure is such that NPR 1500 is charged upto NPR

1 million loan, NPR 3,000 is charged upto 10 million loan and NPR 5,000 and above is charged for NPR 10 million loan services. The following are the additional features housing finance scheme:

Table 1.3
Features of Housing Finance Scheme

S.N.	Products	Loan Amount	Loan Tenor	Financial Ratio
1	Land Purchase	5 lakhs to 80 lakhs	upto 20 years	70% of distress value of property
2	Land & Building Purchase	5 lakhs to 80 lakhs	upto 20 years	70% of distress value of property
3	Construction	5 lakhs to 80 lakhs	upto 20 years	70% of construction cost
4	Renovation/ Extension	3 lakhs to 15 lakhs	upto 20 years	70% of renovation cost
5	Refinancing (loan take over)	5 lakhs to 80 lakhs	upto 20 years	70% of distress value of property

Source: www.nabilbank.com.np

- **Nabil Auto Finance**

Nabil Bank offers loan for purchasing vehicles. The processing fee under this scheme is 1/5 of the total amount of loan payable upfront. Prepayment is allowed after 1 year only with prepayment fee as 1% of the amount prepaid. Ages ranging from 21 to 65 years at loan maturity can apply for the scheme. The other additional features the scheme are as follows:

Table 1.4

Additional features of Nabil Auto Finance Scheme

S.N.	Products	Loan Amount	Loan Tenor
1	Private	3 lakhs to 60 lakhs	Upto 5 years to 7 years
2	Commercial	3 lakhs to 60 lakhs	Upto 4 years
3	Used	3 lakhs to 20 lakhs	Maximum 4 years
4	Refinancing	3 lakhs to 25 lakhs	Age of the vehicle should not exceed maximum 7 years at the time of loan maturity

Source: www.nabilbank.com.np

- **Nabil Property**

Under Nabil Property one can mortgage property and borrow funds to use for various purposes. However, collateral is required. If the mortgaging property is land it should be at least 8 feet wide accessible for motors. The land should be free of Guthi or Mohi and far from high tension line. Third party collateral is not acceptable. The loan documentation fee is structured such that NPR 1,500 is charged upto NPR 1 million loan, NPR 3,000 is charged upto NPR 10 million loan and NPR 5,000 and above is charged for loans of NPR 10 million and above. 2% of amount should be prepaid before 1 year and 1% of amount should be paid after a year. Partial payment is allowed after a year only. The 1% of loan amount up front is charged for the service. Ages ranging from 21 to 75 can apply under the scheme. The additional features of the scheme are as follows:

Table 1.5

Additional features of Nabil property Scheme

Loan Amount	Loan Tenor	Financial Ratio	Age Criteria
5 lakhs to 50 lakhs	upto 10 years	70% of distress value of property	25 to 65 years at loan maturity

Source: www.nabilbank.com.np

- **Personal Finance**

With personal finance scheme, one is able to borrow money amounting from 2 lakhs to 10 lakhs for a tenure of 3 years to purchase household items. Service holders having permanent service terms or contract basis at least covering the loan tenure and the tenure and the employer should be in a position to provide an undertaking to transfer the fund to the Bank for EMI. 1% of the amount of loan upfront is charged for the service. Prepayment is allowed only after six months.

- **Education Loan**

Nabil Bank offers Education Loan against property acceptable to the Bank. Bank accepts property such as Land, Land & Building and Apartment owned by student, parents or sponsors. The loan will enable the student to pursue higher/technical/professional education abroad or in Nepal. The loan will essentially help the student to partly finance for tuition fees, airfare, logistics support and living expenses in the form of TCs/Cash/Demand Draft/Wire Transfers etc. Further, Nabil Bank's 4 years moratorium (where the customer can service interest only) helps to reduce the financial burden of monthly repayment installments during these first four years thereby supporting students/parents/sponsors during the study period. Nabil provides a hassle free loan against Nabil Fixed Deposits for educational purposes as well. The Nabil Fixed Deposits are pledged until the sanctioned loan limit remains valid or the loan/interest is fully repaid and unused loan limit is released. The bank pays the interest on pledged Fixed Deposit at half yearly basis at Bank's prevailing interest rate. Out of the sanctioned limit, based on the requirements evidenced in the offer letter, the disbursements will be made for the purpose of meeting payments / expenses related to the academic course such as paying tuition fees, airfare, living expenses in the form of TCs/Cash/Demand Draft/Wire Transfers etc. Education Loans against Nabil Fixed Deposits are offered from Kantipath Branch and all branches Outside Kathmandu Valley.

1.7.3 Other services offered by Nabil Bank

- **Card Products**

Nabil Bank is the pioneer of Card Industry in Nepal. It is a principal member of Visa and Master Card International since early 1990s. Nabil Bank started issuing credit cards since 1993. Today, Nabil Bank offers widest range of card services ranging from issuance of local currency Visa credit cards, Visa debit cards, Visa prepaid cards, Master Card, Credit cards in local currency and US Dollars, US Dollar Prepaid cards. Bank also accepts Visa and Master cards issued all around the globe through its extensive network of ATMs and Merchant locations in Nepal. In order to provide superior services to merchants, bank has exclusive arrangement with American Express in Nepal for accepting American Express card through POS Terminals.

- **Bancassurance**

In line with the international trend, Nabil Bank has set up Bancassurance unit for selling life and non life insurance policies to its customers through various distribution channels. 'Nabil Bank' has obtained required permit from Insurance Board. Nabil Bancassurance has made an arrangement with various insurance companies to provide insurance policies instantly to bank's customers from any branch/unit, once insurance request is made and premium are paid there on. Being a corporate agent, Nabil Bancassurance plays a bridge role between the customers and the insurance companies with advantages like:

- Availing the insurance service in addition to other banking services (one stop financial solution)
- More trust and stability of dealing with a Bank in operation for over 2 and ½ decades.
- Convenience in premium payments
- Convenience in receiving policies
- Assistance in expeditious claim settlement

- **Remittance**

Nabil Bank provides remittance services through the SWIFT transfer mechanism. Under this mechanism one can transfer fund to virtually any place in the world. SWIFT stands for Society for Worldwide Interbank Financial Telecommunication System, which is a reliable communication network speeding up fund transfer and other financial messages. One need not have an account with Nabil Bank for fund transfers through SWIFT. Similarly, other transfer mechanism like Western Union, E-Remittance (Qatar, Doha), Traveler's Cheque, Bank Drafts, Mail Transfer, Managers Cheque and Anywhere Branch Banking Service are also available to the customers as remittance services.

- **Trade Finance**

The Science that describes the management of money, banking, credit, investment and assets for international trade transactions. Companies involved with trade finance include importers & exporters financiers, insurers and other service providers. Trade Finance has been reviewing the global trade market since 1983. Nabil Bank also offers trade finance services such as Import LC, Export LC, Forward Contact, Bid Bond, Performance Bond, Counter Gurantee, Advance payment Gurantee and Shipping Indemnity for international trade & Transactions.

- **Clean Bills**

Nabil Bank's provides the clean bills services by national processing center of the bank. It process cheques, drafts or traveler's checks as clean bills and credit proceeds into related accounts, no matter where they have been drawn - on any bank in Nepal or anywhere else in the world with the established use of its correspondent banking relationship.

- **E-Banking**

In keeping with its commitment to be the "Bank of 1st Choice" Nabil Bank is constantly moving towards enhancing customer services by providing enhanced products and services. With regard to this, Nabil Bank offers its customers with Nabil Net, the Internet banking system (online banking) and Nabil Tele, the

telephone banking system. Through these services the costumers can access their account information in their computer & cell phone. With the help of internet banking services the customers can check their balance, issued cheque, print bank statement, transfer balance and various other facilities.

- **Others**

Apart from above mentioned services Nabil Bank provides other services to its valuable customers which include Advance Payment Certificate, U.S. Visa Fee, Safe Deposit Locker, and Balance Certificate.

Advance Payment Certificates are issued in advance of exports shipments which help to clear goods through customs check points.

Similarly, Nabil Bank collects U. S. visa fee through its Maharajgunj branch and safe deposit locker facility is provided by the bank through Kamaladi, Kantipath, Maharajgunj, Lalitpur & Biratnagar branches. Moreover, Nabil bank also issues balance certificate in any equivalent currency for travel or study purposes.

1.7.4 Network, Branches & ATM Locations

To fulfill its commitment to be ‘The Bank of First Choice’ Nabil Bank has 43 branches all over the country with its head office at Kamaladi, Kathmandu. Among these branches 26 of them are located outside the valley and 16 branches are operated from the valley with full range banking services . Nabil Bank has total 55 ATM locations within the country among which 29 are situated inside the valley & 26 are operated from outside the valley.

1.7.5 Board of Directors of Nabil Bank Limited

A board of directors is a body of elected or appointed members who jointly oversee the activities of a company or organization. Boards of directors govern the bank by establishing broad policies and objectives. They select, appoint, support and review the performance of the management team, approve annual budgets, ensure the availability of adequate financial resources and are accountable to stakeholders for the bank’s performance. Currently, at Nabil bank there are following members holding the post of Board of Directors:

Table 1.6
Board of Directors of Nabil Bank Limited

S.N.	Name	Post
1.	Mr. Satyendra Pyara Shrestha	Chairman
2.	Mr. Shambhu Prasad Poudyal	Director
3.	Mr. Dayaram Gopal Agrawal	Director
4.	Mr. Achyut Prasad Bazgain	Independent/ Professional Director
5.	Mr. Mohiuddin Ahmed	Director
6.	Mr. Tabith Awaal	Director
7.	Mr. Shyamalendu Chatterjee	Director
8.	Mr. Krishna Prasad Acharya	Director
9.	Mr. Jagadish Prasad Kanoria	Alternate- to Director Shyamalendu Chatterjee
10.	Mr. Nirvana Kumar Chaudhary	Alternate - to Director Mohiuddin Ahmed
11.	Mr. Ashish Sharma	Alternate - to Director Tabith Awal

Source: www.nabilbank.com.np

1.7.6 Management Personnel of Nabil Bank

Management team works to obtain, use and maintain a satisfied workforce. It is concerned with employees at work and with their relationship within the bank. Nabil Bank has an employee composition of 557 staffs. Management team constitutes of six Central operators, seven risk unit managers, two bank operations and legal company secretaries. Similarly, two personells are engaged in Card Divisions, 4 in Global Market, Merchant Banking and Bancassurance, 13 in Corporate, Project Financing, SME and Micro Lending, 2 in Deposition Relation Management, 2 in Consumer Banking, 1 in Finance and 1 as Internal Audit. The bank is under the control of Central Bank of Nepal. Key Management Personnel of the Bank includes Directors of the Board and Chief Executive Officer. The Key Management Personnel Team of Nabil Bank is as follows:

Table 1.7**Key Management Personnel**

S.N.	Name	Title
1	Mr. Satyandra Pyara Shrestha	Chairman
2	Mr. Shambhu Prasad Poudyal	Director
3	Mr. Dayaram Gopal Agrawal	Director
4	Mr. Achyut Prasad Bazgain	Director
5	Mr. Tabith Awaal	Director
6	Mr. Mohiuddin Ahmed	Director
7	Mr. Shyamalendu Chatterjee	Director
8	Mr. Jagadish Prasad Kanoria	Alternate Director
9	Mr. Nirvana Kumar Chaudhary	Alternate Director
10	Mr. Ashish Sharma	Alternate Director
11	Mr. Amrit Charan Shrestha	Chief Executive Officer (Officiating)

Source: www.nabilbank.com.np

1.7.7 Corporate Social Responsibility of Nabil Bank

Organizations are integral to the community they exist in and have accountabilities to them. NABIL also has cultivated a corporate philosophy to carry out sustainable developmental activities guided not only by profit figures but also treasures values that are somewhat out of the domains of finance and money. Nabil Bank has been championing the works of goodwill and cooperation, with a three pillared approach in Health, Education and Sports.

With regard to activities on health NABIL has worked in partnership with the Glaucoma Center at the Tilganga Eye Hospital to aid the people with the blinding disease. In education it has collaborated with St. Mary Ward School helping the underprivileged children. As regards sport NABIL has sponsored the 'Three Star Club' promoting the spirit of sports in the nation.

This thus forges the fact that NABIL feels integral to the community it is part of and has been carrying out activities guided by the spirit of altruism that keeps the bank in harmony with all social aspects fostering higher values along side with its corporate cultures and values. NABIL, in a nutshell, has cherished to the highest degree a sense of accountability and belongingness setting an example in the society that its corporate cultures go in tandem with social values too.

1. 8 Statement of Problem

Currently the global economic condition is influenced by economic depression. Financial sectors like banking sectors are mainly victimized by such depression due to lack of proper management of its operational activities, the direct impact of which is appearing in productive sectors. As a result, they are facing host challenges and are being unable to sustain to the changing economic environment.

In the context of Nepal, the productive sectors are also facing the same conditions due to kindred reasons like lack of financing, unstable political situations and energy problems. This has resulted in limited investment opportunities for the banking industry. Hence there is ample amount of unused saving in the country which can flow in to banks as deposits, but this has not happened in the way it should. At the same time, there are very few profitable sectors for banks to invest. This impact has forced the banks to lower down their interest rates to discourage deposits and encourage loan & advance.

Banking is a service industry that is primarily concerned with intangible products. So, it is obvious that more energy and labour is required to manage its collection of deposit and lending, especially in operational level. Within the sphere of proposed study, there exists a considerable number of problems regarding commercial bank services such as deposit and lending and their relationship with consumers. Hence, it is imperative for each and every bank to understand that effective management of loan and deposit is a very serious challenge. Ineffective loan and deposit management can even lead to dissolution of banks; Nepal Bikash Bank Limited being an example of it.

This study attempts to analyze the following problems:

Is there a proper Lending and deposit policy?

Is there any policy related with Loan, deposit and profit relationship?

Is there proper interest income as per interest expenses?

Is the bank able to mobilize capital fund for productive sectors?

Is there a strong provision of safety of public fund?

1.9 Objectives of the Study

Based upon the above-mentioned problems, the main objective of this study to analyze the deposit and loan management of Nabil Bank Limited will be fulfilled by satisfying the below-mentioned points.

- a. To evaluate the Types and Trend of deposit, loan and advances of Bank.
- b. To analyze the budgeted and actual deposit, loan and advances of Bank.
- c. To examine the relationship between interest income and interest expenses.
- d. To test the significant relationship of Deposit, Loan and Advances and profit.
- e. To compute the CVP analysis.
- f. To provide suggestion for the future betterment.

1.10 Significance of the study

This study is mainly concerned with management of banking products - deposit and loan, which is useful for evaluating student's skills and qualification in regard. It is most important for a bank itself to know the management of deposit and loan. It is also important for banking customers to know the safe keeping and safe landing of their own fund. Future researchers can also use this study as a reference material.

1.11 Limitations of the Study

It is a fact that every study is not free from limitations. In the same way, this research study also has some limitations, which are enumerated below:-

- a. There are 31 commercial banks operating in Nepal. However, due to time and resources constraints, the study is only confined to only one of them.
- b. This study has covered only five financial year's data.
- c. This study is mainly focused on deposit and loan management area only; the other areas remain in shadow.

1.12 Organizations of the Study

This study has been organized into five chapters which are:-

Chapter-I: Introduction

Chapter-II: Review of Literature

Chapter-III: Research Methodology

Chapter-IV: Presentation & analysis of Data

Chapter-V: Summary, Conclusion & Recommendations.

Introduction

The first chapter of the study deals with the introduction, which highlights the background of the study, history of banking, brief overview, statement of problems, objectives, significance and limitation of the study.

Review of Literature

This chapter deals with the review of related studies and different aspects of the topic 'Deposit and Loan management' of Nabil Bank Limited. The review part of the study consists of conceptual frame work given by different authors, reports, articles, journals and unpublished relevant articles.

Review of literature can be studied by dividing it in the following two parts:

- Conceptual Frame Work
- Review of Related Studies

Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words,

methodology describes the method, technique and process applied in entire aspects of the study, thus an appropriate research in order to elucidate the objective of this study.

Research has two important aspects; firstly, it must be sufficient to include all types of investigations to reach a solution to the problem. Secondly, it must explicitly recognize the systematic nature of research process in which data are gathered, recorded, analyzed and interpreted in an orderly manner.

- **Research Design**

Research Design is purely and simply the framework or plan for a study that guides the collection and analysis of the data. Research design is the main part of the study or research work.

- **Data collection**

No study can be conducted without data collection. Such data must be accurate and error-free. For the statistical investigation of any study, the collection of data plays an important role to verify the accuracy of the study.

This study is mainly based on secondary data for deposit and loan management.

The major sources of secondary data are published in form such as:

- Financial Statement of Nabil Bank Limited
- Annual report of Nabil Bank Ltd.
- Data published in website by Nabil Bank Ltd and Nepal Rastra Bank.
- Bulletin, report and act published by Nepal Rastra Bank.

Discussion & interactions with the Banking, Statistics and Accounting experts has also been used to achieve the objectives of this study.

Tools and Technique

a) For Primary Data:

- Percentage analysis and Bar-diagram will be used in the primary data analysis.

b) For Secondary Data:

There are different tools which have been used for secondary data analysis:

- Mean and Median
- Trend Analysis
- Correlation
- Standard Deviation
- Test for significance

Test Statistics (t- test)

Probable Error (P. E.)

- CVP Analysis
- Financial analysis

Presentation & Analysis of Data

The data collected from the Nabil Bank are used in this chapter. Information are presented in chart, graph & diagram and analyzed by using various mathematical & statistical tools in specified form to meet the stated objective of study. Furthermore, this chapter includes the major findings of the research study in the process of management of deposit, loan & advances.

Summary, Conclusion and Recommendations

In the final chapter ‘Summary, Conclusion and Recommendation’ the researcher has described about the result on the basis of data analysis and concluded the research work in this chapter. And finally important suggestions have been provided to the concerned organization for its future betterment.

In the final part of the study reference books, magazines, newspapers, websites, previous dissertations and resume of researcher are shown under the bibliography documents reviewed and mathematical analysis are separately shown under appendices.

CHAPTER II

CONCEPTUAL FRAMEWORK

AND REVIEW OF LITERATURE

2.1 Introduction

To develop the concept and ideas about the selected topic, the review of relevant materials is very important. In fact, review of literature begins with the search for a suitable topic and continues throughout the duration of the research, either a dissertation or the thesis. Review of literature means reviewing research studies or other relevant propositions in the related areas of the study so that all the past studies, their conclusions and deficiencies may be known and further search can be made. It is an internal and mandatory process in research work. It deals with a literature survey of existing volumes of similar or related subjects and a careful check should be made to ensure that the proposed study has not been carried out previously. Completely new and original problems are very rare, however a previous study should not exactly be replicable unless the techniques used to facilitate to trace out the doubtful conclusions or some new source of information is identified.

So, this chapter is devoted to re-view the main theoretical and empirical literature related to the issue of management of deposits and loans and their analysis. Different definitions or opinions expressed by experts in respect to deposit and loan management are considered to be relevant for the proposed study.

Similarly, this chapter also sheds light on some of the rules, regulations and mandatory prescribed by the Nepal Rastra Bank (Central Bank) regarding the commercial banks' deposit and loan management aspects.

This chapter is basically concerned with review of literature relevant to the topic "Management of Deposit and Loan of Nabil Bank Limited". Every study is based on past knowledge .The previous studies cannot be ignored because they provide

the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past studies.

“Literature Review is basically a “stock taking” of available literature in one’s field of research. The literature survey thus provides us with the knowledge of the status of their field of research” (Wolf and Pant 2005, p: 30). Therefore, this chapter has its own importance in the study.

Having stated that the importance of the review of relevant materials is in developing the concepts and ideas about the selected topics, the main reason for a full review of research in the past is to know the outcomes of those investigations in areas where similar concepts and methodologies had been used successfully. In this connection, a review of previous related studies reports, articles books will help the researcher to formulate a satisfactory structure for the study. The review of literature helps:

- To identify the problem and provide a basis for identifying the areas for future research.
- To determine the methodology for research work.
- To draw delineation and scope of the studies.
- To avoid unintentional replication of previous studies.
- To interpret the result in a precise manner.

The first section of this chapter incorporates the conceptual framework of Deposit & Loan management. It also includes the fundamental analysis, technical analysis and efficient Deposit & Loan Management theories. However, in the second section it covers the studies which were conducted in the past either in foreign or Nepalese context.

2.2 Conceptual Framework

An attempt has been made to look into a number of related books and the bank publications, especially of those related to the management of deposit and loan,

and Nepal Rastra Bank's (Central bank's) rules and regulations that abide the commercial banks in this regard. In addition some sort of personal intuition has also been made.

2.2.1 Concept of Commercial Bank

“Commercial Bank” is such a bank that deals with and accepts deposit from the general public and makes loans to large numbers of household and small firms. Such banks are known in the UK as retail or high street banks. They also provide various service for depositors, including provision of cash and credit cards, storages facilities for valuables and documents, foreign exchange, stock brokerage, mortgage finance and executor services. Commercial banks are castrated with central bank, and with investment, merchant and other specialist bank which deal with the general public.” (**Oxford dictionary of economics 2004, p: 65**)

A commercial bank acts not only like a bank but also like a financial intermediary. After the Great Depression, the U.S. Congress required banks that not only engaged in banking activities but also in capital market activities. Since the two no longer have to be under separate ownership, some use the term "commercial bank" to refer to a bank or a division of a bank primarily dealing with deposits and loans from corporations or large businesses. Commercial bank is the term used for a normal bank to distinguish it from an investment bank. This is what people normally call a "bank". The term "commercial" was used to distinguish it from an investment bank. Since the two types of banks no longer have to be separate companies, some have used the term "commercial bank" to refer to banks which focus mainly on companies. In some English-speaking countries outside North America, the term "trading bank" was and is used to denote a commercial bank. During the great depression and after the stock market crash of 1929, the U.S. Congress passed the Glass-Steagall Act 1930 requiring that commercial banks only engage in banking activities (accepting deposits and making loans, as well as other fee based services), whereas investment banks were limited to capital markets activities. This separation is no longer mandatory. It raises funds by **collecting deposits** from businesses and consumers via checkable deposits, savings deposits,

and time or term deposits. It **makes loans** to businesses and consumers. It also buys corporate bonds and government bonds. Its primary liabilities are deposits and primary assets are loans and bonds. Commercial banking can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to normal individual members of the public retail banking. **(Khambata, D., The Practice of Multinational Banking; Macro - Policy Issue and Key International Concepts 1996, p: 7 & 8)**

2.2.2 Concept of Deposits

Deposit is one of the most important sources of the commercial bank. "Deposit" is an account with a bank or other financial institution such as a building society in the UK. Deposit may be on current account UK or checking account or sight deposit US, which bears no interest and can be withdrawn on demand, or deposit accounts UK or saving account or time deposits US which bear interest but require notice of withdrawal. In recent years new types of account have blurred **(Oxford dictionary of economics, 2004, P: 116).**

The existence of commercial banks largely depends upon the strength and reliability of their deposit policy. The growth of banks depends primarily upon the growth of its deposit. The volume of funds that management will use for creating income, through loans and investment is determined largely by the bank policy governing deposits. When the policy is restrictive, the growth of banks is restarted or accelerated with the liberalization in the deposit policy. In banking business the volume of credit extension much depend upon the deposit base of bank. "The deposit creating power of commercial bank forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give raise to liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors and not by bank management. There are regular changes in this view in the modern banking industry" **(Vaidya, Banking & Insurance Management 2001, p; 68)**

Thus, banks have evolved from relatively passive acceptors of deposits to active bidder for fund. Deposits are one of the aspects of the bank liabilities that management has been influencing through deliberate action.

“Bank deposits arise in two ways: the first when the banker receives cash and credits a customer’s account, it is known as a primary or simple deposit. Such primary deposits are made from the initiative of depositors. The second, when banks advance, loans, discount bills, provide over draft facilities; make investment through bonds and securities. This is called derived deposit or derivative deposits. They add to the supply of money. Bank actively creates such deposit. “(**The Encyclopedia Britannica, 1998, p: 700**).

2.2.2.1 Types of Deposit

At the outset it is necessary to know what a deposit is. Commercial Bank Act 2031, defines deposits as the amounts deposited in a current, saving or fixed a/c of a bank or financial institution. People in general, the businessmen, the industrialist and other individuals deposit money in a bank. Bank flows such amount as loan and invests it in different sectors to earn profit. Usually, a bank accepts three types of deposits: Current, Saving and Fixed deposits. But in other countries we find more than three deposits. In Nepal, banks grant permission to their countries to open three types of a/c under various terms and conditions. This classification is made on different theoretical and financial basis. Therefore, deposits of bank are classified on the following basis.

- Demand Deposit
- Saving Deposit
- Fixed Deposit
- Recurring Deposit
- **Demand Deposit**

The deposit in which an amount is immediately paid at the demand of any a/c holder is called demand deposit. In another words, we can say this type of demand deposit as current a/c .Current a/c means an a/c of amount deposit in bank, which may be drawn at any time on demand. Its transaction is persistent & such deposit can’t be invested in the productive sector, so such type of amount remains as stock in the bank. Though the bank can’t gain profit by investing it in new sector after

taking from the customer, these facilities are given to the customer. Therefore, the bank doesn't give interest on this account. From such deposit, the merchant and traders are benefited more than the individual. The bank should pay as many times as the check is sent until there is deposit in his a/c the bank can't impose any condition & restriction in demand deposit. An institution or an individual, who usually needs money daily, precedes their acts & transaction through such deposit. The current a/c is very important for the customer of bank.

In any institution, which carries out cash transaction, there are possibilities of corruption misuses & fraud. There should be a provision of separate employees for the recovery of the cash and for the payment of the cash. The current a/c is necessary to collect and buy the bills, to use the facility of over-draft, letter of credit, remittance etc. Current deposit on the one hand, saves time and labor & on the other hand, the bank keeps the accurate of the a/c holders, so it is a great facility for the customers. Therefore, it has a great importance.

- **Saving Deposit**

The bank can collect capital through the saving deposit as well. This deposit is also important and its necessity and scope is not negligible. According to the Commercial bank Act 2031, saving accounts mean an a/c of amounts deposited in a bank for saving purposes. This account is suitable and appropriate for the people of middle class, farmers and the labors who have low income- official and small businessmen. This saving deposit bears the features of both the current and fixed period deposits. Generally, most accounts are opened as saving deposit in a bank.

Therefore, the deposit is popular in people in general. According to internal rules some banks demand a small amount where as some banks demand a great deal of money to open saving account. Different banks have made different rules. Normally, banks fix one hundred thousand to five hundred thousand as their limitation. So, there is divergence as to how much amount of money can be withdrawn. Banks give some interest on it.

- **Fixed Deposit**

Under the Commercial Bank Act 2031 Fixed Account means an account of amounts deposited in a bank for a certain period of time. The customers opening such account deposit their money in this account for a fixed period. In other words, it is called time deposit because this account is deposited for a certain period.

Usually, only the person or institution who wants to gain more interest opens such type of account. This range of time period is from 3 months to 5 years. More interest rate is payable in this deposit than other deposit. Both parties the bank and the customers can take benefit from the deposit. The banks invest this money on productive sectors and gain more profit and the customers can make their financial position stronger by getting more interest from this deposit. The amount in the saving deposit must be returned to the customers after the date expires. The amount cannot be withdrawn before the fixed time.

- **Recurring Deposit**

This type of account is suitable for those who can save regularly and expect to earn a fair return on the deposits over a period of time. While opening the account a person has to agree to deposit a fixed amount once in a month for a certain period. The total deposit along with the interest there in is payable on maturity. However, the depositor can also be allowed to close the account before its maturity and get back the money along with the interest till that period. The account can be opened by a person individually or jointly with another, or by the guardian in the name of a minor. The rate of interest allowed on the deposits is higher than that on a savings bank deposit but lower than the rate allowed on a fixed deposit for the same period. Recurring Deposit Accounts may be of different types depending on the purpose underlying the deposit. Some of these are as follows:

- a. Home Safe Account** (also known as Money Box Scheme): Small savers find it convenient to deposit money under this scheme. For regular savings, the bank provides a safe or box (Gullak) to the depositor. The safe or box cannot be opened by the depositor, who can put money in it regularly, which is collected by the bank's representative at intervals and the amount is

credited to the depositor's account. The deposits carry a nominal rate of interest.

b. Cumulative-cum-Sickness Deposit Account: Regular deposits made in this type of account serve the purpose of having money to meet large expenses in case there is sudden illness or other unforeseen expenses. A certain fixed sum is deposited at regular intervals in this account. The accumulated deposits over time along with interest can be used for payment of medical expenses, hospital charges, etc.

c. Home Construction deposit Scheme/Saving Account: This is also a type of recurring deposit account in which money can be deposited regularly either for the purchase or construction of a flat or house in future. The rate of interest offered on the deposit in this case is relatively higher than in other recurring deposit accounts.

2.2.3 Concept of loan

A loan is a debt. Like all debt instruments, a loan entails the redistribution of financial assets over time, between the lender and the borrower. The borrower initially receives an amount of money from the lender, which he pays back, but sometimes not always in regular installments, to the lender. This service is generally provided at a cost, known as **interest** on the debt. The lender may be subject to the borrower to certain restrictions known as loan covenants. One of the principal duties of financial institutions is to provide loans, which is typically the source of income to banks; bank loans and credit also constitute one of the ways of increasing money supply in the economy. (Takang Felix Achou and Ntui Claudine Tenguh, **Bank Performance and Credit risk Management 2008, p: 11**).

The principal reason for banks to be chartered by state federal authorities is to make loan to their customers. Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and consumers' financial needs and to price that credit reasonably in line with competitively determined interest rate. Indeed making loan is the principal

economic function of banks to fund consumption and investment spending by business individuals and government units. The economic health of a region depends upon the performance of a bank's lending function. Bank loan supports the growth of new business and jobs within the banks trade territory and promotes economic vitality. Moreover bank loans often seem to convey positive information to the market place about a borrower's credit quality enabling a borrower to obtain more and perhaps some what cheaper funds from other sources. (**Peter S. Rose, Commercial Bank Management, 1999, p: 517**).

The temporary provision of money provided at a certain rate of interest is known as loan. It is the principal amount which is repaid with interest. The interest must be paid as a certain percent of the amount borrowed.

'Loan and advances' is the main source of income for a bank. Bank deposit can be crossed beyond a deride level but level of loan advanced, never cross it, the facilities of grouting loan is the main services in which customers of bank can enjoy.

The deposits received by Bank are not allowed to lie idle by the bank. After keeping a certain portion of the deposit as reserve, the bank gives the balance to borrowers in the form of Loan & Advances. (**Kiran Thapa and Dipendra Neupane, Banking & Insurance 2065, p: 10**)

'What types of Loan do bank made?' The answer, of course, is that the banks make a wide variety of loans to wide variety of customers for many different purposes.

2.2.3.1 Types of Loan

There is a profound question- what type of loans do bank make? The answer of course, is that banks make a wide variety of loans to a wide variety of costumers for many different and specific purposes. It can be classified on the basis of nature, sector wise distribution and on the basis of security provided.

Overdraft Facility, Clean Advances, Demand Loans, Term Loans, Bridge Loans, Consortium Loans, Hire Purchase Loan, Time Loan, Trust Receipt Loan, Pre and

Shipment Loan are classified as types of loan on the basis of its nature. Moreover, Secured Risk Loan, Sovereign Risk Loan, Bank Risk Loan, Unsecured or Normal Business Risk Loan, Casual Risk Loan and Credit Card Risk Loan are classified as types of loans on the basis of Security.

In USA, sector – wise loan distributions are classified into six types based on their UBPR (Uniform Bank Performance Report). The six types of loans are Real Estate Loans, Commercial Loans, Individual Loans, Agricultural Loans, Other Loans and Leases in Domestic Offices and Loans and Leases in Foreign Offices. Each loan has its own features. Repayments, collateral and loan covenants differ for all types of loans. (Madhu Sundar Shrestha, **Fundamental of Banking, 2007, p: 180**)

- **Real Estate Loan**

A domestic office loan secured by real estate is considered as real estate loan. Generally, real estate loans are classified into seven subcategories: Construction and development loans, multifamily residential real estate, home equity, 1 to 4 families residential, farmland and other real estate loans. These loans are classified separately because such loans are subject to different risks and regulations in the USA.

Real Estate Loans are amongst the most profitable type of loans at the time of prosperity and it represents the highest percentage of total loans in lease rates and occupancy would quickly rise, and if this does not materialize banks end up with a property that can be disposed off at distress price only.

- **Commercial or Industrial Loan**

Commercial or Industrial Loans are extended to finance the business of a borrower. It can be financing the working capital need, purchase of fixed assets and various other seasonal or miscellaneous requirements. The financing can be for short term and long term needs. UBPR has defined commercial loans as “domestic office commercial and industrial loans, loans to depository institution, acceptance of other banks and obligations of state and political sub division.”

- **Individual or Consumer Loan**

Consumer Loans are extended to individual borrowers. The average size of consumer loans is relatively small. The maturities of such loans are 1 to 4 years. Consumer loans are provided to finance durable goods in hire purchase like car, fridge, washing machine etc. Nowadays, banks finance the education, medical care, travelling expenses and other kindred expenses of individuals. The individual borrower's default risk is high compared to commercial loans. Consumer loans are considered risky because the goods financed throughout consumer lending cannot be sold at par value and neither does secondary market exist for such goods. Hence, the interest rate on such loans is high in comparison to other types of loans. Consumer loans are normally paid in installments consisting of principal and interest on EMI (Equal Monthly Installment) basis. As the interest is also paid every month, the actual cost of fund comes to be higher than other loans.

- **Agricultural Loan**

Agricultural Loans are provided to finance the planting and harvesting of crops. Such loans are similar to commercial and industrial loans because loan is provided to finance the short term seasonal credit need of the customer. The loan is utilized in purchase of seeds, pesticides, fertilizers, wages of farm workers and various other production cost. The loan is repaid when other crops are harvested and sold. Long term financing is extended for purchase of live stock, tractor, combine machine, equipment and land. Agricultural lending is considered extremely volatile because the prices of agro products rise and fall depending on the demand and supply of national and international markets.

- **Loan and Leases in Domestic & Foreign Offices**

In USA, lease financing is the most important single source of funds to support business expenditures for capital investments. Lease financing means letting or renting a building, a piece of land, or equipments for a fixed period against which the lease pays a rental fee for that period. The regular fixed rental fee is paid on monthly, quarterly, half yearly or yearly basis as per the agreement between the leaser and lessee. When the lease contract ends, the assets revert to the lesser. A lessee is an individual or a firm which uses an asset without owning it.

- **Others Loan**

Other loans include all those loans not classified above, including security loans.

2.2.4 Concept of Interest.

In common use the term “interest” is seen as rent paid for the use of money. Interest is the fee charged by a lender to a borrower for the use of borrowed money or the surcharge on the repayment of debt, usually expressed as an annual percentage of the principal; the rate is dependent upon the time value of money, the credit risk of the borrower, and the inflation rate. Here, interest per year divided by principal amount, expressed as a percentage is called interest rate. Interest rates are very closely watched indicators of a financial market, and have a dramatic effect on finance and economics. The fact that lenders demand interest for loans can be attributed to the reasons such as time value of money or time preference i.e. having money now is more valuable than having it at some future time because interest is earned or interest is the value borrowers place on having money now and opportunity cost which means the cost in terms of options no longer available once one particular option is chosen.

In law, interest is a right or legal share of something or a financial involvement with something; in finance, it is a fixed charge for borrowing money usually a percentage of the amount borrowed.

(www.audioenglish.net/dictionary/interest.htm)

Thus, interest is surcharge on the repayment of debt. . It is the price paid for the use of borrowed money, or money earned by deposited funds. Assets that are sometimes lent with interest include money, shares, and consumer.

2.2.5 Concept of Profit.

The accounting term for what is left from earnings after all expenses have been provided for is referred as profit. Profit can be gross, which is the difference in sales and the cost of the goods sold; or operating, which is the different between

gross profit and operating expenses, including income tax expenses. The term ‘net profit’ can be used to refer to ‘operating profit’ or ‘operating profit after extraordinary items’. (Edna Carew, **Language of Money, 1996 p:3**).

In general, the term, ‘profit’ stands for the difference between revenue and costs. Generally in accounting and economics approach:

$$\text{‘Profit} = \text{Total Revenue} - \text{Total Costs’}$$

Profit is the ultimate goal of every institution which the organisation opt to maximize in the long run. However, the sciences of business management and economics have different approaches to profit maximization.

From the managerial view, increases in profits can be achieved by measures for reducing costs or increasing revenues. These could be rationalization programs (e.g. investment in equipment with higher efficiency, reorganization of process, standardization), measures for quality improvement or marketing activities for increasing sales.

In economics, profit is maximized by increasing the volume of production and sales up to that point in which marginal costs of one additional unit produced and sold are equal to the marginal revenue generated with this additional unit. Production systems and processes remain unchanged. From an economical point of view, maximal profit does not result from an optimal and cost-effective design of all organizational processes, but from production and sales at the optimal level in the existing organizational situation.

2.2.6 Concept of Budgeting Systems for planning and control.

Organizations develop strategies as a basis to compete in their operating environment. Budgets are a key component of organization’s planning and control system, providing the mechanism to translate organizational goals in to financial terms. “Budgeting is the process of gathering information to assist in making forecasts; managers often spend up to 20% of their time on budgeting. Its popularity, however, indicates that its perceived benefits are greater than its costs.”

(McWatters, C. H., Morje, D. and Zimmerman, J. L., Management Accounting: Analysis and Interpretation 2001, p: 144)

A budget plays an important role in allocating resources, coordinating operations including identifying constraints and communicating and authorizing actions, motivating and guiding implementation, providing guidelines for controlling operation and managing cash flows and finishing criteria for evaluating performance. Furthermore, organizations realize many benefits from a budgeting programme. A budgeting system provides various benefits to organizations in managing their activities properly such as:

- Budgets provide a means of communicating management's plan through out the company.
- Budgets encourage managers to think about and plan for the future.
- Budgets define goals and objectives that can serve as benchmark for evaluating subsequent performance.
- The budgeting process can determine potential bottlenecks before they occur.

The budget is a summary of a company's plans that sets specific targets for sales, productions, distribution and financing activities. In short, it represents a comprehensive expression of management's plans for the future and how these plans are to be accomplished.

2.2.7 Cost-Volume-Profit (CVP) Analysis

“A model is a representation of reality; a financial model is an accurate, reliable simulation of the relationship between relevant costs, benefits, value and risk that is useful and supporting business decisions” **(Zimmerman, J. L., Accounting for Decision Making and Control 1995, p: 47).**

CVP analysis (the most basic financial model) is a method that examines a product's profitability at different sales volume. CVP estimates the change in profit with a change in unit sold. It makes certain assumptions about revenues and

products costs (expenses) to simplify the analysis. Thus, CVP analysis is considered one of the most powerful tools that managers can use to help them in decision making purposes.

Furthermore, CVP analysis helps managers to understand the relationship between costs, volume, and profit in an organization by focusing on interactions among the following five elements:

- i. Price of products.
- ii. Volume or level of activity.
- iii. Per unit variable costs.
- iv. Total fixed costs.
- v. Mixture of products/service sold.

Consequently, if the interrelationship is effectively formed among the above elements, managers can use CVP as a vital tool in many organizational and business decisions.

2.2.8 Concept of CAMELS Analysis

Banks play a central role in the economy. They keep the savings of the public and finance the development of business and trade. Furthermore, numerous studies argue that the efficiency of financial intermediation affects economic growth while others indicate that bank insolvencies can result in systemic crises which have adverse consequences for the economy as a whole. Thus, the performance of banks has been an issue of major interest for various stakeholders such as depositors, regulators, customers, and investors. Health of an individual Financial Institution is a function of multiple factors such as quality of its assets, liquidity position, capital base, management quality, market sensitivity and earnings. Considering these factors, bank performance has been evaluated on the basis of financial ratios as a health check-up of commercial banks in the framework of CAMEL analysis, which is prescribed by Basle Committee on Banking Supervision of the Bank of International Settlements (BIS) since 1988. (**Keshar J. Baral, Health Check-up**

of Commercial Banks in the Framework of CAMEL ‘The Journal of Nepalese Business Studies’ Vol. II No. 1 Dec. 2005)

The **CAMELS** framework system with addition of sensitivity factor in 1997 looks at six major aspects of Financial Institutions to manage the public fund as a deposit and loan. They are as follows:

- Capital Adequacy
- Asset Quality
- Management Soundness
- Earnings
- Liquidity
- Sensitivity to market risk

Nepal Rastra Bank (NRB) as an apex monetary authority of the country started to monitor and control the finance industry especially at the end of the 1990s by issuing the directives to the financial institutions. It initiated the offsite and onsite supervision of Financial Institutions to maintain their sound financial health and to build up the confidence of private sector in the liberalized financial system and protect the interest of the investors. Thus, it has adopted the CAMELS (capital adequacy, asset quality, management quality, earning, liquidity and Sensitivity) system to check up the health of Financial Institutions. Independent outsiders also cannot use all components of CAMELS to check up the financial health of Financial Institutions in Nepal due to the full disclosures of required financial information to outsiders. NRB dictated Financial Institutions to disclose the financial information in uniform way only in the fiscal year (F/Y) 2001/02. In this paper, attempt has been made to check up the financial health of joint venture banks in the framework of CAMELS.

- **Capital Adequacy**

The inception of every business starts with the requirement of fund commonly known as capital. The capital requirement is a bank regulation, which sets a framework on how banks and depository institutions must handle their capital. Capital adequacy ultimately determines how well financial institutions can cope with shocks to their balance sheets. Thus, it is useful to track capital-adequacy ratios that take into account the most important financial risks, foreign exchange, credit, and interest rate risks by assigning risk weightings to the institution's assets.

The categorization of assets and capital is highly standardized so that it can be risk weighted. Internationally, the bank for International Settlements' Basel Committee on Banking Supervision influences each country's capital requirements. In 1988, the committee decided to introduce a capital measurements system commonly referred to as the Basel Capital accord.

The latest capital adequacy framework is commonly as Basel II. To realizing the significance of capital for ensuring the safety and soundness of the banks and the banking system, at large, Nepal Rastra Bank (NRB) has developed and enforced capital adequacy requirement based on international practices with appropriate level of customization based on domestic state of market developments though in a simplified form. In line with the international development and thorough discussion with the stakeholders, evaluation and assessment of impact studies at various phases, NRB has issued Capital Adequacy Framework 2007. NRB has implemented the

Basel II approaches since mid July 2008 (Fiscal Year 2065/066) for the banking supervision.

According to Basel II, unless a higher minimum ratio has been set by Nepal Rastra Bank for an individual bank through a review process, every bank should maintain at all times, the capital requirement set out below:

- a. A Tier 1 (core) capital of not less than 6 per cent of total risk weighted exposure;
- b. A total capital fund of not less than 10 per cent of its total risk weighted exposure.

The Capital Adequacy Ratio (CAR) is calculated by dividing eligible regulatory capital by total risk weighted exposure. The total risk weighted exposure comprises of risk weights calculated in respect of bank's credit, operational and market risks.

- **Assets Quality**

Assets quality refers to the degree of financial strength and risk in a bank's assets, typically loans & investments, cash and bank balance money at call, investment, loan and advances, etc. Banks give loan and advance in higher volume due to which interest income is generated. In this sector there is high volume of risk as well. Banks lending policy and other regulations adopted by bank determine the quality of assets. Commercial banks collect funds in the form of capital, deposit etc. A significant part of the banks income is through its lending activities. The composition of all commercial banks shows the concentration of loans and advances in total assets. The high concentration of loans and advances indicates vulnerability of assets to credit risk, especially since the portion of non-performing assets is significant.

- **Management Soundness**

Sound management is the most important pre-requisite for the strength and growth of any financial institution. Since indicators of Management quality are primarily specific to individual institution. An institution can take a desirable momentum only when the management is capable of strong and long-term vision. For the proper and efficient management, the banks should possess the following qualities:

- Proper Structure of management team
- Qualitative and Productive Human Resource Management
- Good relationship between customers and organization.
- Adequate management expenses.
- Perfect Internal management system
- Fair decision making capability.

- Use of modern Information Technology
- Proper communication system.
- Perfect Working environment.

- **Earning & Profitability**

Earning and profitability is the ultimate result of any business. The aggregate performance of the bank reflects from its earnings. Higher earnings reflect better financial position. Strong earnings and profitability profile of banks reflects the ability to support present and future operations. More specifically, this determines the capacity to absorb losses, finance its expansion, pay dividends to its shareholders, and build up an adequate level of capital. Being front line of defense against erosion of capital base from losses, the need for high earnings and profitability can hardly be overemphasized. For in-depth analysis, earning is analyzed by calculating Return on Assets (ROA), Return Equity (ROE), Price Earnings Ratio (P/E Ratio), Earnings per share (EPS), Market price per share (MPS) and Dividend Per share (DPS).

- **Liquidity**

An adequate liquidity position refers to a situation, where institution can obtain sufficient funds, either by increasing liabilities or by converting its assets quickly at a reasonable cost. It is, therefore, generally assessed in terms of overall assets and liability management, as mismatching gives rise to liquidity risk. Efficient fund management refers to a situation where a spread between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) is maintained. The most commonly used tool to evaluate interest rate exposure is the Gap between RSA and RSL, while liquidity is gauged by liquid to total asset ratio.

Initially solvent financial institutions may be driven toward closure by poor management of short-term liquidity. Indicators should cover funding sources and capture large maturity mismatches. The term liquidity is used in various ways, all relating to availability of, access to, or convertibility into cash. An institution is said to have liquidity if it can easily meet its needs for cash either because it has

cash on hand or can otherwise raise or borrow cash. A market is said to be liquid if the instruments it trades can easily be bought or sold in quantity with little impact on market prices. An asset is said to be liquid if the market for that asset is liquid. The common theme in all three contexts is cash. The liquidity of an institution depends on:

- The institution's short-term need for cash
- Cash on hand
- Available lines of credit
- The liquidity of the institution's assets
- The institution's reputation in the marketplace

The liquidity ratio is calculated by dividing current assets by current liabilities, which test the short-term solvency of the firms. Cash Reserve Ratio (CRR), Cash and Bank Balance to Total Deposit (CBTTD), Investment in government securities to total deposit (GSTTD) ratios are mainly used to measure the liquidity.

- **Sensitivity to Market Risk**

It refers to the risk that changes in market conditions could adversely impact earnings and/or capital. Market Risk encompasses exposures associated with changes in interest rates, foreign exchange rates, commodity prices, equity prices, etc. While all of these items are important, the primary risk in most banks is interest rate risk (IRR), which will be the focus of this module. Sensitivity analysis reflects institution's exposure to interest rate risk, foreign exchange volatility and equity price risks (these risks are summed in market risk).

Risk sensitivity is mostly evaluated in terms of management's ability to monitor and control market risk. Banks are increasingly involved in diversified operations, all of which are subject to market risk, particularly in the setting of interest rates and the carrying out of foreign exchange transactions. In countries that allow banks to make trades in stock markets or commodity exchanges, there is also a need to monitor indicators of equity and commodity price risk

2.3 Review of Related Studies

It is most essential to analyze and compare the related studies to complete the research. This portion consists of a review of articles, journals, rules- regulations and directives of NRB, review of previous studies and other related studies which are relevant to the topics.

2.3.1 Rules, regulation and directives of NRB regarding loan management for safety of public deposits

Management of commercial banks, various rules, regulation, acts and directives are reviewed while preparing the concept of this study. Different types of directives are issued for the commercial bank to manage the loan in the proper way for security of public deposits. Deposit is the main source of investment for loan for banks. Obviously, these directives and actions towards the commercial bank by NRB are playing a great role for the comparative analysis of deposit and loan management of the commercial bank.

2.3.2 NRB rule regarding fund mobilization of commercial banks

To mobilize bank's deposit in different sectors within different parts of the nation to prevent them from 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 regulation which are formulated by NRB in terms of investment and credit 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 are the NRB rules. But we discuss only those, which are related to investment functions of commercial banks. The main provisions established by NRB in the form of prudential norms in above relevant areas are briefly discussed here.

2.3.3 Directives relating to loan classification and loan loss provision

The major source of loan is the deposits collected from public which is later invested in various sectors as loan on certain interest rate. The invested amount may or may not be refunded on time. So, NRB issues directives for the repayment of loan. Effective from fiscal year 2001/02, banks should classify outstanding loan and advance on the basis of aging 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 past due for a period up to 3 (three) months shall be included in these categories. These are classified and defined as performing loans.
- **Substandard:** All loans and advances that are past due for a period of 3 months to 6 months are included in this category.
- **Doubtful:** All loan and advances, which are past due for a period of 6 months to 1 year, are 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 are included in this category.

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

Here, it is appropriate in the view of the bank management that there is not restriction in classifying the loan and advance from new risk category to high risk category. For instance, loans falling under sub-standard category may be classified into loss category. And the term loans and advance also include bill purchased and discounted.

- **Loan Loss Provision**

According to NRB mandate, for the safety of public deposit which is invested as loan, bank should have provision of certain amount as a loan loss provision.

The loan loss provision on the basis of the outstanding loans and advance and bills purchased as above should be provided as follows

Classification of Loan	Loan Loss Provision	Criteria
Pass	1%	due up to 3 months
Sub-Standard	25%	due for 3 – 9 months
Doubtful	50%	due for 9 months – 2 years
Loss	100%	due for more than 2 years

- In case of rescheduled & restructured loans minimum of 12.50% loan loss provision should be provided.
- In case of insured loan 25% only of the above mentioned provisioning rate.

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.

2.3.4 Directives relating to loan Capital adequacy Norms for commercial Banks

For the safety of public deposit, NRB has mandated the maintenance of minimum capital fund which is the sum of core capital and supplementary capital.

On the basis of the risk-weight assets, the banks should maintain the prescribed proportion of minimum core capital and capital fund as 6 % and 10%.

2.3.5 Directives relating to Interest Rates

According to previous directives, the difference between the interest provided and interest charged (spread rate) should not be more than 5%. These differences are calculated on the basis of the weighted interest to the directives of circular issued on 16th July 2002; the requirement to maintain average interest spread at 5% has been withdrawn for the time being.

2.3.6 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 confidence in the 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 deposit in their own bank's vault. Cash reserve ratio has been reduced by one percentage point effective from the beginning of new FY 2059/60.

2.4 Review of Previous Thesis

Prior to this study, various aspects of the commercial banks have been analyzed by many researchers. In this section, some relevant thesis has been presented:

A study conducted by **Mr. Raja Ram Khadka (1998)** entitled, **“A study on investment policy of Nepal Arab Bank Limited in comparison other joint venture banks in Nepal”** has tried to compare investment policy of Nepal Arab Bank Limited with Nepal Grindlays Bank Limited and Nepal Indosuez Bank Limited. This is concerned only five years data from 1992 to 1996 A. D. and is mainly based on secondary data of various statistical tools; coefficient of correlation for testing the relationship between the deposit and loan and advances, ratio analysis to compare different factors like loan and advances and deposit, bank's liquidity position, profitability condition etc. The researcher found that there is a greater relationship between deposits and loan and advances.

In this thesis, the researcher has suggested the **“The bank must utilize depositor's money as loan and advances to get success in competitive banking environment. The largest item of the bank in the asset side is loan and advances. negligence in administrating this assets could be the main causes of liquidity crisis in the bank and one of the main reasons of bank failure”**

Mr. Khadka has focused his study on the investment policy of Nepal Arab Bank Limited and has taken Nepal Grindlays Bank Limited and Nepal Indosuez Bank Limited average ratios as banking average. Mr. Khadka has recommended to adopt liberal lending policy, however, has not explained regarding liberal lending and invest more and more percentage amount of total deposit in loan and advances. However, while adopting liberal policy on lending he has not explained the

consequences like bad debt default loan which may arise due to very flexible and liberal lending policy. He has also not explained the regarding what is good liberal lending policy for management of loan and advances.

Amit Neupane (2007), in the thesis entitled “**Deposit mobilization of commercial banks in Nepal**” has tried to examine the role of NRB in collecting and mobilizing deposit by commercial banks and analyze the trend in regard to total investment and loan and advances. Projection is for five years i.e. 2003 to 2006. The data used in those studies are both secondary and primary in nature. The researcher has used different financial tools such as liquidity ratio, profitability ratio, risk ratio, coefficient of correlation and trend analysis as statistical tools. The researcher has taken 17 commercial banks as population and two banks i.e. Nepal Bank Limited and Standard Chartered Bank Nepal Limited as sample banks. According to the researcher's finding, all new directives of NRB are effective and beneficial for the future of the banks as well as for the betterment of the nation itself, but the loan classification and provisioning has appeared to be slightly uncomfortable for commercial banks. Deposit and loan advances of Nepal Bank Limited are mismanaged and higher than that of Standard Chartered Bank Nepal Limited but on the contrary, in the case of investment, Standard Chartered Bank Nepal Limited is able to manage and mobilize more funds than Nepal Bank Limited in this sector.

The researcher has recommended to Nepal Bank Limited that diversification of loan and investment is highly suggestible. As Nepal Bank Limited has given priority to investment in treasury bills which is risk free but yields very low return to the bank and recommended to Standard Chartered Bank Nepal Limited to collect the deposit by initiating various programmed to attract customers for which it can pay a higher interest rate than other banks are recently providing.

Limbu R. (2008) had conducted a research entitled “**Credit Management of Nabil Bank Limited**”. In his research he has highlighted the aggregate performance and condition of Nabil Bank. In the aspect of liquidity position, cash

and bank balance reserve ratio showed high liquidity position. The main objectives of the research were as follows:

- To evaluate various financial ratios of Nabil Bank.
- To analyze the portfolio of lending of selected sectors of Nabil Bank.
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To offer suitable suggestion based on findings of the study.

The analysis of the research showed high degree of positive correlation coefficient between total deposit and loan and advances. Hence, the study has concluded that increasing total deposit will have positive impact towards loan and advances. Due to the steady growth of the bank during the study period the researcher has indicated the better future of the concerned bank.

A study conducted by **Tiwari Mohan Prasad (2009)** entitled “**Financial Performance Analysis as a Tools for Profit Planning**” discloses that the researcher has tried to find the relationship between total investment, loans and advances, deposit, net profit and outside assets. An attempt to identify the investment priority sectors of commercial banks has also been made.

The research concludes that the liquidity position of EBL is comparatively higher than that of NABIL and BOK. NABIL maintains the most effective loan policy due to which it suffers the lowest from loan loss provision. The overall analysis of profitability ratios shows that EBL is in the highest profitable position in comparison to the two other banks. BOK is in the highest risk-seeking position by providing the comparatively largest portion of its deposit as loan. Other profitability ratios suggest that the earning capacity of all banks is satisfactory.

The main drawback of Mr. Tiwari’s thesis is that he has not fulfilled one of his research objectives of identifying the investment priority sectors of commercial banks. The researcher has made no statement in regard to the fulfillment of this objective.

The overall analysis of the trends of the total investment, total deposit, loans and advances and net profit show that EBL is in the best position than NABIL and BOK.

A study conducted by **Thapa Ram Kumar (2009)** entitled “**Cost-Volume Profit Analysis of Service Sector**” (A case study of Everest Bank Limited) has tried to sketch the profitability, financial position and sensitivity analysis of Everest Bank Limited. The study was conducted on the basis of secondary data and it has used various financial tools to analyze the data under concerning specific objectives i.e. CVP analysis of research.

The researchers have concluded that the bank has not practiced cost- volume profit analysis and all level of management is not involved in profit planning and decision making. Yet, this bank is one of the most successful modern commercial banks in Nepal to maximize the profit and to achieve the maximum benefit from the resources available to an organization over a particular span of time. The bank has a high margin of safety then BEP sales which indicates its well performance.

An intensive study of this research shows that Mr. Thapa’s findings are based on hypothetical assumptions rather than factual conclusions derived from the use of financial tools. If Everest Bank has proven to be one of the most successful modern commercial banks in maximizing profits and achieving maximum benefit then the researcher cannot state that the management has not involved in profit planning and decision making.

A study conducted by **Mr. Prashant Ballav Pant (2010)** entitled, “**Budgeting Practice in Nepal Bank Ltd**” has tried to observe the various aspects of budgeting practice in NBL in order to assess the profit capability and find out the relation between profitability trend and loans. The observation and analysis is based upon a time period of five years (2060/61 – 2064/65).

The focus of Mr. Pant’s findings and conclusion revolved around the fact that the current status of the bank was not satisfactory because the bank had failed to meet the standards set by the budgeted target. Moreover, it had tried to hide its failure by underestimating the budgeted figure.

The bank's management of loans and deposits appeared to lack output because it had not been able to recover its debts from productive sectors. The actual income and expenditure happened to exceed the budgeted income and expenditure. It had maintained an ineffective investment policy resulting in storage of idle cash balance.

The declining trend of ROE and ROA proved that the bank was unable to enhance its profitability in accordance to its potentiality.

However, the researcher has not disclosed clear information in regard to the management of loans and advances and suggestions on how to upgrade it. It only listed out the problems underlying in the bank, but failed to address the solutions. It did not provide ideas on diverting idle cash balance to sustainable and profitable sectors.

2.5 Review of Books, Journals, Articles and Others

In this section, efforts have been made to examine and review some related books and articles in different economics journals to complete the research.

Michel R. Baye and Dennis W. Jansen through his book "**Money, Banking and Financial Markets**" (1996 P: 215), have tried to analyze the bank's profitability under the economics approach. They state 'to maximize profits the bank should be able to manage their loan and advances, investment and deposit and banks should attract the interest rate paid on deposit.'

"Banks earn interest on loan and advances; they pay the interest to the depositors. The interest gap is the difference between rate sensitive assets and liabilities; holding more rate sensitive assets than liabilities is called a positive gap and excess rate sensitive liabilities over assets in a negative gap."

Shrestha, Madhu Sundar through his book "**Fundamental of Banking (Profitability and liquidity p: 203)**" has explained about the profitability verses liquidity "Banks have to maintain liquidity to meet the depositors claim." It means the banks should be able to properly manage the deposits, loan and advance. For this, they have to maintain sufficient fund in liquid assets.

“Banks have to pay a large amount as interest to its depositors and have to spend an equally large amount in its daily operational activities. To meet such expenses, banks have to invest in assets that generate maximum revenue. However, banks cannot lend all the money in possession with it, on assets like loans and advances, which generate optimum profit”

Hence, a balance of assets must be stroked to ensure both profitability and liquidity. These paradoxical principles of liquidity and profitability are reconciled to maximum benefits of the bank. In order to avoid difficulty in meeting the various commitments, bankers strike a balance by arranging their assets in different proportions of liquidity and profitability as a management of deposit, loan and advances.

Peter R. Rose (Mc-Grew Hill 4th Edition 1999) in his Book “Commercial Bank Management” Measuring and Evaluating Bank Performance (p:155) focused on appropriate management banking assets and liabilities (i.e. deposits, loan and advances) by measuring the two key dimensions of bank performance-profitability and exposure to risk. Profitability is clearly more important because satisfactory profits preserve the bank’s capital, providing it with a base for future survival and growth.

Pursuit of bank profit must be tempered with concern for risk. Management must pay particular attention to credit risk, liquidity risk, market risk, interest rate risk, earnings risk and solvency risk. According to the author “achieving superior profitability for a bank depends upon apposite of deposits, loan and advances and several crucial factors.

- Careful use of financial leverage.
- Careful use of operating leverage from fixed assets.
- Careful control of operating expenses.
- Careful management of the assets portfolio to meet liquidity needs.
- Careful control of the bank’s exposure to risk.

Bhuvan Dahal, through his article, “**Experience of the Nepalese Commercial Banks and Challenges Ahead**” (NRB Special Publications: Nepalese Financial System Growth and Challenges (July 2009 P: 50) highlighted the trend and growth of deposits, loan and advances , comparative financial position of commercial banks and rank of commercial banks by their performance and management of deposit, loan and advances. The graphical trends show the growth of total deposit as well as loan and advances of all Nepalese commercial bank throughout the periods of 1960 to 2007.

As per Dahal's article, six commercial banks namely NBL, RBB, ADBL, NBBL, NCC and LBL had negative net worth in F/Y 2005/06. Though overall return on shareholders’ fund appears to be impressive in Nepal, it is in a declining trend and at the same time not high if we exclude some established old banks. He also concluded that banks are mainly exposed to credit, operational, market and liquidity risk. Taking risk by choice, not by chance is the main mantra of banking. Unfortunately, risk management system in all those banks was poor due to poor corporate governance and offensive management. Like most other public sector enterprises, government owned banks were not professionally run resulting in a huge non-performing loan (NPL). Similarly, NBBL, NCC and LBL have negative net worth due to undue interference of the promoters/directors in credit operations causing huge NPL. NRB has today adopted many measures to erase negative net worth of these banks and to safeguard the interest of the depositors. Negative net worth in those banks is due to the high level of NPL. This critical situation however would not have arisen in private banks had NRB screened the promoters correctly at the time of awarding license and taken proactive measures as soon as the symptoms of the problems were sensed. The fate of semi/government banks was inevitable looking at the way the government offices in Nepal operate. Strong commitment of the government and support of judiciary is also a must for restoring good health of these banks.

Kuvera Chalise, “Deposits Collection go up in commercial banks” (published in The Himalayan Times, June 28, 2010 p: 1) states that the deposits of commercial

banks have witnessed satisfactory increment compared to couple of months ago. As per the saying of president of Nepal Bankers Association Mr. Sashin Joshi, only two weeks ago, deposits increased by around Rs 7 billion although, it is the low growth rate for last fiscal year. According to a highly placed source of central bank, deposits at commercial banks had increased to Rs. 592 billion by May end of 2010. The 'It might increase to Rs. 600 billion by the end of the fiscal year.'

Prem Khanal, in his article “**Dogmatic bankers were wrong, deposit is interest elastic**” (published in Republica on 8th August 2010) mentions that whopping rise in deposit mobilization of commercial bank has disproven the arguments of dogmatic bankers who believed that shortage of liquidity was mainly due to eroding confidence in Nepal banking system due to political instability and the requirements of central bank to prove the valid source of income to deposit more than one billion rupees. The writer has argued that Nepalese Banks deposit mobilizations is interest elastic. He has further stated that the recent impressive growth in deposit mobilization is due to the positive interest rate i.e. interest rate offered by banks is higher than average inflation. Thus the writer has concluded the article by awaring the bankers to maintain positive interest rate and management of liquidity (deposit & loan) so as to prevent the reemergence of liquidity crunch.

Pawan Kumar Lamichhane, in the report “**Financial sector is insulated from liquidity crunch, claims NRB**” in www.nepalnews.com on 23rd January 2010 reveals the fact that the banks and related financial institution had lent around Rs. 467 billion out of total deposit of Rs. 580 billion. However it is reported that NRB had claimed that there was no possibility of banks or financial institution being bankrupt owing to the existing liquidity crunch and the problem would also not last longer. The reporter has further stated the view of Maha Prasad Adhikari, executive director of NRB who attributed higher credit deposit ratio of banks and other financial institutions to liquidity crunch. The reporter has also included the view of Prasuram Chhetri, chief executive officer of Bank of Asia, who stated that the banks had to think seriously about the management of public deposit while

investing in the unproductive sector like Housing & Real estate sector and Gold Imports as loan and advance.

2.6. Research Gap

“Bank” in simple term means a place where we keep our money for safekeeping and from where we can borrow money in case of need. In other words a bank is an organization, which collects funds from the public in form of deposits and mobilizes these deposits to public as loan and thereby making profits. Under concerning this idiom, Commercial banks collect deposits from public and invest it in different profitable projects according to the regulatory framework and guidance issued by Nepal Rastra Bank as well as the bank’s own risk and return appetite as loan and advances. Hence, the management of such deposits, loan and advances is always fruitful to wide range of its stakeholder as well as bank to acquire profitable achievement. So, the efficient information on banks’ deposits, loan and advances management would be great advantages to the researcher, the bank, as well as to the public at large who has any kind of stake in the organization. This study covers most recent financial data analysis based there on commercial bank predominantly the NABIL bank itself.

The above relevant literature has explored the fundamental understanding and knowledge, which is required to make it meaningful and purposeful. There are various researchers conducted on Lending policy, Deposit mobilization, credit management and profitability analysis of commercial bank. In order to perform those analysis researchers have used either ratio analysis, CAMEL analysis & simple correlation analysis or Cost volume profit analysis only, which are incompetent in managing & solving the problems of commercial bank's deposit and loan. Actually, banks are operating by collecting the public deposit and investing it in public as loan to generate profit by interest gap between deposit and loan. In fact all these are determined by various factors. In the past research, there are no any topics related to Management of Deposit and Loan of commercial bank with analysis of budgeting, planning, trend analysis, profitability analysis (i.e. CVP analysis) and simple correlation and multi variable correlation analysis (

correlation between interest income & interest expenses and correlation between deposit, loan and profit). Hence, previous researchers are not assured whether they ensure overall practice of management of commercial banks' deposits, loans and advances. These studies cannot identify which statistical and financial tools are currently in practice and which are not. However, all these issues have been addressed in this research.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology makes up one of the most fundamental parts in any research project as it serves as a structure for data analysis that facilitates analyzing and interpreting such data.

This section is concerned with understanding the way we think about the development of knowledge, determining an apparent research approach, identifying a comprehensible research strategy, clarifying data collection method and finally, explaining how to analyze such data. The sample selection, data collection method and validity and reliability of collected data, and data analysis method are also described.

3.2 Research Methodology in this Study

This study has mainly adopted deductive approach under which it has used explanatory purpose to explain casual relationship among variables. Quantitative analysis has been used to collect quantitative data and ensure the application of control. Inductive approach has also been adapted to structure standardized interviews in the minimum areas where required. Both research strategies and tactics have been implemented along with the consideration of research constraints- time, cost and quality.

This ensures validity of data, operationalization of concept, clarity of definition, researcher's independence on what is being researched and the necessity to select samples of sufficient size and order to generalize conclusion.

3.2.1 Research Design

Research design is the plan, structure and strategy formulated on the investigation conceived so far in order to obtain answers to research question and to control variances. It is the arrangement of conditions for collection and analysis of data.

An effective research design links abstract and stylized concepts and questions with the empirical world's complexities and challenges. The present study has followed the descriptive as well as analytical research design to achieve the objectives of the study along with the application of some financial and statistical tools.

3.2.2 Nature and Source of Data

The data collected to conduct this research are secondary in nature. The primary source of secondary data on this study is the annual reports of Nabil Bank Limited. In addition, supportive data and information have been collected from articles, newspaper and published records of Nabil Bank Limited.

Supplementary data and information have been collected from Nepal Rastra Bank Limited.

Moreover, the relevant literatures have been collected from Central Library of T.U., Kathmandu Fornterior Academy (KFA) an institute of general Banking Training & Research, Library of Shanker Dev, and Public Youth Campus & Nepal Commerce Campus, Economic Journals and unpublished reports and documents from various sources.

3.2.3 Population and Sample

There are altogether 31 commercial banks functioning all over the kingdom. For the purpose of attaining the objectives of this research, samples have been taken from the total population of the following commercial banks in Nepal.

Table 3.1**The List of Commercial Bank**

S.N.	Name of Bank	Operation Date (A.D.)	Head Office	Paid up Capital Rs in Million
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.40
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3	Agriculture Development Bank Limited	1968/01/02	Kathmandu	9437.50
4	Nabil Bank Limited	1984/07/16	Kathmandu	2029.80
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2409.10
6	Standard Chartered Bank Nepal Limited	1987/01/30	Kathmandu	1398.50
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1600.00
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	1653.60
9	Nepal Bangladesh Bank Limited	1994/006/05	Kathmandu	1860.30
10	Everest Bank Limited	1994/10/18	Kathmandu	1079.60
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	1359.50

12	NCC Bank Limited	1996./10/14	Siddharthanagar, Rupandehi	1399.60
13	Lumbini Bank Limited	1998/07/17	Narayangarh, Chitwan	1294.50
14	NIC Bank Limited	1998/07/21	Biratnagar, Morang	1311.50
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	1627.20
16	Kumari Bank Limited	2001/04/03	Kathmanu	1306.00
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1613.50
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	1561.00
19	Global Bank Limited	2007/01/02	Birgunj, Parsa	1473.40
20	Citizens Bank International Limited	2007/06/21	Kathmandu	1207.00
21	Prime Commercial Bank Limited	2007/09/24	Kathmandu	1210.00
22	Sunrise Bank Limited	2007/10/12	Kathmandu	1625.70
23	Bank of Asia Limited	2007/10/12	Kathmandu	1500.00
24	Development Credit Bank Limited	2008/05/25	Kamaladi, Kathmandu	1920.90
25	NMB Bank Limited	2008/06/05	Babarmahal, Kathmandu	1651.60

26	Kist Bank Limited	2009/05/07	Anamnagar, Kathmandu	2000.00
27	Janata Bank Limited	2010/04/05	New Baneshwor, Kathmandu	1400.00
28	Megha Bank Limited	2010/07/23	Kantipath, Kathmandu	1631.00
29	Commerz and Trust Bank Limited	2010/09/20	Kamaladi, Kathmandu	1400.00
30	Civil Bank Limited	2010/11/26	Kamaldi, Kathmandu	1200.00
31	Century Bank Limited	2011/03/10	Putalisadak, Kathmandu	1080.00

Source: www.bfr.nrb.org.np

Only 1 commercial bank- Nabil Bank Limited has been selected as a sample for this research due to the above-mentioned research constraints.

3.3 Method of Analysis

The analysis of data has been done in accordance to the pattern of data available due to time and resource constraints.

To achieve the objective of the study, various statistical and financial tools have been used.

The analytical statistical tools include mean and median, graphical presentations, trend analysis, simple & multiple correlation coefficient

The analytical financial tools include Planning, Budgeting and Cost volume profit analysis and CAMELS analysis.

Comparative analysis has also been made among the calculated results of the statistical and financial tools in order to ensure the accurate and absolute interpretation.

3.3.1 Statistical Analysis

Statistics is the aggregate of facts affected to a marked extent by multiplicity of causes, numerically expressed, enumerated or estimated according to a reasonable standard of accuracy, collected in a systematic manner, for a pre-determined purpose and placed in relation to each other. Statistical tools help to plot the trends of financial position of the bank.

Facts and figures calculated of any phenomenon in relation to population, production, sales, profit or any other analytical element are called statistics. It also analyzes the relationship among variables and helps banks to make appropriate investment policies regarding profit maximization and deposit collection, fund utilization through providing loan and advances or investment on other companies.

A wide range of statistical tools have been used to analyze the collected data and to achieve the objectives of the study. The analytical tools such as Graphical Presentation, Trend analysis, Simple and multiple coefficients of correlation, Probable error, and Hypotheses Testing are among them.

3.3.1.1 Graphical Presentation

Graphical presentation refers to the visual aid that gives a bird's eye view of a set of numerical data, which includes the exhibition of data in a simply yet readily comprehensive form. The most important feature of graphical presentation is that illiterate people can also understand the interpretation of the data. This is one of the foremost reasons for this technique's popularity to prevail in research studies.

There are various types of graphical presentation that are applied depending upon the nature of data and the requirement of the researcher. Simple bar diagram, multiple bar diagram, percentage bar diagram and pie-chart have been used under this study.

3.3.1.2 Trend Analysis

Trend Analysis is a mathematical technique that is used to predict future outcomes on the basis of historical results. Not only that, it is also useful to estimate uncertain events in the past.

Among the various methods of determining trend and its applications, Least Square method- the technique of fitting a regression equation, has been considered as the most appropriate one. This method has been used in an attempt to estimate the trends of deposit, loan & advance and profit. It also shows the basic tendency of variables- deposit, loan, profit, income and others to grow or drop over a period. Various trends have been drawn on the basis of trend analysis. Trend analysis is based on various assumptions that help in determining pre-determined figures have been outlined below:

- Other things remain unchanged.
- Bank operation is same as now.
- The economic situation remains constant.
- Banking rules and regulations remain the same.

For estimation, straight line trend between the time series values 'Y' and time 'X' is given by the following equation: $Y = a + bX$

where,

Y = Dependent Variable

a = Y – intercept, fixed component

b = slope of trend line or annual growth rate

X = deviation from some convenient time periods

3.3.1.3 Coefficients of Correlation

Correlation is a statistical tool that studies the relationship between two or more than two variables. On the basis of the number of variables involved in correlation analysis simple, partial or multiple correlations can be used.

Simple correlation coefficients measure the degree of simple relationship between two study variables. When two or more than two study variables exist, the necessity of making calculations based on partial or multiple correlations arises.

- **Simple correlation coefficient:**

It measures the degree of relation between two sets of variables- independent and dependent.

Under simple correlation method, various sub-methods can be used to study correlation between two variables, but one of the most widely used correlation technique is Karl Pearson's correlation coefficient method.

Under this method, the correlation coefficient between two variables can be presented as:

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

Where,

N= Number of pairs of observation

X= Variable

Y= Variable

r = correlation of coefficient

The relationship between the two variables can be measure either by graphical method (scatter diagram) or by numerical calculation method. The numerical measurement or relationship between the two variables is denoted by the symbol “r” whose values arranges from $-1 \leq r \leq +1$.

Interpretation:

- i. If $r = 0$, there is no relationship between the variable
- ii. If $r < 0$, there is negative relationship between the variables
- iii. If $r > 0$, there is positive relationship
- iv. If $r = +1$, the relationship is perfectly positive

v. If $r = -1$, the relationship is perfectly negative

• **Multiple Correlation Coefficient:**

In real life, there is not only 1 independent variable that affects a dependent variable. This fact gave birth to the concept of multiple correlation coefficients, which studies the relationship among 1 dependent variable and more than 1 independent variable.

The relationship thus measured is denoted by R. R is never a negative value, which is shown by the formulae below:

$$R = \frac{\sqrt{r_{yx_1}^2 + r_{yx_2}^2 - 2r_{yx_1}(r_{yx_2})(r_{x_1x_2})}}{\sqrt{1 - r_{x_1x_2}^2}}$$

The interpretation of the symbols in the table below:

r_{yx_2} = correlation coefficient between y and x_2

r_{yx_1} = correlation coefficient between y and x_1

$r_{x_1x_2}$ = correlation coefficient between x_1 and x_2

Y = dependent variable

X_1 = independent variable 1

X_2 = independent variable 2

Interpretation of R:

- **Strength of the Association:** The strength of the association is measured by the sample multiple correlation coefficient- R. the value of R falls between the range of 0 to +1.
- The closer R is to 1, the stronger the linear association is.
- If R equals 0, there is no linear association between the dependent variable and the independent variables.

The simple correlation coefficient 'r' tells about both the strength and direction of the association whereas 'R' tells about only the strength of the association. R is

never a negative value. This can be seen from the formula below, since the square root of this value indicates the positive root.

R value	Interpretation
1	Perfect linear relationship
0	No linear relationship

No other values of R have precise definitions of strength as the chart furnished below:

R value	Interpretation
0.9	strong association
0.5	moderate association
0.25	weak association

For all these statistical analysis the researcher has used SPSS programme to calculate the data.

3.3.1.4 Test of significance

Statistical science provides an objectified procedure of distinguishing whether the observed difference connotes any real difference among groups. Such a procedure is called test of significance.

Test of significance is a method of making due allowance for the sampling fluctuation affecting the result of experiments or observations. For the test of significance of observed correlation coefficient following statistical mechanism are used:

- **Probable Error (P.E)**

The probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient, 'r'. The probable error (P.E) is defined by,

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

Where,

r = Correlation coefficient

N = Number of pairs of observation

Conclusion:

- (i) If $r < P.E.$, the value of ‘ r ’ is not significant no matter how high value of ‘ r ’ is i.e. there is no evidence of correlation between the variables.
- (ii) If $r > P.E.$, the value of ‘ r ’ is significant i.e. correlation is significant

• **Test Statistics (T- Test)**

After calculating a correlation coefficient, it is usually reasonable to check its significance. The significance of a correlation coefficient of a particular magnitude will change depending on the size of the sample from which it was computed. Test statistics (t – test) is the most commonly used method to evaluate the significance between two correlation coefficients in two samples. The correlation coefficient is considered to be statistically significant if the computed ‘ t ’ value is greater than the critical value of a ‘ t ’ distribution with a level of significance $\frac{\alpha}{2}$ and $n - 2$ degree of freedom. In order to test the significance of a correlation coefficient test statistics (t – test) is defined by,

$$t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

Where,

r = Correlation coefficient

n = number of values

Conclusion

- i. $H_0 = 0$: there is no significance relationship between variables.

ii. $H_1 \neq 0$: there is significance relationship between variables.

If calculated 't' value is greater than tabulated 't' value there is significance relationship between variables and vice versa.

The following statistical tools have been used for the above defined purpose:

- Mean and Median
- Standard Deviation
- Trend Analysis
- Correlation
- Test for significance
 1. Test Statistics (t- test)
 2. Probable Error (P. E.)

3. 4 Financial Planning & Budgeting Analysis

Proper planning is indispensable to achieve the goal of maximum profit. For the implementation of such a plan, budget is regarded as the most effective device. A budget is effectively used for control purpose. It is a qualitative expression of a plan of action prepared for advance for the period to which it is related. In simple words, budget is a statement showing the planned and actual predictions for a future period prepared in terms of money, quality or both.

Financial budgeting is a forward planning. It serves basically as a device for management. Budgeting is a device for planning that serves to conduct the operation of a bank for evaluating actual results. Actual results can be judged as satisfactory or unsatisfactory in the light of relevant budget data as well as change in conditions. Company controls operating through its budgeting and responsibility reporting system. Top executives are able to control every area of the organization through a system of budgetary and control reporting by responsibility areas.

3.5 Cost Volume Profit Analysis

CVP is a management accounting tool that expresses relationship between sales volume, cost and profit. CVP can be used in the form of a graph or an equation.

CVP Analysis can be used in marketing to determine the point of maximum profit for a company engaged in Internet Marketing efforts, in relation to the cost of those efforts and the volume of sales created. It is a key measurement in determining marketing strategy and developing realistic business goals (increased profit volume or market share.)

CVP Analysis is a multi-variable equation that takes into account various middle metrics, including Return on Investment (ROI) and Customer Acquisition Cost (CAC). Some marketers, particularly in online marketing firms, use CVP Analysis to predict where maximum profit volume exists for their clients, and manipulate the middle metrics to in order to make the path to success more efficient.

Using CVP Analysis, marketing companies can measure the results of media campaigns along with Customer engagement cycle and converts the data into sound business strategy. Through predictive analysis, they are able to gauge the effects of future marketing mix changes to produce maximum profit volume or increased market share for their clients.

Objectives of CVP analysis

In order to forecast profits accurately, it is essential to ascertain the relationship between profit and cost on one hand and volume on the other.

CVP analysis is helpful in producing a flexible budget.

In marketing, CVP analysis can be used to create flexibility within media budgets and allocation. Using CVP analysis to predict profit volume allows marketers to make subtle shifts in middle metrics, testing strategies to produce optimal results.

This will help in determining the pricing decisions that should be made for the product.

3.6 Financial analysis

Financial analysis is an aspect of the overall business finance function that involves examining historical data to gain information about the current and future financial health of a company. Financial analysis can be applied in a wide variety

of situations to give business managers the information they need to make critical decisions. "The inability to understand and deal with financial data is a severe handicap in the corporate world," **Alan S. Donnahoe** wrote in his book *"What Every Manager Should Know about Financial Analysis"*.

In real sense, finance is the language of business. Goals are set and performance is measured in financial terms. Plants are built, equipments are ordered and new projects are undertaken based on clear investment return criteria. Financial analysis is required in every such case.

Bank is an institution that is continuously contributing toward the development of any economy and is treated as an important service industry in the modern world. Now days the function of bank is not limited within the same geographical limits of any country. It is an important source of financing for most businesses. The common assumption, which underpins much of the financial performance research and discussions, is that increasing financial performance will lead to improved functions and activities of the organisations.

The concept of financial performance and research into its measurement is well advanced within finance and management fields. A well-judged technique named CAMELS rating has recently been used in a popular way for evaluating performance of financial institutions, especially banks. In Nepal, Nepal Rastra Bank serves as a Central bank, this is the regulatory body and has been calculating this rating till now based under the Basel II model. Performance of banking sector under CAMELS frame work involves analysis and evaluation of the six crucial dimensions of banking operations. Thus in this study, CAMELS analysis consists of a set of performance measures that give a comprehensive view of the banks based on the following rates.

- Capital Adequacy
- Assets Quality
- Management Soundness
- Earnings

- Liquidity
- Sensitivity to Market Risk

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter focuses on the presentation and analysis of data obtained from research interviews. A description of the respondents who took part in the study will be given. The data will be presented from the sample bank's annual report and NRB's financial directives. Data analysis will also be discussed.

Data analysis in qualitative research is a challenging and highly creative process. It starts with data collection. The researcher is intimately involved with the respondents and the data that are generated.

This chapter is the backbone of this study. Here, all the primary and secondary data collected from the sample banks are processed, presented and analyzed mathematically. To accomplish the proposed study objectives, various budgeted analysis and related data are presented in systematic way in tabular form and graphs, charts and data are analyzed using statistical tools such as mean and standard deviation, multi-variable coefficient of correlation, time series, budgetary tools and Cost Volume Profit analysis.

It is well known that the primary activities of a bank are essentially accepting deposit and disbursing loans and advances. These activities of a commercial bank can be summarized as the mobilization of resources to maximize the profit. These, deposit collection & providing loans stand as the major source of earning profit for a commercial Bank.

4.2 Deposit Analysis

Deposit collection is one of the main features of commercial bank. A commercial bank receives deposit in different accounts namely current, fixed and saving. These are the direct deposits. When a bank receives cash, it grants right to the depositors to withdraw it whenever they like as per the Nepal Commercial Bank

Act 2031 B.S. Deposit is collected on customer's account, which is opened as per the bank policy. The customer's deposits are of two types which are further classified in the following manner:

- Interest-free deposit accounts:
 - Current Deposit a/c
 - Margin Deposit a/c
 - Other Deposit a/c
- Interest-bearing deposit accounts:
 - Saving Deposit a/c
 - Call Deposit a/c
 - Fixed Deposit a/c

Table 4.1

Interest Free Deposit

Year	Current Deposit	%	Margin Deposit	%	Other Deposit	%
2061/062	2,799,184,977.00	89.13	296,976,231.00	9.46	4,249,385.00	1.41
2062/063	2,910,589,772.00	88.84	322,899,810.00	9.86	42,896,336.00	1.30
2063/064	3,395,239,772.00	90.35	312,060,101.00	8.30	50,807,875.00	1.35
2064/065	5,284,368,064.00	92.26	361,782,186.00	6.32	81,404,000.00	1.42
2065/066	5,480,533,468.00	91.67	463,015,109.00	7.74	35,320,250.00	0.59
Average	3958256855.29	90.45	364773404.43	8.34	53235207.49	1.21

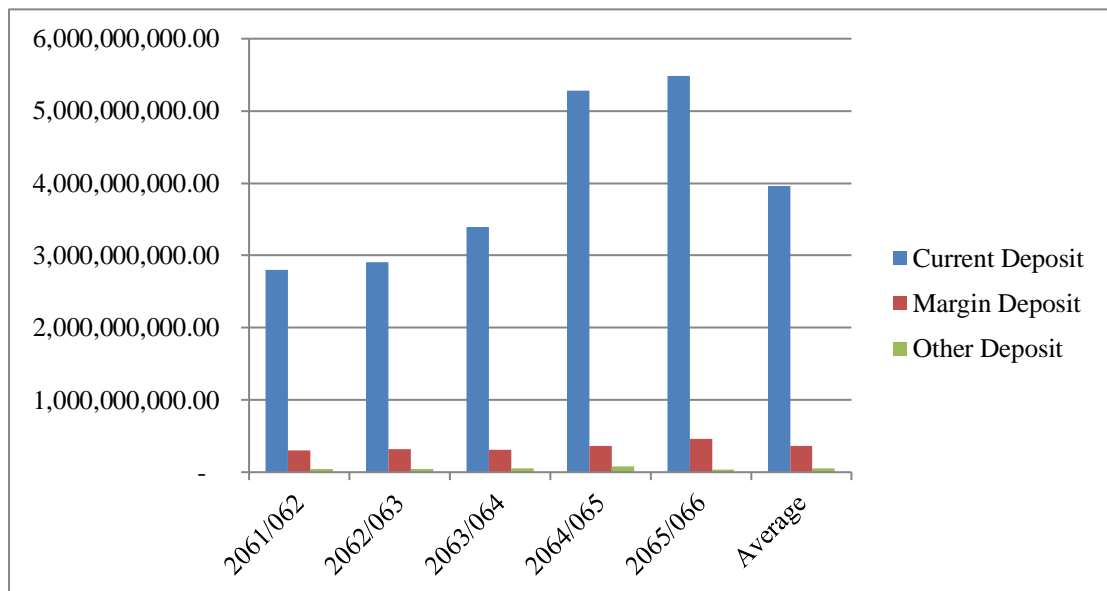
Source: Annual report of Nabil Bank Limited

Note: Average Value = Average Percentage × Total Deposit Collection in each year

The above data reveals the interest-free deposits of Nabil Bank Ltd. categorized as current deposit, margin deposit and other deposit during the five year fiscal period from F/Y 2061/62 BS to F/Y 2065/66BS. The current deposit collection has been in a rising trend, the highest growth observed in the year 2064/65 where figures reached to NRs.5.28 billion which is the 92.26 percentage of the total interest free deposits collected. Coming to margin deposit collection, the figures have gone in the down trend in the fiscal year 2063/64, again reviving in the following fiscal year. There has been a fluctuating trend in other deposit throughout the five-year fiscal period. Furthermore, the other deposit figures have reached their peak values in the year 2064/65 standing at NRs.81.4 million which is 1.42 % of total interest free deposits collected. In average the current deposit, margin deposit and other deposits hold 90.45, 8.34 and 1.21% respectively.

Figure 4.1

Bar Diagram for Interest Free Deposit



Represented in bar diagram, the data for Interest Free Deposit collection of Nabil Bank Ltd. is the same as in Table 1 but the diagrammatic approach clarifies the actual trend of current, margin and other deposit collection. Here, current deposit is in a continuous upward trend followed by margin deposit which has been in a rising trend except for the slight decrease in F/Y 2063/64. On the other hand, the

trend of other deposit collection is continually fluctuating throughout the survey period.

Table 4.2**Interest Bearing Deposit**

Year	Saving Deposit	%	Fixed Deposit	%	Call Deposit	%
2061/062	7,026,334,402.00	61.39	2,078,535,135.00	18.16	2,341,328,577.00	20.46
2062/063	8,770,759,429.00	54.58	3,449,094,149.00	21.46	3,851,159,944.00	23.96
2063/064	10,187,354,402.00	52.02	5,435,189,720.00	27.75	3,961,633,457.00	20.23
2064/065	12,159,966,430.00	46.43	8,464,086,113.00	32.32	5,563,440,674.00	21.24
2065/066	14,620,407,308.00	46.61	8,310,708,297.00	26.49	8,438,271,408.00	26.90
Average	10,927,184,040.76	52.20	5,282,641,935.83	25.24	4,721,827,912.41	22.56

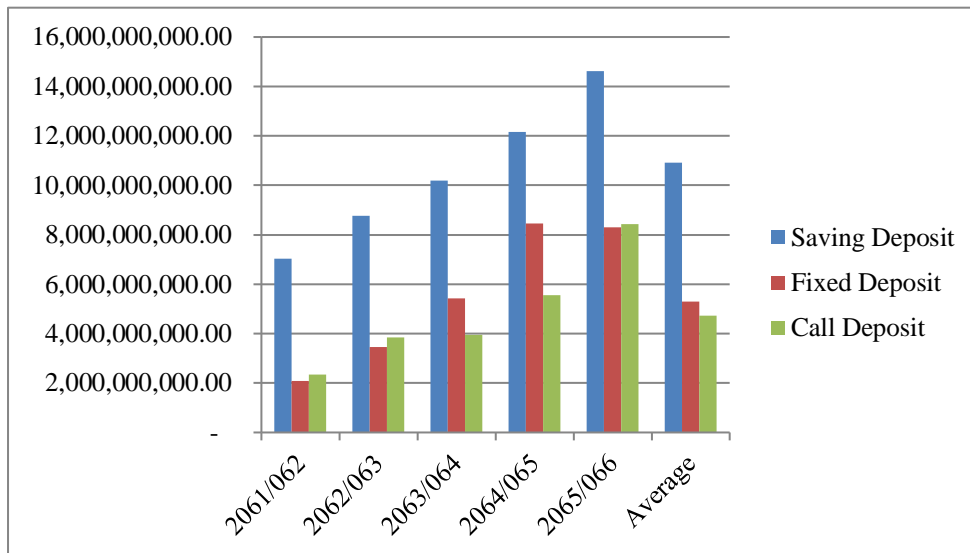
Source: Annual report of Nabil Bank Limited

Note: Average Value = Average Percentage × Total Deposit Collection in each year.

The given table illustrates the data of interest bearing deposit collection of Nabil Bank Ltd. from F/Y 2061/62 to F/Y 2065/66. All saving, fixed and call deposit collection have witnessed a continuous rise till fiscal year 2064/65. Saving deposit collection adhered to the upward trend in F/Y 2065/66 witnessing a staggering NRs.2.5 billion growth whereas fixed deposit collection lost the growth observing a heavy decline of NRs.153.37 million. In the same year, call deposit collection reached its peak standing at NRs.8.43 billion, moreover, witnessing a sharp rise of NRs.2.87 billion from the previous year. The percentage distribution shows that the saving deposits during the F/Y 2061/062 holding the peak percent of interest bearing deposit by 61.39% such as the fixed deposit in F/Y 2064/065 with 32.32% and call deposit by 26.90% in F/Y 2065/066. Although, the percentage distribution of interest bearing deposit in saving deposit is falling trend and fixed & call deposit is in fluctuating trend. In average the saving deposit, fixed deposit and call deposit hold 52.20, 25.24 and 22.56% respectively.

Figure 4.2

Bar Diagram for Interest Bearing Deposit



The above bar diagram clarifies the actual trend of interest bearing deposit collection of Nabil Bank Ltd. from F/Y 2061/062 to F/Y 2065/066, categorized as saving deposit, fixed deposit and call deposit. Both saving deposit and call deposit have been holding in a continuous rise throughout the survey period. On the contrary, fixed deposit collection has lost its upward trend in the final year of the survey period.

Table 4.3

Status of Budgeted and Actual Deposit Collection

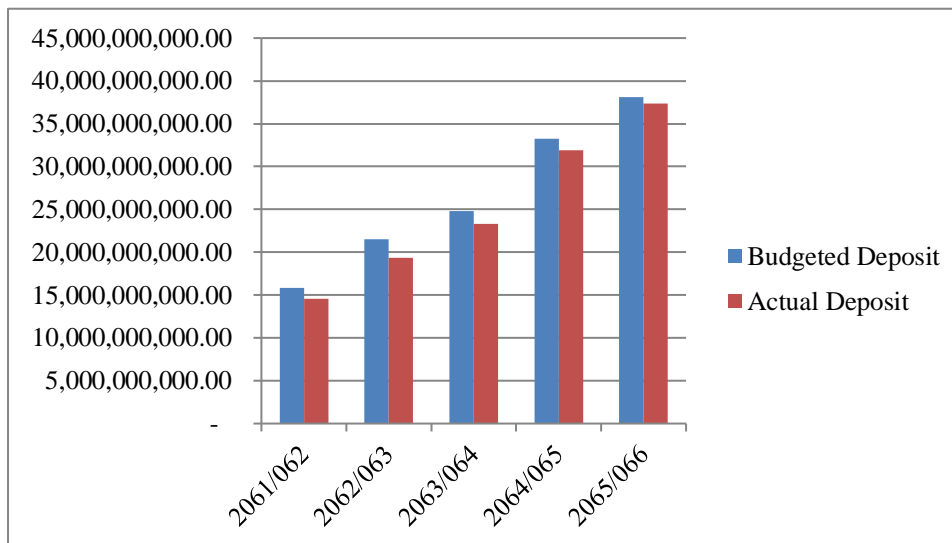
Year	Budgeted Deposit	Actual Deposit	Achievement
2061/062	15,855,009,464.13	14,586,608,707.00	92%
2062/063	21,497,110,488.89	19,347,399,440.00	90%
2063/064	24,832,218,432.98	23,342,285,327.00	94%
2064/065	33,244,841,111.46	31,915,047,467.00	96%
2065/066	38,110,465,142.86	37,348,255,840.00	98%

Source: Annual report of Nabil Bank Limited

The statistical data presented above displays the budgeted and actual deposit collection of Nabil Bank Ltd. from F/Y 2061/62 to F/Y 2065/66. In all the fiscal years, the actual deposit collection has been over 90% of the budgeted deposit collection. Despite the fact that the performance level dropped by 2% in F/Y 2062/63, it revived the following year, moving on in upward trend till the last fiscal year. The bank's actual deposit collection reached 98% of the budgeted deposit collection in F/Y 2065/66, attaining the highest performance level throughout the survey period.

Figure 4.3

Bar Diagram for Budgeted and Actual Deposit Collection



The diagrammatic representation of Table 3 gives a clear understanding that the budgeted and actual deposit collection has actually stayed close throughout the survey period. The blue bar representing budgeted deposit collection and the red one depicting actual deposit collection display the fact that the actual deposit collection has been maintained above 90% of the budgeted deposit collection throughout the survey period. Moreover, there has been no case in which the actual deposit collection has exceeded the budgeted deposit collection.

4.3 Loan and Advances Analysis

Bank stimulates the major portion of the resource for income-generating activities, popularly known as fund-based exposure which is made through loans and other investments. Loan includes all loans, advances, overdrafts, bills purchased/discounted, provisions & other types of loans availed to the borrowers of the bank in return of which it earns interest income. Other investments include investment in shares, treasury bills, placement of fund on call markets etc.

NRB has directed banks to categorize their loans and advances in terms of products and sectors. The trend of sector-wise classification of loans and advances has been in practice for a long time but product-wise classification has recently come into effect from the current fiscal year 2065/66. Sector-wise classification includes loans and advances in agriculture, mines, production, construction and so on whereas product-wise classification encompasses Real Estate Loans, Financial Institution Loans, Agricultural Loans, Commercial Loans, Loans to individuals, Lease Financing receivables and Miscellaneous loans.

The following data exhibits the sector-wise loan investment of Nabil Bank for the survey period of five years, 2061/62-2065/66.

Table 4.4**Sector-wise loans and advances**

Sector	2061/062	%	2062/063	%	2063/064	%	2064/065	%	2065/066	%	Average	%
Agriculture	51,749,370	0.47	51,100,317	0.38	54,500,081	0.34	74,570,244	0.34	192,912,485	0.69	80,249,956.50	0.45
Mines	28,816,123	0.26	21,900,136	0.16	13,900,021	0.09	19,018,833	0.09	15,400,997	0.06	23,657,560.07	0.13
Manufacturing	4,363,100,023	39.86	5,107,131,638	38.46	5,701,508,520	35.85	7,801,142,117	35.85	7,830,006,751	27.97	6,399,492,839.66	35.60
Construction	663,269,376	6.06	1,378,808,541	10.38	1,923,302,874	12.09	2,631,577,065	12.09	4,014,759,832	14.34	1,976,415,188.32	10.99
Metal production, Machinery, Tools & Fitting	140,491,063	1.28	100,000,619	0.75	163,200,244	1.03	223,300,253	1.03	291,118,841	1.04	184,400,745.92	1.03
Transportatio	1,000,786,940	9.14	1,309,608,113	9.86	1,467,902,194	9.23	2,008,470,844	9.23	2,498,561,705	8.92	1,667,913,248.3	9.28

n Equipment & Production Fitting												0
Transportation, Communication & Public Services	288,460,358	2.64	673,704,173	5.07	917,701,371	5.77	1,255,653,446	5.77	1,313,284,995	4.69	860,770,748.50	4.79
Wholesaler & Retailers	1,984,324,091	18.13	2,068,512,814	15.58	2,458,503,674	15.46	3,363,870,542	15.46	5,094,929,739	18.20	2,977,783,397.11	16.56
Finance, Insurance & Fixed Assets	332,532,076	3.04	480,202,975	3.62	821,101,227	5.16	1,123,479,399	5.16	1,964,127,117	7.01	862,749,468.07	4.80
Service Industries	1,383,273,610	12.64	1,014,306,283	7.64	1,260,701,884	7.93	1,724,967,091	7.93	1,979,528,113	7.07	1,553,240,915.32	8.64
Consumable	76,975,941	0.70	86,700,537	0.65	84,600,126	0.53	115,754,911	0.53	116,207,520	0.42	101,935,587.69	0.57

Loan												
Local Government		-		-		-		-		-		0.00
Others	632,957,607	5.78	986,806,113	7.43	1,036,101,548	6.52	1,417,655,590	6.52	2,688,173,976	9.60	1,288,793,346.00	7.17
Total	10,946,736,577		13,278,782,259		15,903,023,765		21,759,460,334		27,999,012,071		17,977,403,001.47	100

(Annual report of Nabil Bank Limited)

With reference to table – 4 we can take a brief in sight in to the trend of investment of various sectors over the past 5 years by Nabil Bank Limited. Analyzing the three major sectors, we can see that investment in agriculture was steadily declining up to fiscal year 2064/065 after which, it jumped to 0.69%. This can be observed as a significant step taking into consideration the magnificent opportunities this sector beholds.

Data regarding investment in mines shows a downward trend, which indeed good decision because Nepal is not rich in terms of mines and opportunities are not so worthy of asserting a huge portion of investment.

In the case of manufacturing Nabil Bank Limited's investment has been steadily decreasing up to fiscal year 2064/065 after which, it dropped to 27.97% in 2065/066. Political instability must have been the reason behind this.

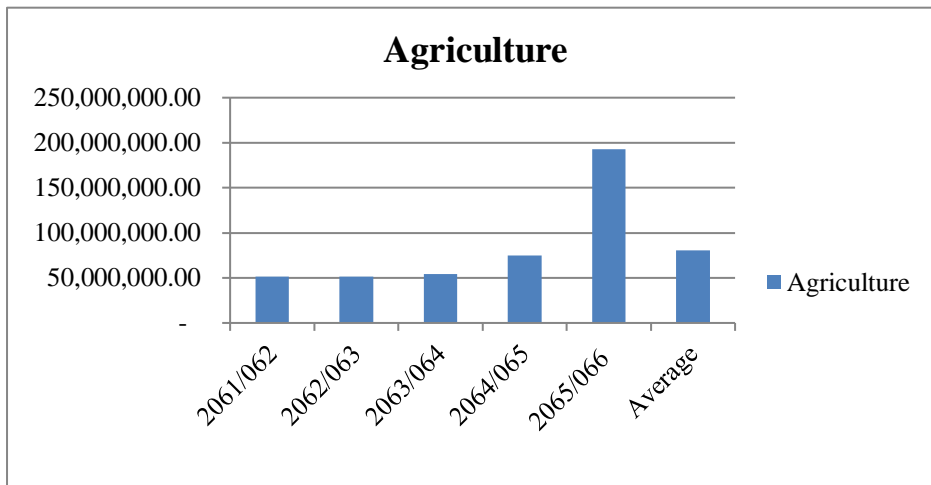
Similarly, the data shows that the Nabil Bank has invested significantly in sector like construction, transportations, whole sellers & retailers and service related industries. It has also disseminated its investment in sector like finance, insurance, consumable loan & communication & public sector. As per the data the maximum investment seen in manufacturing industries with 35.60% followed by whole sellers & retailers sector while the minimum is being invested in agriculture.

Though the involvement of people in agriculture has reduced significantly in recent years, agriculture still remains as mainstay economy of Nepal. Thus the minimum investment in agriculture and mines represents the bank has not invested in productive sectors prior in the comparison of non productive sector like constructions & import base business.

The diagrammatic representation of the above data has been done below separately for the different sectors that NRB has categorized loans and advances into:

Figure 4.4

Bar Graph of Agricultural loan from F/Y061/62 to F/Y065/66

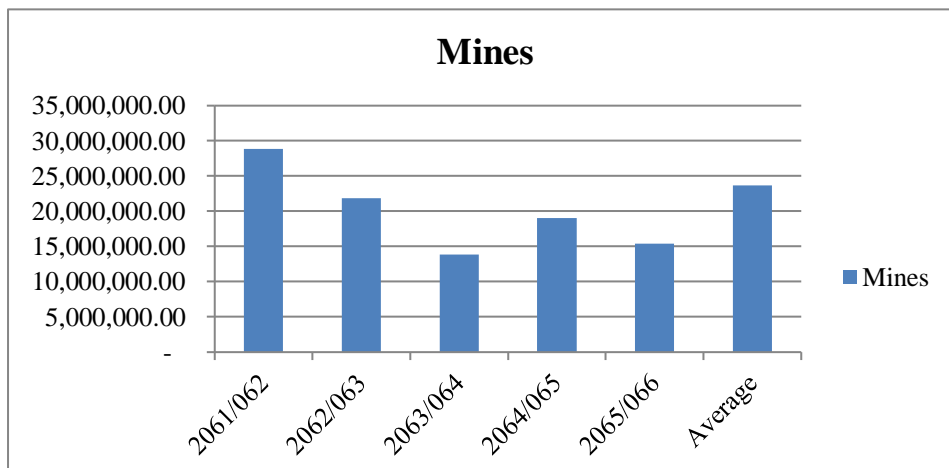


The chart exhibits the loans and advances in agricultural sector of Nepal by Nabil Bank for the specified survey period. The first three fiscal years show a steady nature of loans and advances for this sector and then a minimal growth in the F/Y2 064/65, finally witnessing a significant growth in the F/Y 2065/66. In average trend for the study periods shows minimum investment in agriculture sector.

It is clear from the given chart that the amount of loans and advances in this sector is relatively lower because of higher investment in unproductive sectors like construction.

Figure 4.5

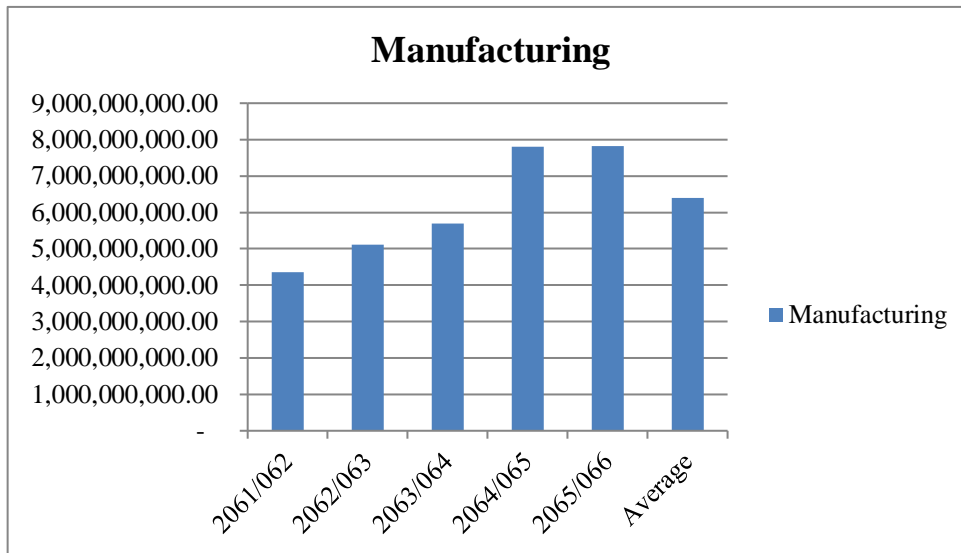
Bar Graph of Mines loan from F/Y2061/62 to F/Y065/66



The chart exhibits a fluctuating trend in the loans and advances for mines throughout the survey period but the comparison of the initial and final loans and advances show that the investment in this sector has decreased over the years.

Figure 4.6

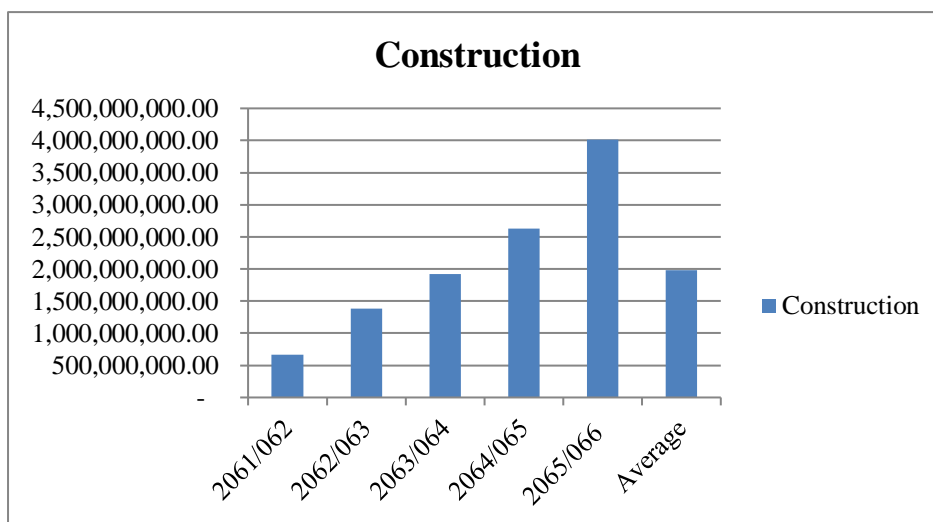
Bar Graph of Manufacturing loan from F/Y061/62 to F/Y065/66



The diagrammatic data represents the loans and advances in manufacturing sector. The trend analysis shows that the investment in this sector has been in rise since the beginning of the survey period.

Figure 4.7

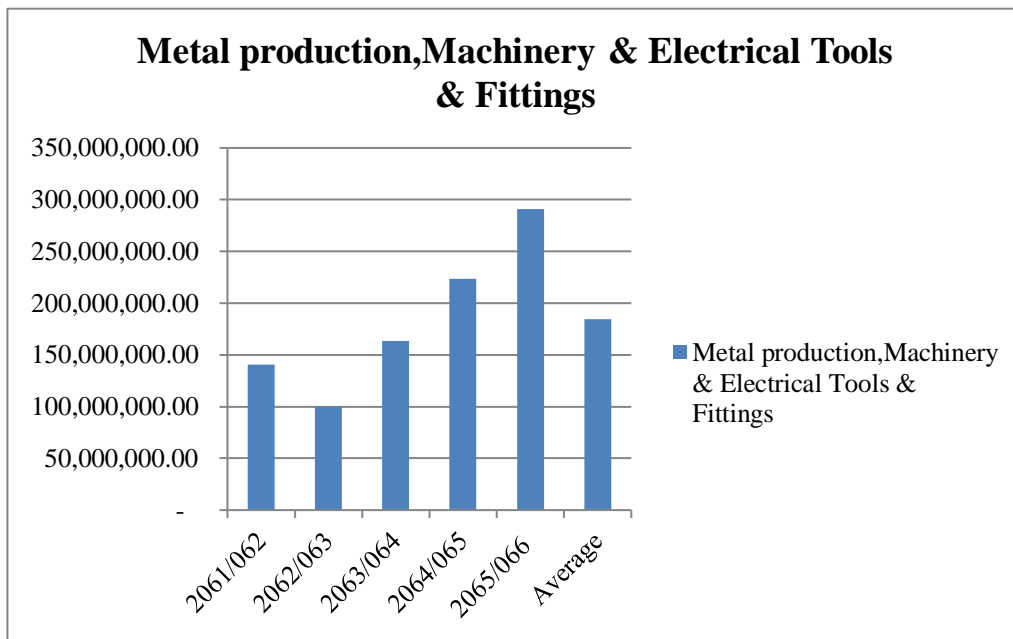
Bar Graph of Construction loan from F/Y061/62 to F/Y065/66



The chart above shows that the loans and advances in construction sector were growing at the same rate from F/Y061/62 to F/Y064/65 before excelling high in the F/Y065/66. The overall data shows the investment in this sector is in a continuous upward trend.

Figure 4.8

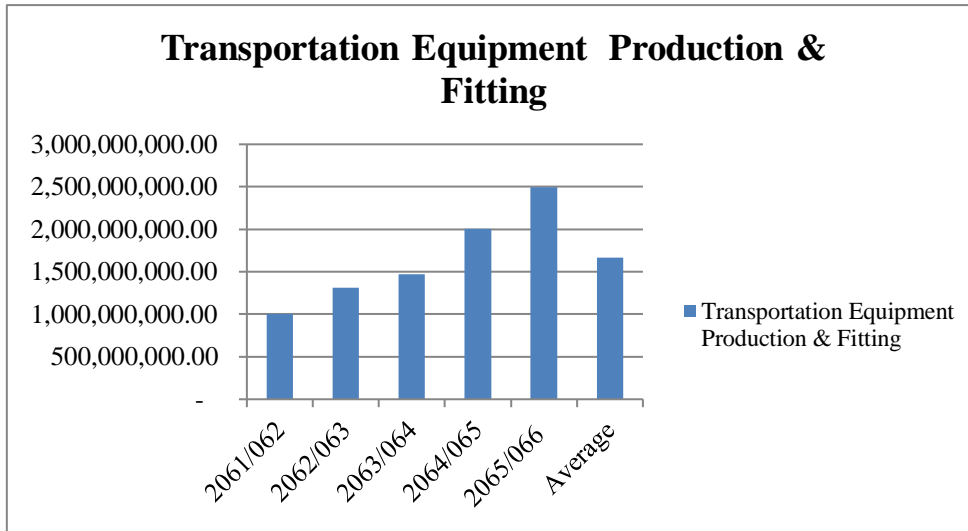
Bar Graph of Metal production, machinery and electrical tools & fittings loan from F/Y061/62 to F/Y065/66



The F/Y062/63 has witnessed a decline from the F/Y 2061/62 before getting into the upward trend with a rise higher than the investment in F/Y 2061/62. The data reveals that the investment in this sector has gone up to 2.80 billion NRs. from 1.40 billion NRs. that is to say; the investment has gone up by twice from the initial fiscal year.

Figure 4.9

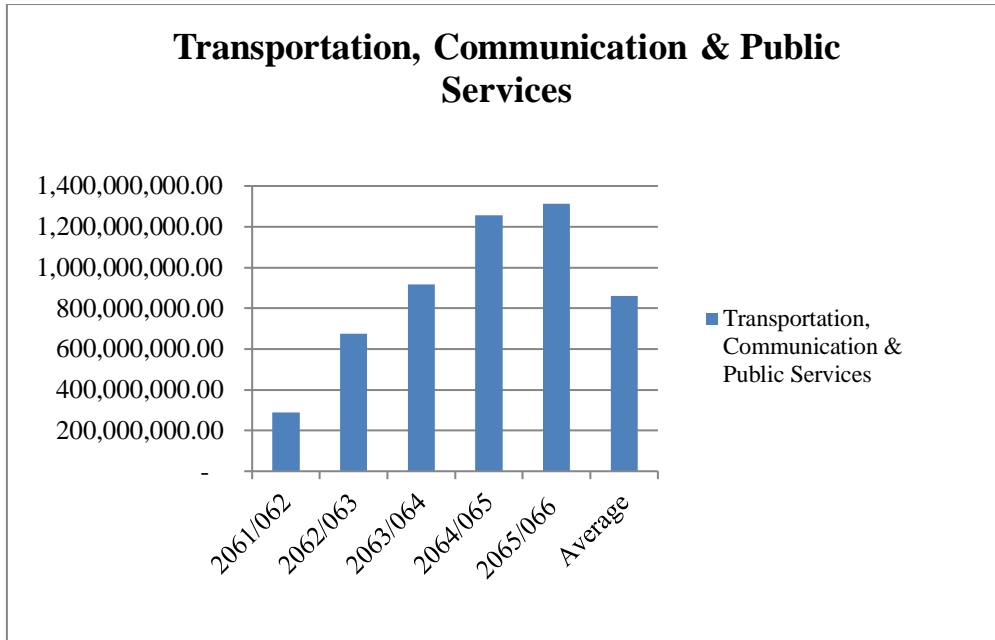
Bar Graph of Transportation Equipment Production & Fitting loan from F/Y 2061/62 to F/Y 2065/66



The data clearly expresses an upward trend in each of the fiscal years, the lowest rise being in the F/Y 2063/64 and the highest in the F/Y 2065/66. The F/Y 2065/66 witnessed a growth of 1 billion NRs. in the investment amount from the preceding fiscal year.

Figure 4.10

Bar Graph of Transportation, Communication & Public Services Loan from F/Y061/62 to F/Y065/66



The loans and advances in the transportation, communication and public services sector, represented by the above chart, are in a continual upward trend. The trend seems steady in the F/Y 065/66, witnessing a minimal growth from F/Y064/65.

Figure 4.11

Bar Graph of Wholesalers & Retailers loan from F/Y061/62 to F/Y065/66

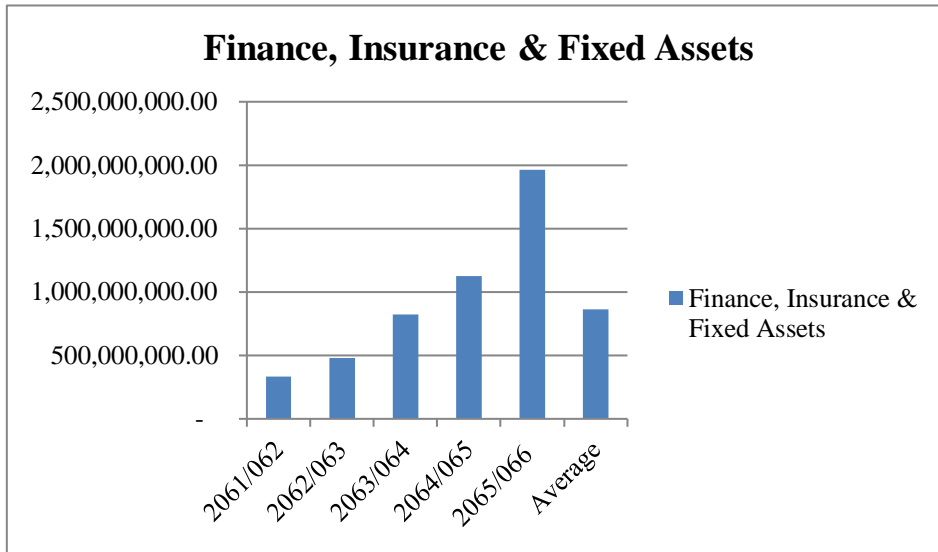


This chart also exhibits an upward trend of wholesaler & retailers sectors loans. The investments in the first two fiscal years appear to be nearly equal. There

has been a significant rise in the loans and advances since 2064/65 and the trend has been followed in the following year.

Figure 4.12

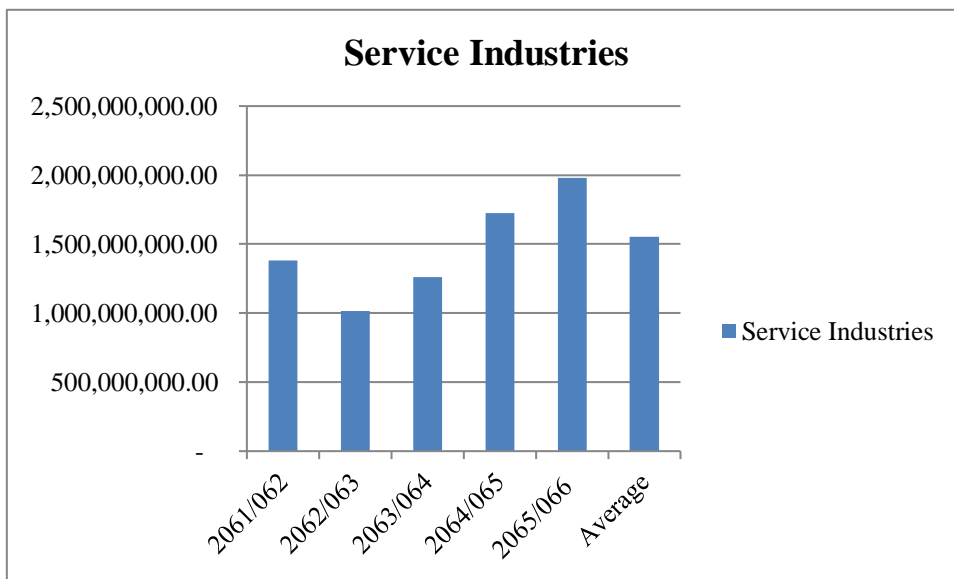
Bar Graph of Finance, Insurance & Fixed Assets loan from F/Y 2061/62 to F/Y 2065/66



This chart also reveals a continual growth in the statistics. A tremendous growth has been observed in the fiscal year 065/66.

Figure 4.13

Bar Graph of Service industries loan from F/Y061/62 to F/Y065/66

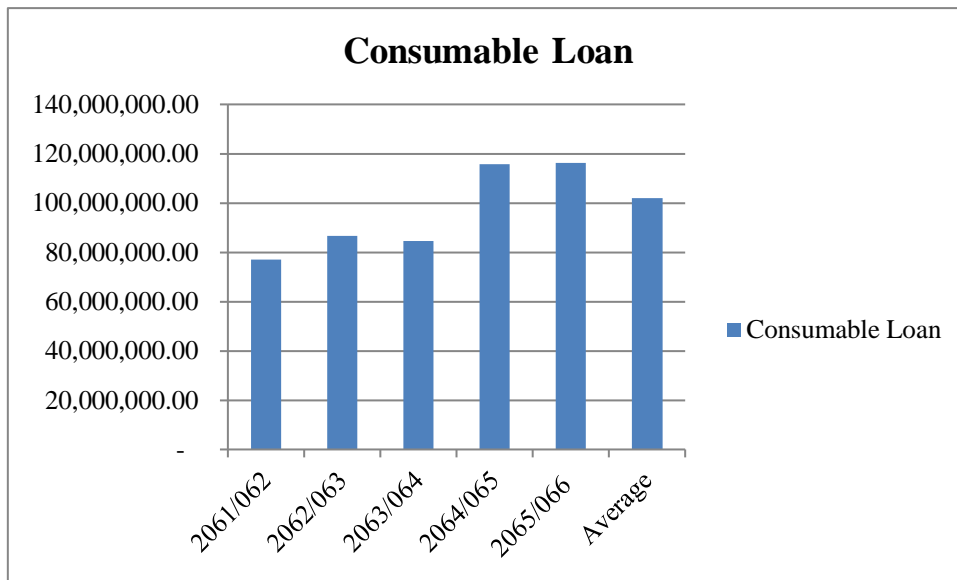


As per the graphical representation the second year of the survey period has witnessed a decline in loans and advances from the first one before going into the upward trend. The F/Y 2063/64 has witnessed a growth from F/Y 2062/63

but it is not as enough as required because it has not exceeded the amount invested in the F/Y 2061/62. The recovery in this sector is seen in the F/Y 2064/65 and this has the highest growth in the whole survey period.

Figure 4.14

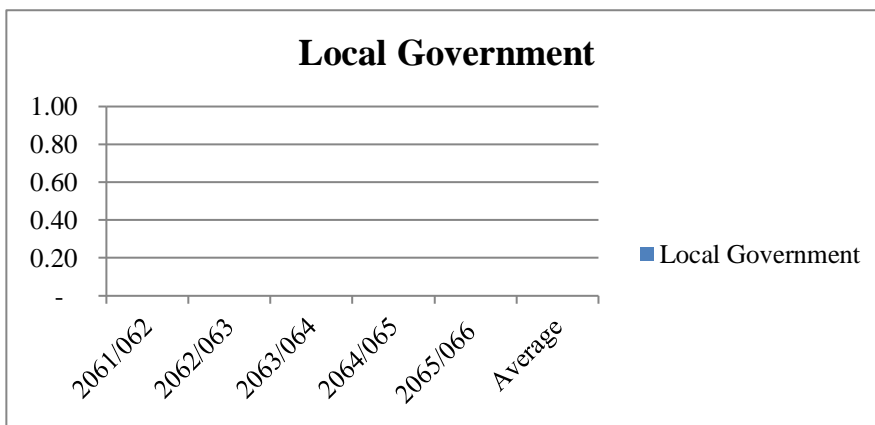
Bar Graph of Consumable loan from F/Y 2061/62 to F/Y 2065/66



Above graphs reveal that consumable loans have been given by Nabil Bank in a fluctuating trend throughout the survey period. The data is unique in the sense that the growths in this sector are significant whereas the declines are minimal.

Figure 4.15

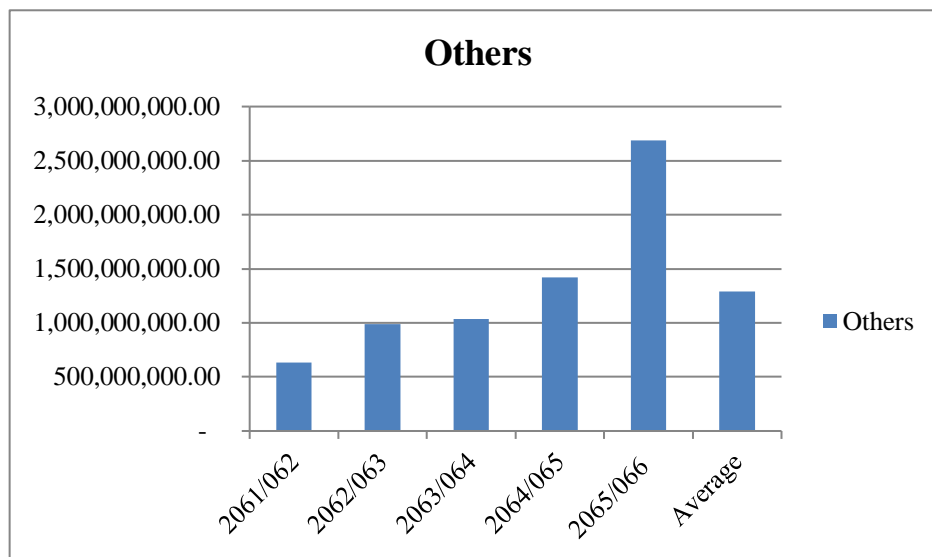
Bar Graph of Local Government loan from F/Y 2061/62 to F/Y 2065/66



The given data acknowledges the fact that Nabil Bank has not issued loans and advances for the local government throughout the survey period.

Figure 4.16

Bar Graph of Others loan from F/Y 2061/62 to F/Y 2065/66



This data clearly expresses that the loans in other sectors have been in upward trend continuously. The first four fiscal years have observed a slow and steady rise whereas the fifth i.e. F/Y 2065/66 has witnessed a momentous growth of 1.40 billion NRs. excelling the investment in other sectors by 2 billion NRs. from the initial fiscal year.

Table 4.5

Product wise Loan & Advances of Nabil Bank for F/Y 2065/66

Particular	Amount	Percentage
Term Loan	5,529,357,855.00	19.75
Overdraft	9,091,388,387.00	32.47
Trust Receipt Loan/ Import Loan	2,642,871,044.00	9.44
Demand and Other Working Capital Loan	2,704,075,005.00	9.66
Real Estate Loan	1,405,490,962.00	5.02
Margin Nature Loan	-	0.00

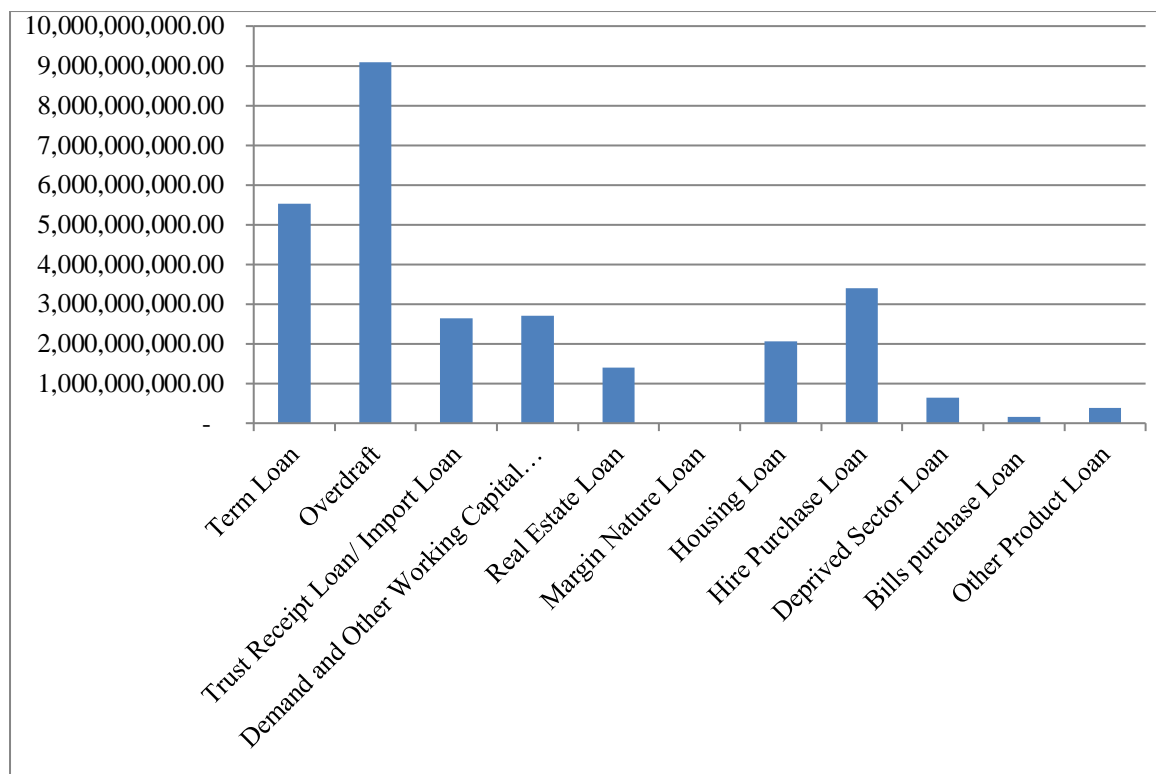
Housing Loan	2,055,133,006.00	7.34
Hire Purchase Loan	3,391,919,522.00	12.11
Deprived Sector Loan	637,041,228.70	2.28
Bills purchase Loan	160,810,407.50	0.57
Other Product Loan	380,924,653.10	1.36

Source: Annual report of Nabil Bank Limited 2065/066

From the above table, this study can take a brief in sight in to the trend of product wise investment of various sectors in F/Y 2065/066 by Nabil Bank Limited as per the categorization of NRB. Analyzing the major sectors, it can see that investment in over draft is 32.47% in this year. Similarly, the data shows that the Nabil Bank has invested significantly in sector like term loan, hire purchase loan, import loan & working capital loan. It has also disseminated its investment in unproductive sector like real estate & housing sector with 5.02 & 7.34% respectively. As per the above table the bank has not invested significantly in productive sector like agriculture & other manufacturing sectors prior in the comparison of non productive sectors & import base business though agriculture still remains as mainstay economy of Nepal.

Figure 4.17

**Bar Graph of Product wise loan & advances of Nabil Bank for F/Y
2065/66**



As revealed in table and diagrammatic representation for product wise loan and advances of Nabil Bank Limited for fiscal year 2065/66, the majority of unproductive sector loan and advances is up warding than productive sector's loan and advances.

4.4 Interest Income & Interest Expenses Analysis

The time value of money is a key component in investing and borrowing / deposit and loan & advances. Money that is invested earns interest, and over time, that interest is compounded, so that balance grows. Bank is earned profit from different between interest rate given to deposit holder and received from debtors. Bank can reduce its cost by paying lower interest rate to deposits holders but it create negative impact towards bank and hard to sustain in high competitive market. Bank can make high profit by determining high interest rate in providing loan. But, no one invest huge amount in their business by taking loan from when interest rate is elevated. Bank has to calculate right interest rate for survival and capital utilization. So cost volume profit analysis helps to determine interest rate and be of assistance to make decisions in every

step of operation. Cost volume profit analysis helps to make decision how bank earn high profit with better utilization of resources.

Interest income and interest expenses of Nabil Bank Limited can be presented at tabulation and diagrammatic forms as follows.

Table 4.6

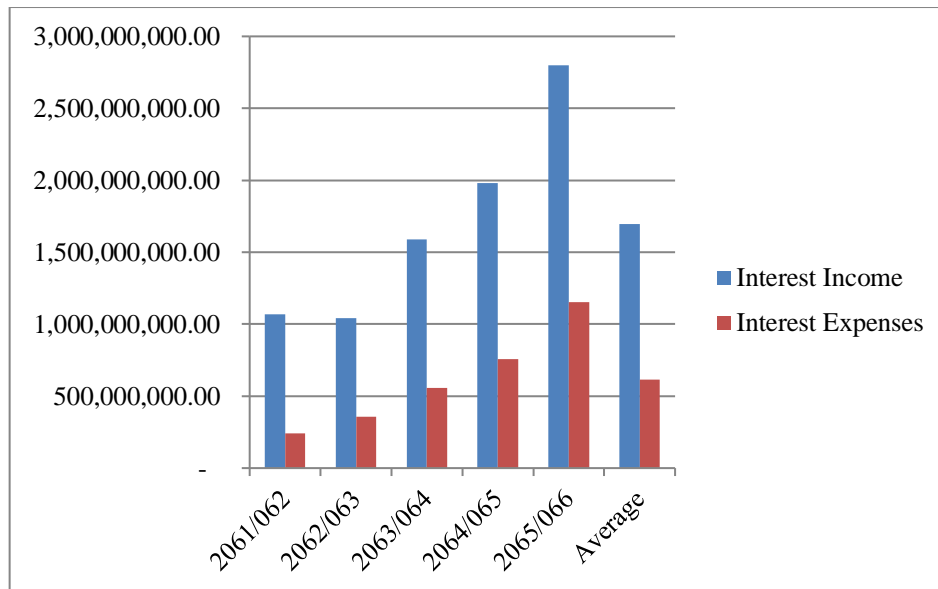
Interest Income and Interest Expenses of Nabil Bank Limited

Year	Interest Income	Interest Expenses	Expenses Ratio (%)
2061/062	1,068,746,769.00	243,544,611.00	23
2062/063	1,039,998,500.00	357,161,304.00	34
2063/064	1,587,758,714.00	555,710,109.00	35
2064/065	1,978,696,727.00	758,436,212.00	38
2065/066	2,798,486,196.00	1,153,280,052.00	41
Average	1,694,737,381.20	613,626,457.60	36

Source: Annual reports of Nabil Bank Limited

Figure 4.18

Bar Graph of Interest Income and Interest expenses of Nabil Bank for 2061/062 to 2065/066



As exposed in table and diagrammatic representation, both the interest income and interest expenses of Nabil Bank Limited are in increasing trend. However, in between the F/Y 2061/062 and F/Y 2062/063 the interest income has decreased. This might have been due to the ongoing People’s movement and political turmoil present at the time. Similarly very less rise interest expenses in the year might have been due to the lack of investment in secure sectors. Frequent robbing of banks might have made people to lose confidence in banking system. As per tabulation & diagrammatic representation the interest income and interest expenses, the graph has increased more than twice in the consequent year and average. Despite the increased gap in interest income and interest expenses, the general trend of both of these is increasing every fiscal year thereafter i.e. F/Y 2063/064, 2064/065 and 2065/066. It might have been the impact of political stability, peace & regained confidence of people in banking system and investment in real estate sector which have positive interest rate.

4.5 Net Profit Analysis

In accounting, **net profit** is equal to the gross profit minus overheads minus interest payable plus/minus one off items for a given time period (usually: accounting period). A common synonym for “net profit” while discussing financial statements (which include a balance sheet and an income statement) is the bottom line. This term results from the traditional appearance of an income statement which shows all allocated revenues and expenses over a specified time period with the resulting summation on the bottom line of the report. In simplistic terms, net profit is the money left over after paying all the expenses of an endeavor. In practice this can get very complex in large organizations or endeavors. The bookkeeper or accountant must itemize and allocate revenues and expenses properly to the specific working scope and context in which the term is applied.

The net profit of Nabil bank for the study period can be presented below at tabulation and graphical forms.

Table 4.7

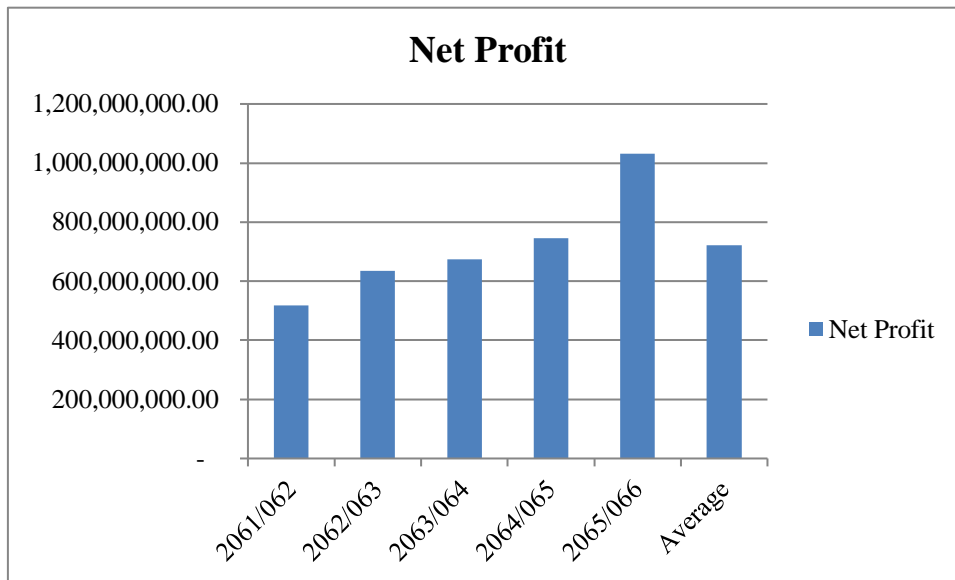
Net Profit of Nabil Bank Limited

Year	Net Profit
2061/062	518,635,749.00
2062/063	635,262,349.00
2063/064	673,959,698.00
2064/065	746,468,394.00
2065/066	1,031,053,098.00
Average	721,075,857.60

Source: Annual reports of Nabil Bank Limited

Figure 4.19

Bar Graph of Net profit of Nabil Bank for 2061/062 to 2065/066



The table and bar diagrammed demonstrate the Net profit of Nabil Bank Limited for study period. The graph is in increasing trend during the study period. The table and graph show that there was a high rise in the net profit in the period between 061/062 and 062/063. However, the rise in net profit is decreasing down the years. The rise in net profit has increased significantly in the F/Y 2065/066. This may have been due to the increased interest rate and confidence on the banking system. Similarly, the increased interest income is responsible for the rise in net profit in the F/Y 2065/066. The average net profit value Rs 721,075,857.60 over the study periods also indicate the confidence of banking management system and sound management of its deposits, loan and advances of Nabil Bank Limited.

4.6 Trend Analysis

The Term trend analysis refers to process of making projection of futures years for various variables. It shows the behavior of various variables in series of time. (Fago & Koirala 2054)

The trend analysis helps forecasting of future numbers & figures that may be useful in managerial decision. In other word it can be said that the trend is the

process of analyzing the data that are available with the management committee and later with the help of same data making a future projection of certain variables that are useful for enhancing the performance of any institution. So the trend line of various variables of Nabil Bank limited are computed & presented in following tables and diagrams.

Trend of Deposits Collection of Nabil Bank

Table 4.8

Yearly Deposits and its Trend in Future Years

Year	Deposit	Diff as per previous year	Per Year growth %	Cumulative Growth %
2061/062	14,586,608,707.00	-	-	-
2062/063	19,347,399,440.00	4,760,790,733.00	33	33
2063/064	23,342,285,327.00	3,994,885,887.00	21	53
2064/065	31,915,047,467.00	8,572,762,140.00	37	90
2065/066	37,348,255,840.00	5,433,208,373.00	17	107
2066/067	42,735,202,044.10	5,386,946,204.10	14	121
2067/068	48,544,296,273.40	5,809,094,229.30	14	135
2068/069	54,353,390,500.00	5,809,094,226.60	12	147
2069/070	60,162,484,729.00	5,809,094,229.00	11	158
2070/071	65,971,578,958.00	5,809,094,229.00	10	167

Source: Annual reports of Nabil Bank and by calculation of SPSS program

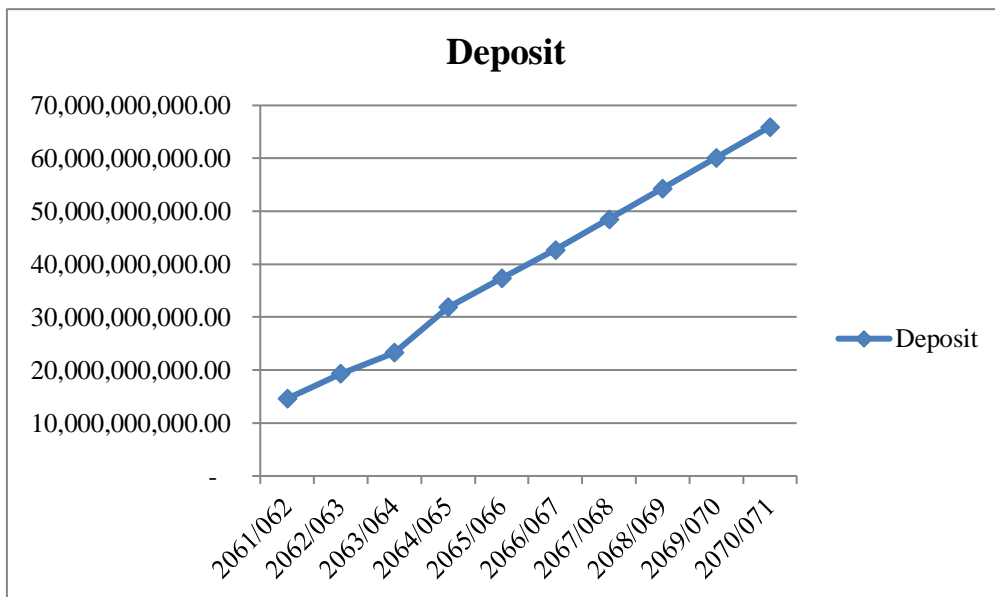
The above table shows the trend of deposits collected by Nabil Bank Limited. The bank has collected higher amount of deposits every year compared to preceding year. This signifies that Nabil Bank deposit trend is always increasing which shows the efficiency of Nabil Bank in collecting deposits from its customers. However, the general trend in percentage increase of deposits is decreasing per year compared to preceding year. The percentage

increase in deposits has decreased in 2063/064 and increased in 2064/065. However the increase in deposits in 2065/066 has drastically decreased. The extrapolations of the trend down the years show that the percentage increase in the deposits shall decrease down the years. The trend may be due to several factors such as interest rate, decrease in income level of customers, inflation and low confidence of customers towards banking sector & system.

The trend of deposit collection and percentage increase of deposit can also be explained with the help of following diagrams:

Figure 4.20

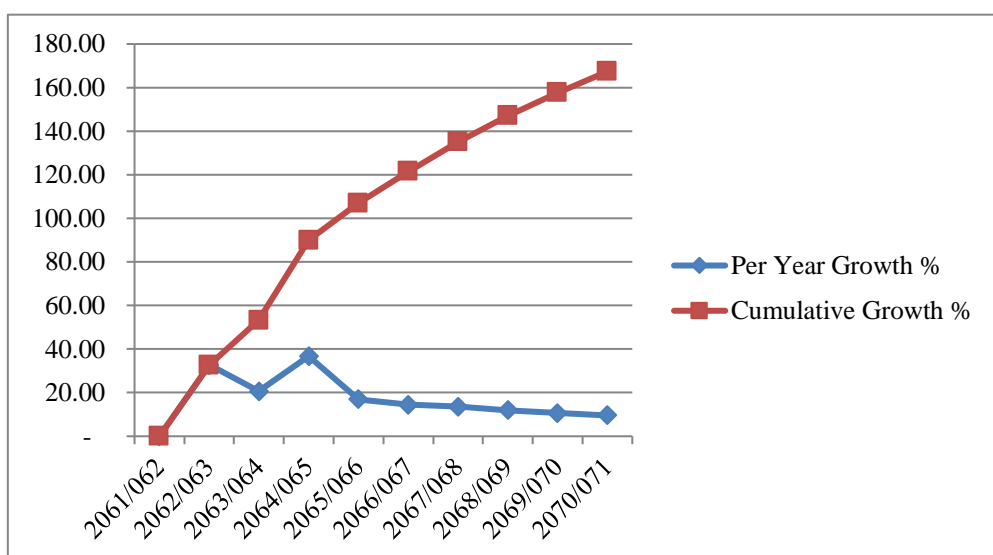
Trend Line of Deposit



From the above diagram, it is apparent that the trend line of deposits collection of Nabil Bank Limited is increasing every year in an increasing rate. However, the deposit collection of F/Y 2063/064 is not within the trend. The deviation might have arisen due to high inflation rate and effects of economic recession during the year. The curve further shows that the deposit collection of Nabil Bank shall increase in the upcoming years. Thus with its high interest rate and innovative deposit schemes, Nabil Bank has established itself as a pioneer for deposit collection.

Figure 4.21

Growth Trend of Deposit



From the above graph it is apparent that the percentage increase of deposit as per previous year is fluctuating initially till F/Y 2064/065. The percentage growth curve has then descended at unsatisfactory level down the years. Though the figure of deposit collection has increased every year but it has not been quite able to collect deposit at higher level to make a percentage wise increment in deposits. The deposit has increased highly in 2062/063 and 2064/065 but fallen rapidly down in 2063/064 and 2065/066 with compared to preceding year. In spite of strong management team and innovative deposit schemes the growth of deposit collection has decreased and seems to go further down in coming years. The decrease in the trend might be due to the high inflation rate, low confidence in banking due to economic recession, low economic growth rate and political instability within the country. The bank can recover its deposit growth rate by launching additional schemes and increasing interest rates.

Through a comparative analysis of both trends, we can observe that the cumulative growth % of deposit is in an obtuse angular trend, which shows that the accumulated fund of deposits NBL has maintained so far is abruptly increasing.

However, the trend representing % growth increase in deposits is in a state of fluctuation, which reveals that though the annual deposit is increasing per year, the rate of increase may be high for one year and low for the other.

In a nutshell, the graph permits us to state that NBL is in satisfactory state in terms of deposits; the only difference is the rate of increase, which undoubtedly cannot be exact every year.

Trend of Loan and Advances of Nabil Bank Limited

Table 4.9

Yearly Loan & advance and its Trend in Future Years

Year	Loan & Adv.	Diff as per previous year	Per Year Growth %	Cumulative Growth%
2061/062	10,946,736,577.00	-	-	0
2062/063	13,278,782,259.00	2,332,045,682.00	21	21
2063/064	15,903,023,765.00	2,624,241,506.00	20	41
2064/065	21,759,460,334.00	5,856,436,569.00	37	78
2065/066	27,999,012,071.00	6,239,551,737.00	29	107
2066/067	30,752,971,720.10	2,753,959,649.10	10	116
2067/068	35,011,494,626.40	4,258,522,906.30	14	130
2068/069	39,270,017,532.70	4,258,522,906.30	12	142
2069/070	43,528,540,439.00	4,258,522,906.30	11	153
2070/071	47,787,063,345.30	4,258,522,906.30	10	163

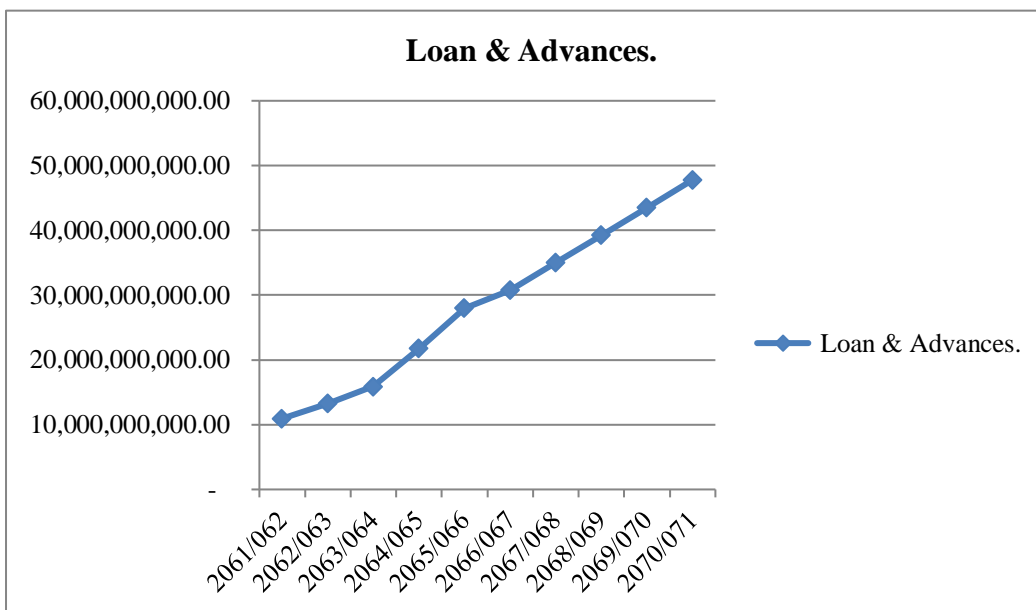
Source: Annual reports of Nabil Bank and by calculation of SPSS program

The above table shows the trend of loan and advance and the percentage increase in loan & advance of Nabil Bank Limited as per previous year. The amount of loans and advances offered by Nabil Bank is increasing every year. However, the percentage increase in loan and advance per year is in descending trend with respect to the preceding year. The bank has been able to float 70% of total

deposit amount as loans & advances every year. This shows that the Nabil Bank has ventured its investment fully in the market and related activities to satisfy the needs and wants of its customers and stakeholders. The effective management techniques and policies have contributed to increment of loans and advances and its recovery in time which shows that the bank has enhanced its performance in disseminating loans and advances. The trend of loans and advances and its growth can also be presented with the help of following diagrams:

Figure 4.22

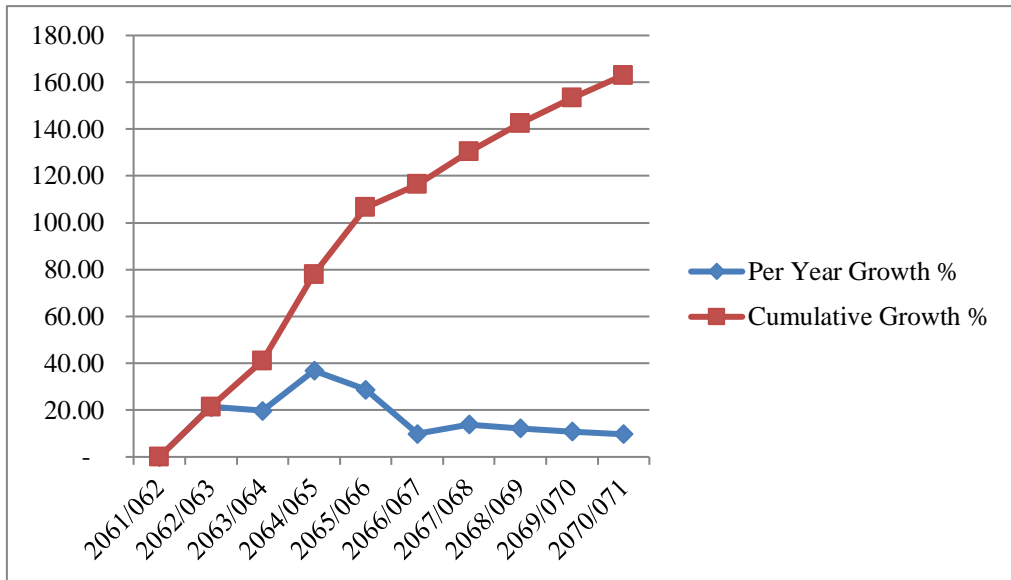
Trend Line of Loan and Advances



From the graph above it is clear that trend line of loan and advances of Nabil Bank is increasing every year. The loans and advances curve is moving upward which shows that the performance in floating loans and advances to its customers is improving. The curve has satisfactorily increased in the initial years i.e. F/Y 2061/062 to 2063/064 and ascended highly after F/Y 2063/064 till the F/Y 2065/066. The future trend shows that the curve will increase at a nearly a constant rate. This is a good sign for Nabil Bank in the road of success because with these amounts bank can generate high interest income.

Figure 4.23

Growth trend of Loan & Advances



From the above figure it is clear that the graph of percentage increase in loan and advances as per preceding year is in fluctuating trend. The graph has increased in the F/Y 2062/063 and decreased in the following year again pacing up in F/Y 2064/065. The graph has descended from the F/Y 2064/065 till F/Y 2066/067. The extrapolation of the graph shows that the growth of loans and advances shall increase in F/Y 2067/068 and decrease down gradually during the forecasted years. Nevertheless, the figures of loans and advances of Nabil Bank are increasing every year in accordance with the collection of deposit. Furthermore, the 70 percentage mobilization of fund from the total deposits prove that the bank has been able to manage loans. The comparative analysis of the two trends helps us to observe that the cumulative growth rate (in %) of loan & advances is in an obtuse angular trend, which reveals that the accumulated fund of loan & advances Nabil Bank has maintained till date is positively increasing.

The overall view shows that the trend representing incremental growth rate (in %) is in a slight state of fluctuation. The trend reached its highest limit in the fiscal year 2064/65. After two years, it reached its lowest limit. Though a slight increase may be experienced in the years to come, it will ultimately result in a gradual decline.

Trend of Net Profit of Nabil Bank Limited

Table 4.10

Yearly Net Profit and its Trend in Future Years

Year	Net Profit	Diff as per preceding year	Per Year Growth %	Cumulative Growth %
2061/062	518,635,749.00	-	-	-
2062/063	635,262,349.00	116,626,600.00	22	22
2063/064	673,959,698.00	38,697,349.00	6	29
2064/065	746,468,394.00	72,508,696.00	11	39
2065/066	1,031,053,098.00	284,584,704.00	38	77
2066/067	1,061,888,080.50	30,834,982.50	3	80
2067/068	1,175,492,154.80	113,604,074.30	11	91
2068/069	1,289,096,229.10	113,604,074.30	10	101
2069/070	1,402,700,303.40	113,604,074.30	9	110
2070/071	1,516,304,377.70	113,604,074.30	8	118

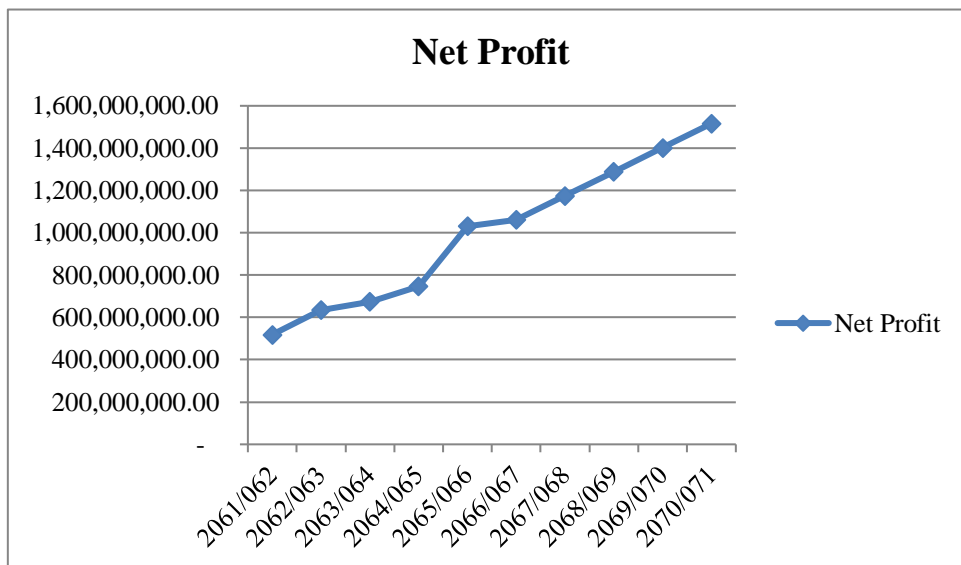
Source: Annual reports of Nabil Bank and by calculation of SPSS program

The above table shows figures of net profit and percentage increase in net profit as per previous year. The net profit of bank has increased per year. However, the growth of net profit is variable. The net profit has soared in the F/Y 2062/063 and 2065/066 by high percentages as per the preceding year. The net profit has rapidly decreased in F/Y 2063/064 and 2066/2067. The further

estimation of growth in net profit demonstrates that it shall descend in the upcoming years.

Figure 4.24

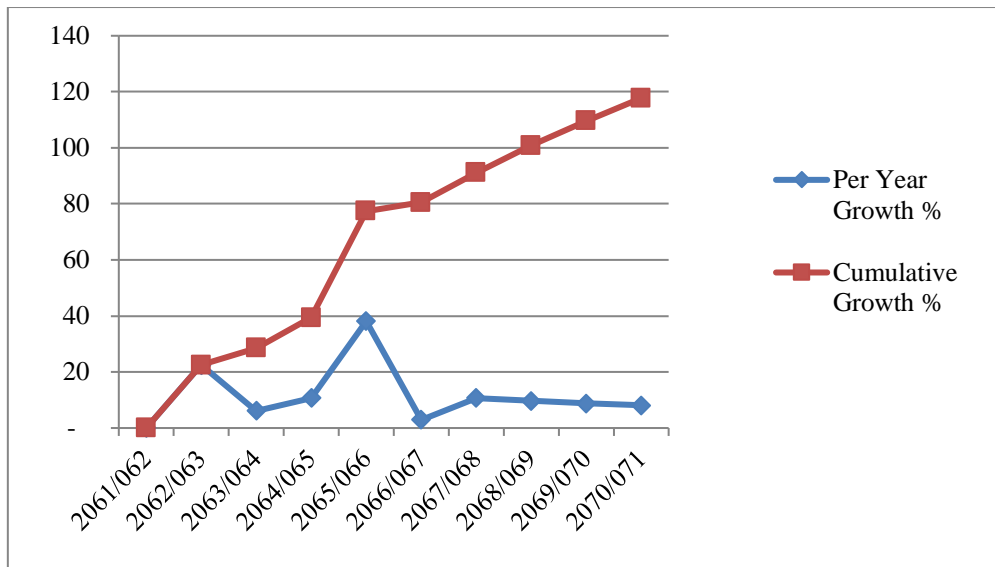
Trend Line of Net Profit



The above graph represents the trend of net profit of Nabil Bank. The graph has ascended smoothly from F/Y 2061/062 to 2064/065. The maximum growth in net profit has occurred in F/Y 2065/066. The further extension of the graph predict that the net profit of Nabil Bank shall increase gradually in the future years. This demonstrates that Nabil Bank has been able to mobilize its funds in productive sector in the market.

Figure 4.25

Growth Trend of Net Profit



From the above graph it is apparent that the figure of growth of net profit is in fluctuating trend. The growth of net profit as per previous year has increased rapidly in F/Y 2062/063 and 2065/066. Similarly, the growth of net profit has abruptly reduced in F/Y 2063/064 and 2066/067. The trend line shows that the growth in net profit as compared to that of previous year shall first increase for F/Y 2066/067 and gradually decline in the following years. In spite of above mentioned trend, the overall net profit of bank illustrates that the net profit is increasing per year.

A comparative analysis of both trends shows that the cumulative growth % of deposit is not as satisfactory as it was in the other sectors. 2064/65 to 2066/67 can be seen as the boom period where the trend went almost perfectly vertical after which, the trend slightly decreased yet maintained stability.

The end of the boom period of the % cumulative growth trend marks the advent of the depression period of % growth trend.

In the future, both the trends are predicted to maintain positive stability in terms of increase.

4.7 Statistical analysis

By the term statistical analysis the focus is on the application of various statistical tools to develop the relationship between various variables from

profit and loss account, deposit, loan & advances balance sheet, and other documents if necessary. It shows the quantitative aspect of various figures and tries to develop a relationship between these figures. A wide range of statistical tools have been used to analyze the collected data and to achieve the objectives of the study. The analytical tools such as Graphical Presentation, Trend analysis, Simple and multiple coefficients of correlation, Test of significance by using Probable error, and Test statistics (t- test) are among them.

The calculated outcomes of various mean, median, standard deviations, coefficient of correlation probable error and test statistics (t- test) between various variables have been shown under the following tables:

Table 4.11**Nabil Bank Limited****Summary Results of Various Statistical Calculations**

Particular	Mean	Median	Standard Deviation	Correlation	C.V.	P.E.	6 P. E.
Deposit	25,307,919,356.20	23,342,285,327.00	9,259,614,751.17	-	36.59	-	-
Loan & Advance	17,977,403,001.20	15,903,023,765.00	6,901,937,454.07	-	38.39	-	-
Net Profit	721,075,857.60	673,959,698.00	191,896,169.05	-	26.61	-	-
Interest Income	1,694,737,381.20	1,587,758,714.00	206,440,598.70	-	12.18	-	-
Interest Expense	613,626,457.60	555,710,109.00	321,958,108.60	-	52.47	-	-
Between Deposit and Loan & Advance	-	-	-	0.99	-	0.006	0.036
Between Deposit and Net Profits	-	-	-	0.939	-	0.036	0.214
Between Loan & Advance and Net Profit	-	-	-	0.968	-	0.019	0.114

Between Interest Income & Expenses	-	-	-	0.992	-	0.005	0.03
Between Deposits, Loan & Advance and Net Profit	-	-	-	0.977	-	0.014	0.082

The above table summaries various statistical constant from which various analyses can be done. Mean is the statistical constant which enables us to comprehend the average value. The median is the middle value of the data set. Standard deviation of various variables represents the risk .Standard deviation and C.V. measure the dispersion of data from the mean. Correlation coefficient measures the degree of relation between two or more variables. The probable error measures the reliability of the computed value of correlation coefficient. P.E. helps in measuring the reliability of the value of the coefficient. If the value of correlation coefficient is less than P.E. then there is no evidence of correlation and if the value of correlation coefficient is more than six times of the P.E. the coefficient of correlation is practically certain.

As per the table, the value of coefficient of variation of interest expense is highest among other variables. This illustrates that the data of interest expenses are widely dispersed among the other variables. The coefficient of correlation between all variables are more than 0.90 maximum being 0.992 which shows that there is high degree of positive correlation between the variables. This means that there is linear relationship between the variables .i.e. higher magnitudes on a variable occur along with higher magnitudes on another and the lower magnitudes on both also co-occur. The correlation coefficient between Deposit and Loan &Advances, Deposit and Net profit, Loan &Advances and Net Profit, Interest Income and Expenses and Deposit, Loan &Advances and Net Profit has strong association among each other since their value is more than 0.9.The value of both P.E. and 6P.E. is less than the value of coefficient of correlation for all the variables. This demonstrates that Nabil Bank Limited has highly positive correlation between variables indicating their efficient operation and administration.

Test Statistics

Under this topic, effort has been made to test the significance of variables by using t - test (hypothesis testing). The t – test for significance test of main

variables of this study report can be calculated and decision can be made as follows:

Step 1:

Null Hypothesis $H_0 = 0$: there is no significance relationship between variables.

Alternative Hypothesis $H_1 \neq 0$: there is significance relationship between variables.

Step 2: Level of Significance (5% Significance Level of 3 Years)

Step 3: Critical region.

Reject null hypothesis if $t_{Tab} \geq 3.182$ (two tailed)

Step 4: Computation of Test Statistics $t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$

Step 5: Decision

Table 4.12

Computation of test Statistics

Particular	Correlation	Calculated value 't'	Degree of Freedom (n-2)	Tabulated Value 't' at 95% C. L. or 5% S. L.
Between Deposit and Loan & Advance	0.99	12.15	3	3.182
Between Deposit and Net Profits	0.939	4.73	3	3.182
Between Loan & Advance and Net Profit	0.968	6.71	3	3.182
Between Deposits, Loan & Advance and Net Profit	0.977	7.94	3	3.182
Between Interest	0.992	13.64	3	3.182

Income & Expenses				
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For Deposit and Loan & Advance

The calculated value of 't' is equal to 4.73 and the tabulated value of 't' at 95% confidence level or 5% significance level for 3 degree of freedom is found to be 3.182. Since the calculated value is higher than tabulated value, so that the null hypothesis is rejected. It means the variables (Deposits and Loan & Advances) are highly correlated.

For Deposit and Net Profits

The calculated value of 't' is equal to 12.15 and the tabulated value of 't' at 95% confidence level or 5% significance level for 3 degree of freedom is found to be 3.182. Since the calculated value is higher than tabulated value, so that the null hypothesis is rejected. It implies that the significance relation between the Deposits and Net Profits.

For Loan & Advances & Net Profits

As per the result the calculated value of 't' is greater than the tabulated value of 't' (i.e. $6.71 > 3.182$) at 95% confidence level or 5% significance level for 3 degree of freedom. So the null hypothesis is rejected implies that there is significance relationship between Loan & Advances and Net Profits.

For Deposits, Loan & Advance and Net Profit

The calculated value of 't' is equal to 7.94 and the tabulated value of 't' at 95% confidence level or 5% significance level for 3 degree of freedom is found to be 3.182 (i.e. $H_1 \neq 0$). So that null hypothesis is rejected. It means, there is significance relationship relation between the Deposits, Loan & Advances and Net Profits. It implies that the Deposits, Loan & Advances and Net Profits are correlated.

For Interest Income & Interest Expenses

As per the result the calculated value of 't' is greater than the tabulated value of 't' (i.e. $13.64 > 3.182$) at 95% confidence level or 5% significance level for 3 degree of freedom. So the null hypothesis is rejected. It implies that there is significance relationship between Interest Income and Interest Expenses.

4. 8 Cost - volume - profit analysis and banks' performance

An attempt has been made to ascertain the factors affecting the profitability performance of commercial bank on the basis of Break Even Analysis (B.E.A.). It has also observed how the margin of safety in a bank can be improved. The factors requiring the profitability as well as the margin of safety of a profit making bank may not be exactly similar to those affecting the profitability and margin of safety of a bank suffering losses. In this study the CVP analysis helps in determining the optimum level of bank's performance. It is extremely useful in profit planning in non- growth or recessionary circumstances. With the help of data and information of 5 years period, this study is concerned with only one commercial bank among all the 31 commercial banks functioning in Nepal.

Banking industry being a service industry, the product of this industry is the services made available to its customers. Cost volume profit analysis i.e. Break even analysis provides a sweeping financial overview of the planning process. It examines the behavior of total revenues and total costs as changes occur in the output levels, selling price, variable cost and fixed costs. C.V.P. analysis can be used to find out how various variables being considered by a decision maker affects operating income. The B.E.P. is frequently major part of interest in this analysis. The B.E.P. is that quantity of output where total revenues and total costs are equal. It is a point where neither profit nor loss occurs. It should be noted, however, that B.E.P is just incidental in C.V.P. The more significant aspect of the C.V.P. analysis is to examine the effects of changes in costs, volume and prices on profits.

The fundamental objectives of this C.V.P analysis are:

- The income level where the banks are in profit or no loss position;

- To know the trend of margin of safety of the banks;
- Factors affecting profitability and margin of safety and;
- Methods of improving margin of safety.

With regards to the above fundamental objectives of the C.V.P. analyses following tools are used to examine the real financial position of bank.

1. Contribution Margin
2. P/V Ratio or CM Ratio
3. Break Even Points
4. Margin of Safety

- **Contribution Margin**

Contribution margin is the amount remaining from sales revenue after variable expenses have been deducted. Thus it is the amount available to cover fixed expenses and then to provide profits for the period. Contribution margin is first used to cover the fixed expenses and then whatever remains go towards profits. If the contribution margin is not sufficient to cover the fixed expenses, then a loss occurs for the period. This concept is explained in the following equations:

[Sales revenue – Variable cost = Contribution Margin]

**Both Manufacturing and Non Manufacturing*

[Contribution margin – Fixed cost = Net operating Income or Loss]

**Both Manufacturing and Non Manufacturing*

The concept of contribution margin is particularly useful in the planning of business because it gives an insight into the potential profits that can generate a business. The following chart includes the income statement of the Nabil Bank Limited for the study periods which has been prepared to show its contribution margin:

Table 4.13**Nabil Bank Limited****Income Statement for Cost Volume Profit analysis**

Particular	2061/062	2062/063	2063/064	2064/065	2065/066
Total Income	1,479,551,256.00	1,743,482,839.00	2,081,885,319.00	2,492,938,019.00	3,419,975,046.00
Less: Variable Cost	164,684,268.00	164,580,567.00	180,800,526.00	212,572,463.00	266,256,049.00
C.M.	1,314,866,988.00	1,578,902,272.00	1,901,084,793.00	2,280,365,556.00	3,153,718,997.00
Less: Fixed Cost	468,627,941.00	595,058,003.00	803,254,188.00	1,029,521,895.00	1,492,079,949.00
Net Income	846,239,047.00	983,844,269.00	1,097,830,605.00	1,250,843,661.00	1,661,639,048.00

Note: Non cash expenses like, provision, has not been included in to expenses for calculation of cost volume profit analysis.

- **Profit Volume Ratio or CM Ratio**

Profit Volume ratio is the relationship between the contribution margin and sales revenue (total income) which is an important tool in studying the profitability of a bank. It is also known as contribution margin ratio. The margin contribution can be expressed as a percentage of sales revenue available to cover fixed costs and to provide operating revenue, which is computed as follows:

$$\text{Contribution margin ratio} = \frac{\text{Sales} - \text{Variable Costs}}{\text{Sales}} \text{ or } \frac{\text{C.M.}}{\text{Sales}}$$

For the Nabil Bank Limited, contribution margin ratio for the study period is shown in following table.

Table 4.14

Nabil Bank Limited

P/V or Contribution Margin Ratio for F/Y 2061/062 – 2065/066

Particular	2061/062	2062/063	2063/064	2064/065	2065/066
P/V or CM Ratio	0.889	0.906	0.913	0.915	0.922

As per the tabulated representation, the P/V ratio or contribution margin ratio of Nabil Bank Limited is in increasing trend over the study period which shows bank is earning a high profit along with the passage of time. Thus Nabil Bank has created a strong financial position due to the effective management of banking assets & liabilities.

- **Break Even Points**

Break Even Analysis has become powerful instruments in the hands of policy makers to maximize profits. For obtaining the profitability performance and to know whether the concept of break even analysis (B.E.A.) can be applied with benefit of commercial bank, this study has taken Nabil Bank Limited as a sample bank among the 28 commercial bank working at Nepalese financial

sector. The study is based on the published data of the bank for periods of 5 financial years i.e. form 2061/062 to 2065/066. The conventional formula and graph for working out the sales at B.E.P. is given below:

$$\text{B.E.P. (Rs)} = \frac{\text{Total Fixed Costs}}{1 - \text{V/S or P/V Ratio}}$$

Where,

V = Variable Cost,

S = Sales

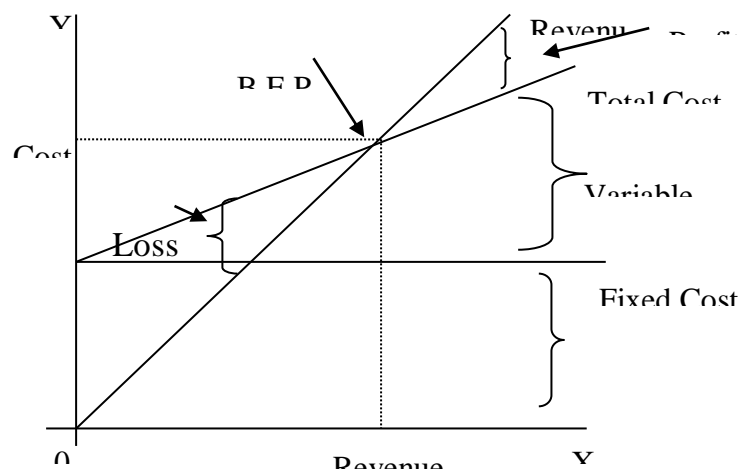
P/V Ratio = Profit Volume Ratio

Graph of Break Even Point

A Break Even Chart is used to graphically depict the relationship among revenues, variable costs, fixed costs and profit or losses. Breakeven charts are universally applied to graphically illustrate and forecast a company's projected revenue, and to calculate the time for profitability to be reached. It is used by financial and marketing strategists to predict the effect that changes in price will have on the percentage change in sales over time. It is also a useful tool to analyze the relationship between fixed and variable costs and to predict the effect on profitability of changes to those costs.

Figure 4.26

Break Even Point



In Figure, the break-even point illustrates the point at which total revenues and total costs are equal; it is the point of intersection for these two totals. Above this quantity, total revenues will be greater than total costs, generating a profit for the company. Below this quantity, total costs will exceed total revenues, creating a loss. The Figure of break - even point displays the standard break-even analysis framework. Units of output or total operating costs are measured on the horizontal axis, whereas total revenue (both revenues and costs) are the vertical units of measure. Total revenues are nonexistent (Rs 0) if no units are sold. However, the fixed costs provide a floor for total costs; above this floor, variable costs are tracked on a per-unit basis. Without the inclusion of fixed costs, all products for which marginal revenue exceeds marginal costs are profitable.

Whenever the B.E.A. is used to the working of banks, the division of total cost into fixed and variable is rather difficult. However, the theoretical application of the classification of cost and discussion with selected executives and Lecturers total cost has helped determine the two categories. In broad sense, the interest paid on deposits is taken as fixed cost and personal expenses and administrative expenses in the banks are treated as fixed and variable cost as per their nature. Likewise the total income of bank is divided into two parts:

- (i) Income from Loan & advance and investments.
- (ii) Other incomes resulting from ancillary services.

The tables of Break Even Point in Rupees of Nabil Bank Limited for the study periods are presented below.

Table 4.15

Nabil Bank Limited

Break Even Points in Rupees up to F/Y 2061/062 to 2065/066

Year	B.E.P. (Rs)
2061/062	527,322,584.74
2062/063	657,085,264.13
2063/064	879,646,771.98
2064/065	1,125,492,474.96
2065/066	1,618,050,370.71

The above table shows Break Even Points in Rupees of Nabil Bank Limited for the 5 years study period. Break Even Points is a point where income counterbalances the cost. Hence, a bank gains profit if it earns more than B.E.P and goes to loss if the income is less than B.E.P. The data of Nabil Bank demonstrate that it has earned high income volume than its B. E. P. level thus generating a large amount of profit. The graph of the B.E.P. of Nabil Bank for the study periods are presented at appendix.

- **Margin of Safety**

The margin of safety represents the difference between the sales or revenue at break-even point and the total sales or revenue. It measures the risk of the bank which can be expressed in percentage as well as in value. The value of margin of safety shows the strength of the business of bank. If the margin of safety is small, it indicates that the firm has large fixed expenses and is more vulnerable to changes in sales or revenue. In other words, if the margin of safety is large a slight fall in sales or revenue may not affect the business very much but if it is small even a slight fall in sales or revenue may adversely affect the business.

The margin of safety can be calculated as:

$$\text{Margin of Safety} = \text{Actual Sales} - \text{Break Even Sales}$$

Or

$$\text{Margin of Safety} = \frac{\text{Profit}}{\text{P/V Ratio}}$$

The calculated values of Margin of Safety of Nabil Bank limited for the 5 years study periods are as follows:

Table 4.16

Nabil Bank Limited

Margin of Safety Level up to F/Y 2061/062 to 2065/066

Year	Margin of Safety
2061/062	952,228,671.26
2062/063	1,086,397,574.87
2063/064	1,202,238,547.02
2064/065	1,367,445,544.04
2065/066	1,801,924,675.29

The table shows that the margin of safety of Nabil Bank Limited is in ascending trend as per the study period. This shows that Nabil Bank has increased its level of safety in the succeeding years. However, the bank can improve its level of safety by increasing its selling price, reducing the fixed and variable expenses, increasing the sales volume capacity and introducing profitable lines by substituting or introducing mix product in upcoming years.

4.9 Financial Analysis

Financial Analysis is the process of identifying the financial strength & weakness of the firm, establishing relationship between the item of balance sheet and profit and loss account. Ratio analysis is one of the most frequently used tools which evaluate the financial health, operating result and growth. The main tools that are used for financial analysis are CAMELS analysis from various aspects for this study under the based on NRB directives and BASEL II model of banking supervision.

- **Capital Adequacy Ratio (CAR)**

As per the directives which have been prescribed by Nepal Rastra Bank, every commercial bank is required to maintain a minimum CAR. Commercial bank should hold adequate capital depending on their requirements. Capital fund is created to protect the interest of the depositors. Holding an excess capital than requirements may have higher holding cost and lower return from their investment whereas holding too little capital may have inadequacy problem. Banks have been directed to meet any shortfall adequacy ratio by transferring part of profit to general reserve account or by increasing paid up capital. To examine the capital adequacy following ratios are used.

This ratio measures whether the firm has maintained sufficient capital or not. In other words, it helps to decide whether the existing capital is adequate or there is need to reforms. The ratio is tested to ensure the safety and stability of the firm in long run. Over capitalization and under capitalization both have adverse effect on profitability of the firm. If the capital is excess, it remains idle. If the capital is insufficient, the firm may not be able to grasp the opportunity from potential profitable sector. Therefore the commercial banks have been directed to remain sufficient ratio by the central bank. And also the commercial banks cannot declare and distribute dividend until they meet capital adequacy ratio. Commercial bank should hold adequate capital depending on their requirements. Holding an excess capital than requirements may have higher holding cost and lower return from their investment whereas, holding too little capital may have inadequacy problem.

Banks have been directed to meet any shortfall adequacy ratio by transferring part of profit to general reserve account or by increasing paid up capital.

According to NRB directives, commercial bank should maintain their total capital adequacy ratio more than 10% of its total risk weighted exposure.

Capital adequacy can be measured by using Capital Adequacy Ratio (CAR), which is calculated as follows:

$$\text{Total Capital Adequacy Ratio} = \frac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets/Exposures}} \times 100$$

The Calculated value of Capital Adequacy Ratio can be presented as follows:

Table 4.17

Capital Adequacy Ratio

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Capital Adequacy Ratio	12.44 %	12.31%	12.04 %	11.10 %	10.70%

Interpretation

As per the tabulated result of the CAR Nabil Bank is able to maintain CAR more the 10% as prescribed by NRB directives. As a result Nabil Bank has higher Capital Adequacy Ratio than mandatory up to F/Y 2064/065. It shows bank has been creating idle fund although such condition is highly safe from the sides of customers & depositors, as it ensures high safety against bankruptcy. But the capital adequacy ratio in F/Y 2065/066 is 10.70% which shows that the idle fund might have been well managed by the bank, shareholders and customers.

The effect of capital adequacy ratio can be summarizing in the follows:

Table 4.18

Summary of the effect of capital adequacy

Capital Adequacy	For Bank/Shareholder	For Customer/Depositor
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Higher	Creating an idle fund	Safe Side
Medium	Funds are well managed	Funds are well managed
Low	Problems in Capital & inability for bank to give loan. NRB Restriction: • To accept deposit. • To open new branches. • Stop in allowing dividend to shareholders	Not on Safe Side

- **Core Capital Ratio**

A firm's core equity capital is known as core capital which consists primarily of common stock and disclosed reserves (or retained earnings), but may also include non-redeemable non-cumulative preferred stock. Core capital ratios are used by regulatory agencies to help determine the overall health and strength from a regulator's point of view. According to NRB directives, core capital ratio more than 6% of its total risk weighted exposure indicates more owners' fund being utilized by the bank. CCR can be computed as follows:

$$\text{Core Capital Ratio} = \frac{\text{Core Capital Fund}}{\text{Total Risk Weighted Exposures}} \times 100$$

The result value of Core Capital Adequacy Ratio for the study periods can be summarized as follows

Table 4.19

Core Capital Adequacy Ratio

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Core Capital Ratio	11.35 %	10.78%	10.40 %	8.75%	8.74 %

As per the tabulated result, the CCR values for the study period are all above 6%. The data indicates that owners fund has been utilized properly throughout the study period.

- **Asset Quality**

Asset quality determines the healthiness of financial institutions against loss of value in the assets. The weakening value of assets, being prime source of banking problems, directly pour into other areas, as losses are eventually written-off against capital, which ultimately expose the earning capacity of the institution. With this backdrop, the asset quality is gauged in relation to the level and severity of non-performing assets, adequacy of provisions, recoveries, distribution of assets etc. Following popular indicators include the measurements of quality of assets for the sound management of loan & advances and publics deposit.

- **Performing loan ratio**

One of the most effective tools for assets quality is the ratio of performing loan. Performing loan is a loan which had due up to 90 days. This ratio shows percentage of total performing loan. Higher ratio indicates good organization and good utilization of loans. It is calculated as follows:

$$\text{Performing loan Ratio} = \frac{\text{Total Performing Loans}}{\text{Total Loan and Advances}} \times 100$$

The following table shows the Performing loan to total loan ratio of Nabil Bank Limited.

Table 4.20

Performing Loan to Total Loan Ratio

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Performing Loan Ratio	98.68 %	98.62%	98.88%	99.26 %	99.20%

The tabulated data shows the performing loan ratio of Nabil Bank Limited. The high values of performing loan ratio of Nabil Bank indicate the proper and

systematic utilization of assets on good loans for the study periods for the profit generation.

- **Non - performing loans ratio**

Non- performing Loans are loans beyond the due date of three months. Non Performing Loans are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by NRB directives with the due date ranging from 3 months to more than 1 year. One of the indicators for asset quality is the ratio of non-performing loans to total loans and advance. Higher ratio is indicative of poor credit decision-making and worse management of Assets. It is calculated as follows.

$$\text{Non – performin g loan ratio} = \frac{\text{Total Non performin g Loans}}{\text{Total Loan and Advances}} \times 100$$

The result of Non-performing assets ratio of Nabil Bank Limited for the study periods can be presented as follows:

Table 4.21

Non - Performing Loan to Total Loan

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Non Performing Loan Ratio	1.32 %	1.38 %	1.12%	0.74%	0.80%

As per the tabulated result of non performing ratio of bank under the study period, it demonstrates the decreasing trend of non-performing loan after the F/Y 2062/63. The banks has been able to decline its non-performing loan in F/Y 2064/65 up to 0.74%.The descending values demonstrate the favorable credit management position of Nabil Bank.

- **Loan loss coverage ratio**

Banks use the loan-loss coverage ratio to define the quality of its assets and how well it protects itself from losses caused by problematic loans. The higher

ratio the better the bank becomes in handling itself with regards to loans. Provision for loan losses is an amount that is paid to the bank to reserve the loan in the event that the loan is lost. It is calculated as follows:

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Non Performing Loan}} \times 100$$

The calculated value of Loan Loss Coverage ratio of Nabil Bank Limited for the study periods can be demonstrated as follows:

Table 4.22

Loan Loss Coverage Ratio

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Loan loss Coverage Ratio	249.52 %	195.07%	200.37%	244.84%	181.96%

The above table shows that the trend of Loan Loss Coverage ratio of Nabil Bank Limited. The result shows that Nabil Bank has higher LLCR which indicates that it is much more efficient in covering its non performing loan.

• **Loan loss provision ratio**

Generally, banks conduct their business by taking deposits and making loans using those deposits. Banks must balance their loan receivables (i.e. the principal and interest repayments from borrowers), with the demand of deposits (i.e. the requests from depositors for all or a portion of their deposits.) In any group of loans, banks expect some loans to perform not as expected. These loans may be delinquent on their repayments or in default of the loan entirely, creating a loss for the bank on expected income. Therefore, banks set aside a portion of the expected loan repayments from all loans in its portfolio to cover all, or a portion, of the loss. In the event of a loss, instead of taking a loss in its cash flows, the bank can use the amount set aside to cover the loss. Since the bank does not expect all loans to be late, there is usually enough in the loan loss reserve to cover the full loss for any one or small number of loans when needed. Loan loss provision ratio indicates to percentage of loan loss provision

in terms of total loan value. Lower the ratio better is the financial position and vice-versa. It is obtained by following formula and can be presented as under:

$$\text{Loan Loss Provision Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loan \& Advances}} \times 100$$

The following table displays the calculated value of Loan Loss provision ratio of Nabil Bank Limited for the study periods:

Table 4.23

Loan Loss Provision Ratio

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Loan loss Provision Ratio	3.29%	2.68%	2.25%	1.81%	1.46%

The above table shows the decreasing trend of LLPR of Nabil Bank for the study period. The descending values demonstrate the safe investment of loan and a very sound financial position of the bank.

- **Management Quality**

Management quality is a subjective measure, yet one that is crucial to a banks success. A camel’s hump helps it survive for weeks without food and water. Likewise, the hump in the CAMELS rating (the quality of banks management) is a key to a banks long-run survival. The overall condition of banks conducting with essentially same customer base and economic conditions may diverge. As it turns out, the tangible success or failure of a bank is largely dependent on intangible factors. Yes, the disparate outcome is likely due to the differences in the management quality of these two banks. Accurate and timely measurement that approximates management quality shows that strong and consistent relationships exist between efficiency and independent measures of performance and reveals relationship between efficiency and soundness. Since management quality is inextricably tied to a banks success or failure, it is important to develop and improve methods for grading management efficiency. The size of a bank does not

matter, nor does the profitability of that bank. What matters is a right mix of these factors.

A good management can make and a poor management can break any organization. Banks are no exception to this universal phenomenon. Nepalese banking sector has matured over the last 28 years and we have sufficient evidence of professional management being able to translate their management efficiency towards producing wonderful results for the bank. At the same time, we also have enough cases where due to poor management, banks have performed poorly. Several indicators, however, can jointly serve as, for instance, efficiency measures do as an indicator of management soundness. Human resource management is one of the key management issues. Good or bad human resource management translates into staff efficiency of a particular bank. Nevertheless, profit per employee helps in gauging the management quality of the banking institutions.

The ratios used to evaluate management efficiency are described as under:

$$\text{Management Efficiency Ratio (MER)} = \frac{\text{Total Net Profit After Tax (NPAT)}}{\text{Total No. of Staff}}$$

The calculated value of Management Efficiency Ratio of Nabil Bank for the study period can be presented as follows:

Table 4.24

Management Efficiency Ratio

Year	Management Quality Ratio
2061/062	1,220,925.08
2062/063	1,440,504.19
2063/064	1,578,359.95
2064/065	1,794,395.18
2065/066	2,041,689.30

As per the tabulated result of management efficiency ratio of Nabil Bank Limited the surplus earned per employee in every Fiscal Year is in ascending trend. This shows good efficiency of the management of Nabil Bank for efficiently utilizing its employees to generate more profit and more income. It also indicates the rising revenue per employee is a positive sign that suggests the bank is finding ways to squeeze more sales/revenues out of each of its employee.

- **Earning**

Profit or gain made by bank is earnings. Earning is analyzed by calculating earnings per share, P/E ratio, return on assets and return on assets etc. The proper use of the available funds and the picture of the recovery of the capital and interest of loan, profitability of investment etc can give the position of earning. Thus, the financial statement is checked to evaluate how much profit is made to make an institution able in a particular period; the earning capacity of the institutions is measured by it. And we can observe whether it has given profitability to the investors for their investment or not, from the financial statement. From its study, we can obtain information on how much the institution is successful to protect the interest of the investors, and the provision of keeping the reserve fund from some portion of profitability every year helps gradually to grow capital fund of the institution.

An analysis of the earnings helps the management, shareholders and depositors to know about the performance of the bank, sustainability of earnings and to forecast growth of the bank. Therefore, following ratios have been analyzed to test earning capacity of the banks. Net Profit, Price Earnings Ratio, Earning per Share, Return on Equity and Return on Assets of Commercial Banks.

The success of the bank heavily relies upon the efficiency of management to drive the bank to earn good profits. Net profit is the major yardstick to measure such profits. Most of the commercial banks have been able to grow their net profits while some of the banks, resulting from high non-performing loans, and lack of

avenues for earning fee based income and operating in-efficiencies are struggling with either very low net profit or negative profits.

The following ratios help the management and other stakeholders to know about earning policy of the respective banks.

- **Earnings per Share (EPS)**

Earnings per share are the part of the company's profit that is attributed to each individual share of stock. EPS is a good indicator of a company's profitability, and is a very important metric to look at while evaluating a certain stock. It measures the profit available to the equity shareholders as per share basis i.e. the amount that they can get on each share hold. In other words, this ratio measures the earning available to equity shareholders on a per share basis.

Table 4.25

Impact of Earning

Earning views	Point of view		
	Shareholder	Depositor	Bank
Increases	<ul style="list-style-type: none"> • It is positive. • Value of share will increases • The risk involved in decrease of the value of share decrease. • Can be sold at high price value. 	<ul style="list-style-type: none"> • It is positive. • Increment in interest % may be expected 	<ul style="list-style-type: none"> • It is positive • Creates goodwill. • Probability of handsome income in future.

Decrease	<ul style="list-style-type: none"> • Market value per share will decrease. 	<ul style="list-style-type: none"> • The attitude towards bank will be changed. 	<ul style="list-style-type: none"> • Bad impact on its goodwill. • Shareholder equity ownership transfer may be possible. • Deposit might be decrease i.e. withdrawal possibility might be high.
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Earnings per Share (EPS) are calculated as follows:

$$\text{Earning Per Share (EPS)} = \frac{\text{NPAT}}{\text{Total No. of Shares}}$$

The earnings per share of Nabil Bank for the study periods can be shown as follows:

Table 4.26

Earnings per Share

Year	2061/062	2062/063	2063/064	2064/065	2065/066
EPS	105.79	129.21	137.08	108.31	106.76

As per the tabulated value earning per share of Nabil Bank is increasing trend up to F/Y 2063/064. The increasing EPS indicates the increase in the value of shares and goodwill of the bank. Higher ratio earns the higher return to shareholders and vice-versa. However the EPS is down warding in F/Y 2064/065 & 2065/066 which indicates the perturbed condition of the bank and the possibility of transfer of shares.

- **Return on Assets (ROA)**

Return on assets (ROA) is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources and the efficiency of banks in utilizing their assets in generating profits. It is commonly defined as net income divided by total assets. ROA is a ratio but usually presented as a percentage. ROA answers the question: "What can we do with the assets that are available?" A higher ratio indicates the better income generating capacity of the assets and better efficiency of management in future.

The formula for return on assets is:

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

The following table shows the calculated value of ROA of Nabil Bank for the study periods.

Table 4.27

Return on Assets

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Return on Assets (ROA)	3.03%	2.84%	2.47%	2.01%	2.35%

As per the tabulated result the ROA figure of Nabil Bank is higher in F/Y 2061/062 which shows the bank has been utilizing its asset more efficiently to generate the profits in the year. The ROA during the study period shows that the bank is converting the money it has to invest into net income effectively. However, the fluctuating trend of ROA of Nabil Bank shows the volatility of use of total resources and increasing inefficiency of management to competently utilize its assets.

- **Return on Equity (ROE)**

Return on Equity is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders

have invested. In the study, Return on Equity (ROE) depicts how efficiently a bank is utilizing and mobilizing its equity to generate profit. Higher the ratio, better it is as higher ROE indicates better utilization of capital fund. It is calculated as follows:

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit After Tax}}{\text{Total Shareholder's Funds (SHF)}} \times 100$$

The result of ROE of Nabil Bank for the study periods can be shown as follows:

Table 4.28

Return on Equity

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Return on Equity (ROE)	29.45%	30.41%	29.21%	24.89%	27.66%

As per the tabulated percentage of ROE, the Nabil Bank is successfully mobilizing its shareholders funds to generate profits during the study period. However, the ROE of F/Y 2064/065 is comparatively lower than others fiscal years which indicate the inefficiency of the bank to generate profits. The ROE of the year also shows the inefficiency of bank for proper utilization & mobilization of its equity to productive arena.

• **Liquidity**

Liquidity is a bank's ability to meet short-term obligation or generate cash quickly at a reasonable cost. It reflects the short-term financial strength of a bank. The term 'liquidity' is an ability to invest in a sensitive sector likes government sectors, money at call, etc. The limited portion of the deposit received through the depositor can be easily converted into cash. Liquidity helps to prevent against bankruptcy by reducing the liquidity risk. Generally the ratio is calculated by dividing current assets by current liabilities, which test the short- term solvency of the firms.

As per NRB directives the impact of liquidity aspect can be presented as follows:

Table 4.29

Impact of Liquidity

Impact For	Liquidity position at different stage		
	High (CRR>5.0%)	Medium (CRR = 5.0%)	Low (CRR<5%)
Bank and Shareholders	This position is not good because money which could have been mobilized remains idle. The immobilized money becomes burden to bank.	It shows that the bank is performing well and is minting liquidity position well.	It shows bank is not maintaining CRR ratio by NRB and may be panelized.
Depositor	This is good because the money will be available in bank.	This position is also good because banks are maintaining good position of liquidity.	It shows bad conditions because they might not be able to withdraw the money at the time of need.

As per the NRB directives the following ratios are used to find out the short-term solvency of the banks.

- Cash Reserve Ratio (CRR)
- Cash & Bank Balance Ratio(C & B Ratio)
- Investment in Government Securities Ratios
- **Cash Reserve Ratio (CRR)**

Commercial banks are directed by NRB to maintain 5% of their deposit as CRR in NRB's account to ensure adequate liquidity. However, some banks annual reports show that they have not maintained the minimum CRR as NRB directives. When further analysis was conducted, it was found that in reality all the banks had maintained requisite CRR. It was only the reporting method that had caused the confusion.

Actually, NRB directs the banks to maintain CRR on a weekly basis. Therefore, if a bank has maintained higher NRB balance in other days of the week, it can afford to maintain lower than 5% balance on the year-end day. Therefore, it should be such that rather than disclosing the CRR of year-end, banks should report the exact CRR ratio maintained during the week, in which year-end falls. If deposit organizations like bank show lower than regulatory CRR in their annual accounts, this might lead to depositors mistrust towards the bank. NRB should ensure that the banks report correct CRR ratio in their annual accounts. It is not mandatory for banks to maintain minimum percentage of their deposits as investment in Government Securities in Nepal. This means, the only mandatory liquidity ratio that a bank has to maintain is CRR (which is also currently at a low level of 5%). In India, currently RBI has made it mandatory for the banks to maintain at least 25% of their deposit in Government Securities. CRR can be calculated by using following formula & the calculated value can be presented as follows.

$$\text{Cash Reserve Ratio (CRR)} = \frac{\text{NRB Balance(Lcy Only)}}{\text{Lcy Deposit} - \text{Margin Deposit}} \times 100$$

Table 4.30

Cash Reserve Ratio

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Cash Reserve Ratio (CRR)	4.60%	3.60%	7.40%	9.40%	10.96%

The above table shows that CRR of Nabil Bank is below 5% for fiscal years 2061/062 and 2062/063 but has maintained above 5% in the succeeding years. However, the lower CRR values are due to the less maintenance of CRR in previous week as CRR is maintained on weekly basis and shortfall is filled up in the last day of the week. The values of CRR above 5% shows that the money on banks remains idle, however this condition is favorable for depositors as they can withdraw money on time.

- **Cash and Bank Balance Ratio (C&B Ratio):**

Cash and Bank balance is maintained to provide liquidity for the banks. It shows the liquidity position of banks. It is good enough for the depositors if cash and bank balance is high. It shows the bank's ability to repay the cash to depositors on demand. There is not a standard limit to be maintained by the banks. It is mainly dependent on the transaction and the desecration of bank. If there is high level of cash withdrawal pattern and less level of deposits, bank has to maintain more cash and bank balance. It depicts the ability of bank on utilization of fund. It is calculated by using following formula:

$$\text{Cash \& Bank Balance (C \& B) Ratio} = \frac{\text{Total Cash \& Bank Balance}}{\text{Total Deposit}}$$

Table 4.31

Cash & Bank Balance Ratio

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Cash & Bank Balance Ratio	3.83%	3.26%	6.00%	8.37%	9.03%

The above table shows that the cash & bank balance ratio of NABIL Bank for the F/Y 2061/62 to F/Y 2065/66. As per the table it has increasing trend of C&B ratio. It indicates that the bank has greater ability to meet any unexpected demand in these years. But it also suggests that bank has higher chance of opportunity losses for generating profit due to the idle balance.

- **Investment in Government securities Ratio**

Banks around the world invest significant portion of their deposits in government securities because maintaining adequate CRR and C&B Balance only are not considered sufficient for liquidity maintenance. There are occasions when a bank may need to face unexpected withdrawals. In such cases, as banks are run from depositor's money, they need to maintain adequate investment in government securities as such investments can be liquidated at

any point in time. In India, Reserve Bank of India has directed all the commercial banks to maintain at least 25% of their deposits as Statutory Reserve Requirement (SRR), which is nothing but the ratio between Investments in Government Securities to Total Deposits. In Nepal, however, there is no mandatory requirement for banks to maintain this ratio.

Investment in Government securities Ratio can be calculated as follows:

$$\text{Cash Investment in Govt. Securities Ratio} = \frac{\text{Total Investment in Govt. Securities}}{\text{Total Deposit}} \times 100$$

Table 4.32

Cash Investment in Govt. Securities Ratio

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Cash Investment in Government Securities Ratio	16.58%	11.90%	20.60%	14.56%	9.92%

The above table shows that the cash investment in government securities ratio of NABIL Bank. Since government securities are risk free and they can be easily converted in cash at anytime. The fluctuating values of Nabil bank shows the fluctuating investment of funds in government securities. The decreasing trend in the last two years of the study period indicates that the bank may not be able to defend effectively during the period of liquidity risks.

- **Sensitivity to Market Risk**

Commercial banks are increasingly involved in diversified operations such as lending and borrowing, transaction in foreign exchange, sale of assets pledged for securities and so on. All these are subject to market risk including interest rate risk, foreign exchange rate risk, and financial asset and commodity price risk, which serve as the indicators of market risk. Higher the degree of sensitivity of market risk higher will be the degree of possibility of degradation of financial health.

Since the inclusions of total risk contain sensitivity risk and capital adequacy is calculated on the basis of total risk exposure, the necessity of calculating sensitivity risk separately does not seem to arise.

4.10 Major Findings of the Study

To complete/fulfill the research, majority of the data has been extracted from the primary source of secondary data basically related to the total commercial banking system of Nabil Bank Limited pertaining to a time period of five consecutive fiscal years (2061/062 to 2065/66).

To meet the research objectives intensive analysis has been made with the help of ‘financial planning and analysis’ and ‘statistical tools.’ In terms of the usage of financial planning and analysis tools, ‘C.V.P analysis’ has been used to measure the financial strength and ‘CAMELS analysis’ has been used to measure the financial health in regard to effective management of deposits and loans & advances. In terms of the usage of the statistical tools, bar diagram, correlation coefficient (simple and multiple) and trend analysis have been used.

The major findings of this research report are presented as below:

1. Analysis of deposit collection shows that deposit collection can be categorized into two parts namely interest free deposit and interest bearing deposit. Interest free deposit includes current deposit, margin deposit and other deposits whereas interest bearing deposit includes saving deposit, fixed deposit and call deposit.
2. Intensive study of interest free deposit shows that throughout the sample time period, the ratio of current deposit collection has remained the highest among all three deposits. The trend reached its peak in F/Y 2064/65, where the distribution of interest free deposit was the highest for current deposit at 92.26 %. The distribution of interest free deposit for margin deposit was at its highest point in F/Y 2062/63 where it had reached 9.86 % after which, the

slope gradually went down wards. In regard to all other interest free deposits, F/Y 2064/65 saw the highest mark at 1.42 %, which co-incidentally was the same fiscal year where current deposit was at its peak.

An observation upon the collection of interest free deposit in terms of current deposit ratio shows positive results, which is a good side but, similar positivity in the collection of margin deposits and other deposits will finally give a complete picture of the attempt to maximize the efficiency of management and there after the profitability of the bank.

3. Average computation of interest free deposit collection throughout the sample time period shows that current deposit held 90.45 %, margin deposit held 8.43% and other deposits held 1.21% of the total interest free deposit collection.
4. Intensive study of interest bearing deposit shows that throughout the sample time period, the ratio of saving deposit collection has remained the highest among all three deposits. The trend reached its peak in F/Y 2062/63, where the distribution of interest bearing deposit was the highest for saving deposit at 61.39 %. The internal war caused by Maoists can be seen as the prominent reason for the drastic rise in the ratio; during that time public sensed financial insecurity and jumped to safeguard their property by depositing it in private banks. After F/Y 2062/63, the ratio of saving deposit gradually decreased where as on the contrary, the ratios of fixed deposit and call deposit gradually rose, the reason being the comparative rise in interest rates for fixed deposit and call deposit against the interest rate for saving deposit.

However, an important note to be made is that collection of saving deposit and profitability are inversely proportional. Thus, in order to neutralize the effect of collection of saving deposit on the bank's profitability and ensure a commendable rise in the same, the bank must apply considerable efforts on increasing the collection of fixed and call deposit.

5. The distribution of interest bearing deposit for saving deposit remained at its lows during two consecutive fiscal years (2064/65 and 2065/66) at 46.43 %

and 46.61 %. The reason for such a drop in distribution is understood to be the change in public mental patterns due to which they started to realize that investing in houses and land would be far beneficial for them than depositing money in saving deposits. The highest ratio of deposit distribution for fixed deposit and call deposit co-incidentally happened to be witnessed during the same two consecutive years. The ratio of fixed deposit collection was at its highest mark in F/Y 2064/65 with 32.32 % where as the ratio of call deposit collection was at its highest mark in F/Y 2065/66 with 26.90 %.

6. Average computation of interest bearing deposit collection throughout the sample time period shows that saving deposit held 52.20 %, fixed deposit held 25.24% and call deposit held 22.56% of the total interest bearing deposit collection.
7. The micro study of interest free deposit collection especially in terms of current deposit leads to the conclusion that with the upcoming years there has been a significant improvement in public banking behaviour.
8. Similarly, the micro study of interest bearing deposit leads to the conclusion that people have developed the habit of saving money in banks rather than storing them at houses and depreciating the value of cash. This initiative/effort/attempt from the public side has helped in the development of banking transactions and balancing the state of liquidity in Nepal.
9. The analysis of budgeted and actual deposit collection depicts that throughout the sample time period, Nabil Bank has almost met the standards in terms of deposit collection every fiscal year. The noteworthy part is that although Nabil Bank has raised the standards every fiscal year, it has always remained successful in being able to meet more than 90 per cent of the target set. In the F/Y 2065/66, Nabil Bank's achievement rate was 98 %, which proves management excellence. Also, the increasing trend of actual deposit collection proves that the performance level of management has increased accordingly.

10. Analysis of sector-wise loans & advances of Nabil Bank Limited throughout the sample time period shows that investment in agricultural sector, which is considered as the back bone of Nepalese economy, has always remained nominal. Among the other fiscal years, investment rate was the highest in F/Y 2065/66. The average investment rate was calculated as 0.45 %.
11. Investment in the sector of mines throughout the sample time period also involves nominal amount. The negligible investment rate indicates that Nabil Bank did not feel that ensuring proper utilization of national resources would be fruitful and thus, did not wish to engage in mines based business activities.
12. Manufacturing sector happened to be the most attractive sector for investment for Nabil Bank Limited. The average investment rate of 35.60 % proves that Nabil Bank has kept investment in manufacturing sector in the top priority list. However, unavailability of sufficient information could not permit the researcher to identify the types of manufacturing sectors in which investment was made.
13. Nabil Bank's investment in construction sector is seen to have increased year after another. Since NRB has not created the policy of maintaining a separate sector to publicize investment in real estate, Nepalese banks have merged the investment of real estate in construction sector and this can be derived as a strong reason behind the annual incremental investment rates in construction.
14. Nabil Bank's average investment in 'metal production, machinery, tools & fitting', 'transportation equipment & production fitting' and 'transportation, communication & public services' at the rate of 1.03%, 9.28% and 4.79% respectively reveal the attraction of Nabil Bank in import based business.
15. Nabil Bank's sector-wise loans & advances in various sectors throughout the sample time period reveals that 'wholesaler & retailer' sector has been kept in the second priority in terms of investment. The average investment rate is computed to be 16.56 %. Since the researcher was not allowed access to information of the nature of this sector, individualized productive investment rates and unproductive rates of this sector could not be calculated.

16. The investment trend of 'finance, insurance & fixed assets' is upward sloping with an average of 4.80 %, which can be considered as satisfactory.
17. Nabil Bank's investment in service industries and consumable loan appears to decline year after another, which shows that the bank prioritized other sectors than the former ones to invest.
18. Certain sectors are semi-productive in nature, but their segregation in terms of investment in productive and unproductive sub-sectors of the same sectors has not been clarified. As a result, a rough statement can be drawn that Nabil Bank has diverted its investment more into unproductive and import business sectors than productive sectors including agriculture and mines.
19. Analysis of Nabil Bank's investment in product-wise loan & advance shows that the bank has diversified its investment from productive sector to profitable sector; profitable sectors have been termed as those sectors bearing high interest rate. The bank must have been attracted to profitable sectors because loans of such sectors are theoretically believed to have high chance of recovery. However, in the context of Nepal, ineffective government policies and frequently declared strikes falsify such theories. Thus, mismatch between the banking ethics and theories and the real life practice must be the reason for Nabil Bank's product-wise loan & advance components to remain in minimum satisfactory level.
20. The interest expenses ratio of Nabil Bank has never exceeded 50 %, which shows that the significant contribution of Nabil Bank's income has gone to increasing the volume of profit. The trend of interest expenses ratio is positive, which indicates an increasing negative impact on the bank's profits. The fact that the interest rate on deposits increased but the interest rate on loans could not relatively increase is the boldest reason for such a positive trend.
21. The net profit trend of Nabil Bank is positive. On top of that, the net profit of F/Y 2065/66 has significantly risen as compared to the previous years. This reveals that the bank's well management of deposits and loans & advances

has made it successful in generating sufficient profits in terms of the adjustment of interest income and interest expenses.

22. The trend line of deposit of Nabil Bank is positive, which shows the enhancement of public banking behaviour. Accordingly, the growth trend has also increased, but the point-to-point trend has decreased, which shows that there are possibilities of decrease of income of Nabil Bank in the future.
23. The trend line of loan & advances of Nabil Bank is also positive, which denotes a similar rise in investment opportunities of loans & advances in the future.
24. The positivity of trend lines of 'deposits' and 'loans & advances' are good signs for Nabil Bank in the road of success in management of 'deposits' and 'loans & advances' through which the bank can definitely generate high interest income.
25. The net profit trend of Nabil Bank is also positive, which hints that the generation of net profit is satisfactory and on top of that, it is increasing year after another. Though the cumulative net profit trend is also positive, the point-to-point net profit trend is in a state of fluctuation, which means that though generation of net profit will always remain positive, the growth rate in net profit generation may drop at some years whereas it may rise at some years. However, if a collective analysis is undertaken with a sample time period of multiple years, the net profit growth rate trend will undoubtedly be positive.
26. The analysis of cost, volume and profit of Nabil Bank led to the realization that the bank has not been using the methods of C.V.P. analysis to segregate mixed costs into fixed and variable costs. Due to the absence of such practice, it is difficult to discern the nature of expenses the bank is incurring. At times, the bank is found to be operating at a level higher than the break-even point whereas at times, the bank is found to be operating at a level lower than the break-even point.

27. C.V.P. analysis is generally done to ascertain the real financial position of a bank through which cost segregations are made, but due to the unavailability of information in regard to cost classification, the researcher has used accounting tools to analyze cost, volume and profit.
28. The analysis of the state of fluctuation of contribution margin ratios throughout the sample time periods shows positive signs, which means that the C.M. ratios have increased year after the other. This indicates that the bank has created a strong financial position due to the effective management of banking assets and liabilities.
29. The trend of margin of safety is seen to increase year after another. This increment indicates that every year the bank's level of actual income exceeds the B.E.P. due to which the level of margin of safety automatically increases. The increase in the margin of safety trend can also be justified by the increase in the contribution margin ratio trend since margin of safety and contribution margin ratio are directly proportional to each other.
30. The overall analysis of cost, volume and profit of Nabil Bank shows that the bank is in the path of further fortifying its financial position in the years to come. Since the bank is also observed to be successful in managing its assets and liabilities, if it gives continuity to this task, there is no doubt that it will ultimately be able to reduce its expenditure to the most minimum point and accordingly, increase its revenue.
31. The statistical analysis suggests that the association of values of various variables among each other is in a highly satisfactory state. The almost-perfect correlation & significance test analysis of variables proves the same. The statistical calculations show that the bank is quite strong in the areas of 'deposits' and 'loans & advances' including the area of its own management system.
32. As prescribed by the NRB directives, the capital adequacy ratio required to safeguard the public deposits is specified to be at least 10 %. A capital adequacy ratio more than 10 % specifies that the bank is leaving the residual

portion of capital in an idle state whereas a capital adequacy ratio less than 10 % specifies that the bank requires more capital for operating the business. In the case of Nabil bank, the statistical calculation based on the sample time period shows that in the beginning of the period the bank had kept idle fund to a certain extent, but with time, it reduced the level of idle capital so that by the end of the sample time period, the capital adequacy ratio drops at 10.70%. Thus, the funds of Nabil Bank are well managed.

33. As prescribed by the NRB directives, the core capital ratio (*also termed as core capital adequacy ratio*), which indicates the extent to which the bank is successful in utilizing the owner's funds is specified to be at least 6 %. Resembling similarity with the calculations of capital adequacy ratio, core capital ratio also showed a figure of 11.35 % in the beginning of the sample time period, which is almost double the standards set. However, by the end of the period the figure dropped to 8.74 %, which shows signs of proper utilization of owner's funds.

34. The performing loan ratio of Nabil Bank which was 98.68% in the beginning of the sample time period continued increasing to reach 99.20% at the end of the period. A performing loan ratio of 99.20% indicates almost perfect loan collection. The proper, systematic and timely collection of loans has been purely justified.

35. Non-performing loan ratio and performing loan ratio are inversely proportional to each other. Thus the decrease in non-performing loan ratio is justified by the increase in performing loan ratio. The decrease demonstrates the strong position of the bank in terms of credit management.

36. As per the NRB directives, banks must maintain a provision to cover possible losses from loans. Such a provision is measured by loan loss coverage ratio. In average, the loan loss coverage ratio has remained almost double the standard 100%, which opens the way to confirmation that Nabil Bank is far more than efficient in covering its non-performing loans; it reserves a sound financial position and the management does not have to keep any doubt it

investing in loans. The inversely proportional relation between loan loss coverage ratio and loan loss provision ratio due to which the decreasing trend of loan loss provision is justified proves the same.

37. The management efficiency ratio of Nabil Bank is in an ascending trend, which shows that the bank is continuously improving the efficiency of the management in effectively utilizing its employees to ensure maximum profit generation.
38. The earnings per share of Nabil Bank were increasing up to F/Y 2063/64 after which it started to decrease. The reason for such a decrease can be that the rise in the number of outstanding share due to issuance of right shares and bonus shares was not proportionately followed by the rise in tax adjusted annual profits. Though this is not such a disappointment for the bank it only serves as a prediction that if the same trend continues then in the near future, the bank will have to suffer in regard.
39. The profitability position of the bank has been evaluated on the basis of returns from assets (ROA) and those from equity (ROE). The ROA trend shows a downward slope which indicates that the bank is gradually losing its efficiency in utilizing the assets it has employed to generate maximum profits. On the other, the ROE trend is in a state of irregular fluctuation, which denotes that the bank is continuously exerting effort to utilize the investment of its shareholders, but there is no stability in this effort. Such instability may be due to the influence of external environmental factors.
40. As per the NRB directives, banks must direct 5% of their deposits towards a special reserve termed as cash reserve. In the beginning of the sample time period the cash reserve ratio was less than 5%. However, this practice was eliminated within two years and the bank started upgrading its ability to meet short-term obligations and ensure prompt cash generations. However, by the end of the period, the bank doubled its extent of maintaining a cash reserve, which directly hints that the bank is losing its efficiency in mobilizing funds.

41. There is no pre-defined extent to which the bank can maintain its cash & bank balance ratio, but the higher the ratio the higher is the bank's ability to meet any unanticipated demand of depositors. The cash & bank balance ratio calculated at the end of the sample time period is 3 times higher than that calculated at the beginning. This suggests that the bank is currently in a concrete position to meet any demand, irrespective of the magnitude. However, it also implies that the bank is encouraging the storage of idle money.
42. The trend of cash investment in government securities shows a negative slope, which indicates that Nabil Bank has been reducing its cash investment in government securities. As per the NRB directives, a bank must keep cash reserve of 5% of the total deposit. There is no compulsion to magnify the extent. In the former years of the sample time period, the bank had kept a reserve much higher than the standards. However, by the end of the period, the bank has limited its reserve up to 9.92%. Temporarily, such a decrease can be beneficial as the bank will get the opportunity to divert the extra fund to other high return yielding securities, but in the long run, this may prove to be hazardous as the bank will not be able to control liquidity risk that may arise.
43. NRB directives operate under BASSEL II model. CAMELS analysis, which comes under BASSEL II model, is used by banks to evaluate their financial health. The 'earnings' and 'liquidity' analysis of the bank showed slight variations, which is of no harm to the bank at present. The 'capital adequacy', 'asset quality', 'management efficiency' and 'sensitivity' analysis showed positive results, which interprets that the bank is in a satisfactory position on the basis of these four analytical means. In a nutshell, the outcomes of CAMELS analysis conducted on Nabil Bank Limited justifiably shows that the bank has remained successful in ensuring the effective management of 'Deposits, Loans and Advances'.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Financial institutions play an integral role in the success and growth of the economic life of a nation. These institutions boost the economy of a country and take the country to the path of overall development.

In the context of Nepal, the financial system is heavily reliant on banks and therefore, important milestones in the banking system have a direct palpable effect on the Nepalese economy.

The health of an economy is closely related to the soundness of its banking system. Banks themselves do not contribute in the creation of wealth, but their indulgence in borrowing, lending and other kindred activities play the part of facilitating in the process of production, distribution, exchange and consumption of wealth, which soothes the flow of liquidity throughout and in and out of the country, there after upgrading the economic development.

Among the variant roles they play, banks also play the role of mobilizing the savings of people for investment purpose. Banks' contribution is justified by the flow of liquidity within and beyond the borders. The absence of banks would result in a huge portion of idle capital, which would gradually degrade the value of money.

A bank can be symbolized as the heart of the economics structure and the capital provided by it as the blood that pumps life into it. As long as blood circulation is in a positive state, the organs will remain sound and healthy. Once the blood supply ends, those organs will be useless. In the same way, effective management of banks and their products and services, with the inclusion of deposits, loans and advances act as blood to the sustainability of economy. Every organization is

established with a motive to earn profit so do banks and financial institutions. A profit making organisations can only compete and survive in this competitive world. Profit making organization can better feed their employees, thereby enhancing the morale of the employees and motivate them to better performance towards achieving the objective of any organisations. Profits almost fulfill all the objectives for any institutions or organisations. It satisfies the shareholders, stakeholders, money lenders, and various other parties related to the organization. Therefore, profit for the commercial organisations has been defined as the life blood for their existence.

A commercial bank also, being a commercial institution, has to plan for reasonable profit every year to survive in the competitive world and to lead from the front to be path of economic growth of country. Management of deposit, loan and advances in short, is the planning and management overall activities to be performed by banks in such way that it helps in safekeeping and investing of public deposit in productive sector to generate income or revenue at a minimum possible cost or at optimum cost. This study has been performed with the aim of examine the management of deposit and loan of Nabil bank to enhance the profit of Nabil Bank and uplift the position of Nabil bank in the Nepalese banking sector and help to compete among other banks in Nepal.

Nabil Bank Limited, the first foreign joint venture bank of Nepal, which was originally named as Nepal Arab Bank Limited, is the pioneer in introducing many products and marketing concepts in banking sector. It has provided a milestone in the banking history of Nepal by starting an era of **modern banking with customer satisfaction**. Nabil Bank has always been committed to its mission of being the “**1st Choice Provider of Complete Financial Solutions**” to all stakeholders. Throughout its 27 years of banking history, this bank has lived by a set of core values **C.R.I.S.P.**; Customer Focused, Result Oriented, Innovative, Synergistic and Professional. These core values and its brand promise ‘**Your Bank at Your Service**’ have built a unique image of Nabil Bank Limited among the other prevalent banks in Nepal.

This research study has been made in an attempt to analyze the deposit and loan management of Nabil Bank Limited. A sample time period of 5 years has been taken for the study starting from F/Y 2061/62 to F/Y 2065/66. Information and statistics used for the research are primarily based on secondary data. This study has analyzed the budgeted and actual deposit, loan and advances, evaluated the types and trend of deposit, loan and advances, tested the statistical and significance relationship among the study variables, analyzed the product's profitability through the use of CVP analysis, ensured the financial strength by conducting CAMELS analysis and provided suggestions for future improvement.

This research study has been organized into five chapters which include introduction, review of literature, research methodology, presentation & analysis of data and summary, conclusion & recommendations. Information and statistics required to conduct the research were extracted from annual reports of Nabil Bank Limited, various articles, newspapers and published records of Nabil Bank Limited along with supplementary information from Nepal Rastra Bank Limited. A collection of relevant literature from the Central Library of T.U., libraries of Shanker Dev Campus, Public Youth Campus and Nepal Commerce Campus, Kathmandu Fornterior Academy (KFA) and various economic journals was also used to serve the same purpose. Discussions were also carried out with bankers of Nabil Bank Ltd, Nepal Rastra Bank and other members of NBA (Nepal Bankers' Association).

The research work was done and complied in a systematic way beginning with introduction of related terms in chapter one, followed by conceptual framework and review of past literature in chapter two, followed by research methodology in chapter three, then presenting and analysis of data into various tables and diagrams along with application of research methodology in chapter four and finally summary, conclusion and recommendations are provided in chapter five which is the current chapter.

This chapter also includes the views and opinions made by the researcher through the study and analysis of this thesis, which can act as suggestions for the

improvement of the performance of Nabil Bank Limited in regard to loans and advances.

5.2 Conclusion

The re-search on ‘Management of Deposit and Loan’ leads the researcher to the conclusion that through a macro analytical view, Nabil Bank Limited is performing in a highly satisfying manner. There is no threat to survival or sustainability of the bank. However, a micro analytical view suggests that both deposits and loans require further improvement to exceed excellence.

- In the case of deposits, the bank should attempt to increase the magnitude of margin deposits, other interest free deposits, and fixed deposits and call deposits so that it can divert the capital to a highly profitable sector. It should never forget that higher the deposit higher the capacity of investment and higher will be the chance of mobilization of fund to make satisfactory profit for the sustainability of the organization and balance in the state of liquidity.
- In the case of loans and advances, the non-transparency in regard to segregation of semi-productive sectors has resulted in Nabil Bank’s diversion of investment into highly profitable yet unproductive and import business sectors rather than productive sectors including agriculture and mines. Though investment in such sectors are theoretically believed to have high chance of recovery, the ineffective government policies, frequently declared strikes and low income level which falsify such theories also bring mismatch between the banking ethics and theories and the real life practice resulting in product-wise loan & advance components to remain in minimum satisfactory level.
- The low interest expenses ratio resulting in the positive profit trend reveals that the bank’s well management of deposits and loans & advances has made it successful in generating sufficient profits in terms of the adjustment of interest income and interest expenses.

- The analysis of the variables of future trend is positive in cumulative basis, which denotes a similar rise in investment opportunities of loans & advances in the future. However, the decrease in point-to-point trend shows possibilities of decrease of income in the future. Therefore, the management must fortify its endeavour to uplift the point-to-point trend.
- The statistical analysis shows an almost-perfect correlation, which leads to the conclusion that the bank's base is quite strong in the areas of 'deposits' and 'loans & advances' including the area of its own management system to generate optimum profit.
- The financial analysis leads to the conclusion that there is no present harm to the bank in regard to the 'earnings' and 'liquidity' analysis. The bank's satisfactory position is ensured by the 'capital adequacy', 'asset quality', 'management efficiency' and 'sensitivity' analysis.
- CAMELS analysis answers the most important question of the statement of problems, "Is there a strong provision of safety of public fund?" The outcomes of CAMELS analysis conducted on Nabil Bank Limited justifiably proves that there is indeed a very strong provision of safety of public fund by verifying through numerous calculations, that the bank has remained successful in ensuring the effective management of 'Deposits, Loans and Advances'.

5.3 Recommendations

This research has been made with an attempt to find answers to the questions enumerated in the Statement of Problems. All the problems have been addressed, analyzed and summarized.

On the basis of conclusions made in regard to the management of deposits and loans, recommendations as to how Nabil Bank must direct its efforts in order to ensure 100 % output in utilization, mobilization and effective management of deposits and loans are listed out below:

1. In regard to deposits collection, the bank should focus on increasing the collection rate of margin and call deposit in relation to interest bearing

deposit and fixed and other deposits in relation to interest free deposits. For this purpose, the bank should go through an intensive study of the competitive banking scenario and then, issue new and attractive schemes of deposit. Remaining parallel to the NRB directives, the bank should attempt to optimize the magnitude interest spread.

2. The bank should plunge into the psychological depths of public and surge up the awareness that depositing money in banks is a safe way of ensuring protection of wealth along with fixed periodical increment. It should work out to create such effective awareness campaigns that compel even the most illiterate group of people to take out the money from underneath their pillows and deposit in their banks.
3. For this purpose, the banks should extend their branches even in rural areas where banking services are quite far from the reach of general public. By doing so, people will be familiarized with Nabil Bank.
4. The banking services of Nabil Bank should be public-friendly. The bank should install the latest technological innovations to speed up banking facilities.
5. The bank must divert the amount collected through deposits towards productive and profitable sectors.
6. In regard to loan, the bank should immediately set priorities for sector-wise investments. Instant profit must not be the motivation for banks to invest. Productivity must be the key factor to determine the priority and amount of investment followed by/backed by sustainable reliability.
7. The segregation of semi-productive sectors must be made transparent. In the absence of this, loans on housing and land can be mixed up with other sectors and the true investment value on real estate as well as other sectors will not be found due to which, the bank's crucial decisions may be based on misleading/incomplete information.
8. The bank must maintain a liberal lending policy and the magnitude of loans & advances must not exceed the magnitude of deposits.

9. The bank's lending policy must be based on 7 Cs (Character, Capacity, Credibility, Capital, Collateral, Competency and Compliance) so that loan redemption can be ensured on time and probability of non-performing loans and bad debts is minimized.
10. The bank's interest income is undoubtedly proper in comparison to its interest expenses. Now, the bank needs to just remember that it must maintain this practice/stability because a large portion of its profits comes from the contribution of interest income.
11. The bank must remember that promotion of deposits and loans will also ensure a dramatic rise in the point-to-point future trend analysis, which will discourage its contribution towards decrease in net profit.
12. The bank must remember that it must give continuity to its proper management of assets and liabilities which has so far been successful in expenditure reduction and revenue increment.
13. The bank has been observed to practice only CAMELS analysis. Though it has more than enough merits, this analysis cannot ascertain when the bank will go in loss. On the other CVP analysis clarifies the exactitude of the present relation among cost, volume and profit from where the bank can discern exactly when it may go in loss. Also, the bank should publicize the findings of CVP analysis so that the trustworthiness of the bank will magnify in the public and they will get a clear picture of the actual financial position of the bank.
14. The bank must always remember that increment of CVP ultimately pushes the bank to become a leading bank. It should regularly monitor the elements to ensure that there is an adjusted/balanced relationship among cost, volume and profit by reducing its cost and increasing the volume of profit.
15. The bank's almost-perfect correlation, which has been proven by the high confidence level, among its statistical variables can be taken as an example by other banks to upgrade their financial position. The bank doesn't require any significant improvement at this stage because it is already near to excellence; it just needs to maintain its level of consistency.

16. The bank must always update itself with the NRB directives and ensure that all of its operations are conducted under the specifications of NRB.
17. The bank still needs to individualize its focus on every element of CAMELS analysis to further fortify its financial position.
18. Though the bank is basically strong in terms of its financial position it must always try to be better than the best. It must push its goal farther and increase its capital fund so that it can increase its competitiveness, which is very important at this phase after Nepal has been a member of WTO in 2010.
19. Though the bank can apply any effort it can to upgrade itself and be able to successfully adapt itself in the dynamic external environment, the bank must never forget that all its endeavours will be possible only if the public is in favour of it. Therefore, the bank must raise its trustworthiness among the general people. Implementation of excellent policies and strategies is not enough, transparency in regard is also equally important as the public also have the right to know what the bank is doing and how far it is progressing.
20. The bank must bear in mind that its success, profitability, upgradal, efficiency, competency, excellency, legacy and sustainability all circulate around the proper management of public deposits and loans. Therefore, if it becomes successful in managing the deposits taken from public and the loans provided to public, it will automatically reach heights of success.

These recommendations are written so as to exclusively serve for the betterment of Nabil Bank Ltd. but, since this bank is a sample of banks, they can be generalized to serve for all the banks too.

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APPENDIX

Balance Sheet of Nabil Bank Limited (Year end Ashad)

Capital & Liabilities	2061/062	2062/063	2063/064	2064/065	2065/066
Share Capital	491,654,400	491,654,400	491,654,400	689,216,000	965,747,000
Reserves & Bonds	1,165,983,908	1,383,340,017	1,156,395,315	1,747,982,989	2,164,493,637
Debentures & Bonds	-	-	-	240,000,000	300,000,000
Borrowings	17,062,608	173,201,710	882,572,500	1,360,000,000	1,681,305,000
Deposits	14,586,608,707	19,347,399,440	23,342,285,327	31,915,047,467	37,348,255,840
Bills Payable	85,419,747	112,606,736	83,514,820	238,421,890	463,138,615
Proposed & Undistributed Dividends	361,221,024	435,084,062	509,417,925	437,373,004	361,325,024
Income Tax Liabilities	15,345,023	34,604,855	-	38,776,869	80,232,454
Other Liabilities	340,786,604	352,079,858	378,552,721	465,940,930	502,899,934
Total	22,329,971,078	17,064,082,093	27,253,393,008	37,132,759,149	43,867,397,504

Assets	2061/062	2062/063	2063/064	2064/065	2065/066
Cash Balance	146,352,555	237,818,512	270,406,987	511,426,584	674,395,434
Balance with Nepal Rastra Bank	389,705,047	318,358,771	1,113,415,436	1,829,470,769	2,648,586,348
Balance with Banks/Finance Institutions	23,323,012	74,061,305	16,003,428	330,243,702	49,520,689
Money at Call and Short Notice	868,428,307	1,734,901,943	563,532,632	1,952,360,700	552,888,297
Investment	4,275,528,208	6,178,533,108	8,945,310,567	9,939,771,428	10,826,379,001
Loans, Advances and Bills Purchased	10,586,170,002	12,922,543,153	15,545,778,730	21,365,053,318	27,589,933,041
Fixed Assets	361,235,392	319,086,147	286,895,224	598,038,998	660,988,986
Non Banking Assets	-	-	-	-	-
Other Assets	413,339,570	544,668,139	512,050,004	606,393,650	864,695,708
Total	17,064,082,093	22,329,971,078	27,253,393,008	37,132,759,149	43,867,397,504

APPENDIX

Profit and Loss Account of Nabil Bank Limited

PARTICULARS	2061/062	2062/063	2063/064	2064/065	2065/066
Interest Income	1,068,746,769	1,309,998,500	1,587,758,714	1,978,696,727	2,798,486,196
Interest Expense	243,544,611	357,161,304	555,710,109	758,436,212	1,153,280,052
Net Interest Income	825,202,158	952,837,196	1,032,048,605	1,220,260,515	1,645,206,144
Commission and Discount	128,376,550	138,293,913	150,608,550	156,234,754	179,693,027
Other Operating Income	56,440,760	82,897,862	87,574,553	97,444,578	144,164,143
Exchange Income	184,878,868	185,483,662	209,926,167	196,487,415	251,919,712
Total Operating Income	1,194,898,336	1,359,512,633	1,480,157,875	1,670,427,262	2,220,983,026
Personnel Expense	199,516,217	219,780,853	240,161,275	262,907,576	339,897,913
Other Operating Expense	190,299,470	182,696,413	188,183,330	220,750,570	265,158,033
Exchange Loss	-	-	-	-	-
Operating Profit before Provision for Possible Losses	805,082,649	957,035,367	1,051,813,270	1,186,769,116	1,615,927,080
Provision for Possible Losses	8,662,150	3,769,541	14,206,365	64,055,186	45,722,434
Operating Profit	796,420,499	953,265,826	1,037,606,905	1,122,713,930	1,570,204,646
Non Operating Income/(Expense)	(48,089)	735,324	5,280,641	24,083,737	2,190,102
Provision for Possible Losses Write Back	4,454,762	7,729,444	10,926,317	11,100,529	10,617,867
Profit from Regular Activities	800,827,172	961,730,594	1,053,813,863	1,157,898,196	1,583,012,615
Income/(Expense) from Extra-ordinary Activities	41,156,398	26,073,578	40,736,694	39,990,808	43,521,866
Profit from All Activities	841,983,570	987,804,172	1,094,550,557	1,197,889,004	1,626,534,481
Provision for Staff Bonus	84,198,357	89,800,379	99,504,596	108,899,000	147,866,771
Provision for Income Tax	237,671,128	262,741,444	321,086,263	342,521,610	447,614,612
This Year	239,149,464	262,562,561	314,526,570	342,468,738	470,701,921
Up to Previous Year	(1,478,336)	178,883	6,559,693	52,872	918,745
Deferred Tax	-	-	-	-	(24,006,054)
Net Profit/(Loss)	520,114,085	635,262,349	673,959,698	746,468,394	1,031,053,098

APPENDIX

Deposit Collection of Nabil Bank Limited

Interest Free Deposit

Year	Current Deposit	Margin Deposit	Other Deposit	Total
2061/062	2,799,184,977.00	296,976,231.00	44,249,385.00	3,140,410,593.00
2062/063	2,910,589,772.00	322,899,810.00	42,896,336.00	3,276,385,918.00
2063/064	3,395,239,772.00	312,060,101.00	50,807,875.00	3,758,107,748.00
2064/065	5,284,368,064.00	361,782,186.00	81,404,000.00	5,727,554,250.00
2065/066	5,480,533,468.00	463,015,109.00	35,320,250.00	5,978,868,827.00
Total	19,869,916,053.00	1,756,733,437.00	254,677,846.00	21,881,327,336.00

Interest Bearing Deposit

Year	Saving Deposit	Fixed Deposit	Call Deposit	Total
2061/062	7,026,334,402.00	2,078,535,135.00	2,341,328,577.00	11,446,198,114.00
2062/063	8,770,759,429.00	3,449,094,149.00	3,851,159,944.00	16,071,013,522.00
2063/064	10,187,354,402.00	5,435,189,720.00	3,961,633,457.00	19,584,177,579.00
2064/065	12,159,966,430.00	8,464,086,113.00	5,563,440,674.00	26,187,493,217.00
2065/066	14,620,407,308.00	8,310,708,297.00	8,438,271,408.00	31,369,387,013.00
Total	52,764,821,971.00	27,737,613,414.00	24,155,834,060.00	104,658,269,445.00

APPENDIX

Total Deposits, Loan & Adv, Net profit, Interest Income & Expenses of Nabil Bank

Year	Deposit	Loan & Adv.	Net Profit	Interest Income	Interest Expenses
2061/062	14,586,608,707.00	10,946,736,577.00	518,635,749.00	1,068,746,769.00	243,544,611.00
2062/063	19,347,399,440.00	13,278,782,259.00	635,262,349.00	1,039,998,500.00	357,161,304.00
2063/064	23,342,285,327.00	15,903,023,765.00	673,959,698.00	1,587,758,714.00	555,710,109.00
2064/065	31,915,047,467.00	21,759,460,334.00	746,468,394.00	1,978,696,727.00	758,436,212.00
2065/066	37,348,255,840.00	27,999,012,071.00	1,031,053,098.00	2,798,486,196.00	1,153,280,052.00
Total	126,539,596,781.00	89,887,015,006.00	3,605,379,288.00	8,473,686,906.00	3,068,132,288.00

APPENDIX

Income Details of Nabil Bank Limited

Particular	2061/062	2062/063	2063/064	2064/065	2065/066
Interest Income (A)	1,068,746,769.00	1,309,998,500.00	1,587,758,714.00	1,978,696,727.00	2,798,486,196.00
Other Income (B)					
Commission & Discount	128,376,550.00	138,293,913.00	150,608,550.00	159,319,857.00	179,693,027.00
Exchange Gain	184,878,868.00	185,483,662.00	209,926,167.00	196,487,415.00	251,919,712.00
Other operating Income	56,440,760.00	82,897,862.00	87,574,553.00	94,359,475.00	144,164,143.00
Income from Extra ordinary Activities	41,156,398.00	26,073,578.00	40,736,694.00	39,990,808.00	43,521,866.00
Non Operating Income / Losses	-	735,324.00	5,280,641.00	24,083,737.00	2,190,102.00
Total (B)	410,804,487.00	433,484,339.00	494,126,605.00	514,241,292.00	621,488,850.00
Total Income (A+B)	1,479,551,256.00	1,743,482,839.00	2,081,885,319.00	2,492,938,019.00	3,419,975,046.00

APPENDIX

Fixed operating Expenses of Nabil Bank Limited

Particular	2061/062	2062/063	2063/064	2064/065	2065/066
Salaries	94,253,260.00	98,684,562.00	107,006,274.00	117,342,695.00	138,562,221.00
Contribution to Provident Fund	7,903,593.00	8,643,542.00	9,019,316.00	9,290,601.00	9,993,188.00
Insurance	4,654,572.00	5,265,425.00	4,964,802.00	4,935,404.00	5,094,299.00
Pension & Gratuity	18,222,505.00	28,808,311.00	31,280,044.00	29,146,617.00	63,069,340.00
Interest Expenses	243,544,611.00	357,161,304.00	555,710,109.00	758,436,212.00	1,153,280,052.00
House Rent	22,236,715.00	23,380,942.00	26,353,983.00	32,446,948.00	37,519,546.00
Insurance	5,442,553.00	5,039,425.00	5,715,127.00	6,261,439.00	6,109,339.00
Advertisement	6,146,013.00	4,846,816.00	5,318,536.00	8,502,625.00	11,980,090.00
Expenses Relating to BODs	4,260,791.00	3,524,419.00	3,495,426.00	4,344,686.00	4,170,320.00
Annual General Meetings Expenses	2,507,769.00	908,318.00	818,270.00	600,000.00	1,158,142.00
Audit Expenses	745,957.00	1,076,744.00	750,000.00	800,000.00	750,000.00
Depreciation on Fixed Assets	58,709,602.00	57,718,195.00	52,822,301.00	57,414,668.00	60,393,412.00
Written Off Expenses	-	-	-	-	-
Total Fixed Expenses	468,627,941.00	595,058,003.00	803,254,188.00	1,029,521,895.00	1,492,079,949.00

APPENDIX

Variable Operating Expenses of Nabil Bank Limited

Particular	2061/062	2062/063	2063/064	2064/065	2065/066
Allowances	46,933,272.00	51,835,067.00	57,232,621.00	61,150,752.00	75,600,291.00
Training	4,891,734.00	1,413,616.00	3,733,743.00	4,796,328.00	5,681,241.00
Uniform	2,253,395.00	2,260,171.00	2,797,037.00	2,991,159.00	2,938,816.00
Medical	114,614.00	74,314.00	52,508.00	29,282.00	45,413.00
Others	20,289,272.00	22,795,845.00	24,074,930.00	33,224,738.00	38,913,104.00
Electricity & Water	8,897,067.00	8,564,714.00	9,172,009.00	9,979,063.00	9,993,081.00
Repair & Maintenance	3,312,793.00	2,923,765.00	2,624,031.00	2,354,197.00	3,513,294.00
Postal, Telex, Telephone & Fax	17,326,574.00	14,612,985.00	15,069,127.00	17,483,909.00	16,656,509.00
Office Equipment & Furniture Repair	3,933,610.00	3,982,371.00	4,430,647.00	4,834,052.00	3,687,486.00
Travelling Allowance & Expenses	2,676,268.00	1,536,553.00	2,039,238.00	3,712,965.00	3,128,308.00
Printing & Stationary	9,774,743.00	9,807,924.00	11,002,508.00	12,871,144.00	17,063,055.00

Books & Periodicals	345,168.00	302,359.00	455,644.00	305,750.00	361,342.00
Legal Expenses	1,422,464.00	1,977,217.00	1,564,585.00	901,192.00	833,829.00
Donation	98,976.00	72,277.00	143,301.00	63,200.00	715,220.00
Commission on remittance	-	-	-	-	-
Amortization of Deferred Expenses	3,069,865.00	4,991,678.00	4,527,141.00	6,113,117.00	7,501,219.00
Share Issue Expenses	-	-	-	-	-
Technical/Consultancy Service Fees	9,142,754.00	8,488,791.00	9,888,286.00	11,753,734.00	21,554,584.00
Entertainment	2,875,189.00	-	-	-	-
Written of Expenses	-	-	-	-	-
Security Expenses	6,539,230.00	7,021,068.00	9,307,560.00	14,374,397.00	17,902,914.00
Credit Guarantee Premium	886,342.00	601,487.00	432,710.00	242,238.00	158,683.00
Commission & Discount	-	-	-	-	-
Fuel Expenses	5,237,772.00	6,262,811.00	6,216,268.00	9,180,473.00	14,677,445.00

Tea/Coffee/Snacks	1,348,341.00	1,427,771.00	1,465,389.00	1,970,802.00	2,565,079.00
Contract Service Expenses	2,269,493.00	1,881,457.00	2,022,916.00	2,861,337.00	3,872,846.00
Prize Expenses	1,277,193.00	2,891,752.00	3,333,094.00	622,341.00	-
Customer Relation & Sponsorship	-	2,499,485.00	3,231,669.00	3,709,620.00	5,665,075.00
Membership Fees	452,350.00	865,526.00	648,876.00	387,800.00	563,000.00
Janitorial	1,243,896.00	1,476,154.00	1,590,634.00	2,233,025.00	2,744,427.00
Others	8,119,982.00	4,013,409.00	3,744,054.00	4,425,848.00	9,919,788.00
Non Operating Income / Losses	(48,089.00)	-	-	-	-
Total Variable Cost	164,684,268.00	164,580,567.00	180,800,526.00	212,572,463.00	266,256,049.00

Note: Non cash expenses like, provision has not been included in to expenses for calculation of cost volume profit analysis.

APPENDIX

Calculations Mean, Median, Correlation Coefficient, Standard Deviation, P.E. and test statistics (t – test)

Year	Deposit	Loan & adv	Net Profit	Interest Income	Interest Expenses
2061/062	14,586,608,707	10,946,736,577	518,635,749	1,068,746,769	243,544,611
2062/063	19,347,399,440	13,278,782,259	635,262,349	1,039,998,500	357,161,304
2063/064	23,342,285,327	15,903,023,765	673,959,698	1,587,758,714	555,710,109
2064/065	31,915,047,467	21,759,460,334	746,468,394	1,978,696,727	758,436,212
2065/066	37,348,255,840	27,999,012,071	1,031,053,098	2,798,486,196.	1,153,280,052
N= 5	ΣDeposit = 126,539,596,781	Σ Loan & Adv. = 89,887,015,006	ΣNet Profit = 3,605,379,288	ΣInterest Income = 8,473,686,906	ΣInterest Expenses = 3,068,132,288.

We have,

$$\text{Mean} = \frac{\text{Respective Sum}}{N}$$

Therefore, Mean value of

$$\text{Deposit} = \text{Rs } 25,307,919,356.20$$

$$\text{Loan \& Adv.} = \text{Rs } 17,977,403,001.20$$

$$\text{Net Profit} = \text{Rs } 721,075,857.60$$

$$\text{Interest Income} = \text{Rs } 1,694,737,381.20$$

$$\text{Interest Expenses} = \text{Rs } 613,626,457.60$$

$$\text{Median} = \frac{N+1}{2} = \frac{5+1}{2} = \frac{6}{2} = 3$$

Hence, the Median Value lies at Year 3

Therefore, Median of

$$\text{Deposit} = \text{Rs } 23,342,285,327.00$$

$$\text{Loan \& Advance} = \text{Rs } 15,903,023,765.00$$

$$\text{Net Profit} = \text{Rs } 673,959,698.00$$

$$\text{Interest Income} = \text{Rs } 1,587,758,714.00$$

$$\text{Interest Expenses} = \text{Rs } 555,710,109.00$$

Calculation of Correlation Coefficient

Simple Coefficient of Correlation

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

$$\text{Between Deposit and Loan \& Advance} = 0.99$$

$$\text{Between Deposit and Net Profits} = 0.939$$

$$\text{Between Loan \& Advance and Net Profit} = 0.968$$

$$\text{Between Interest Income \& Expenses} = 0.992$$

Note: All the values are calculating by using SPSS Programmed

Multiple Coefficients of Correlation

$$R = \frac{\sqrt{r_{yx_1}^2 + r_{yx_2}^2 - 2r_{yx_1}(r_{yx_2})(r_{x_1x_2})}}{\sqrt{1 - r_{x_1x_2}^2}}$$

Between Deposits, Loan & Advance and Net Profit = 0.977

Note: All the values are calculating by using SPSS Programmed

$$\text{Standard Deviation} = \sqrt{\frac{\sum (\text{Respective Values} - \text{Mean Values})^2}{N}}$$

Standard Deviation of Deposit = 9,259,614,751.17

Standard Deviation of Loan & Advance = 6,901,937,454.07

Standard Deviation of Net Profit = 191,896,169.05

Standard Deviation of Interest Income = 206,440,598.70

Standard deviation of Interest Expenses = 321,958,108.60

Note: All the values are calculating by using SPSS Programmed

Calculation of CV

$$CV = \frac{\text{Std. deviation of respective Values}}{\text{Mean of respective Values}} \times 100$$

$$CV \text{ of Deposit} = \frac{9,259,614,751.17}{25,307,919,356.20} \times 100 = 36.59\%$$

CV of Loan and Advance = 38.39%

CV of Net Profit = 26.61%

CV of Interest Income = 12.18%

CV of Interest Expenses = 52.47%

Calculation of Probable Error (P. E.)

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

$$\text{Between Deposit and Loan \& Advance} = \frac{1 - 0.99^2}{\sqrt{5}} \times 0.6745 = 0.006$$

Between Deposit and Net Profits = 0.036

Between Loan & Advance and Net Profit = 0.019

Between Deposits, Loan & Advance and Net Profit = 0.014

Between Interest Income & Expenses = 0.005

Calculation of Test Statistics (t – test)

$$t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

$$\text{Between Deposit and Loan \& Advance} = \frac{0.99\sqrt{5-2}}{\sqrt{1-0.99^2}} = 12.15$$

Between Deposit and Net Profits = 4.73

Between Loan & Advance and Net Profit = 6.71

Between Deposits, Loan & Advance and Net Profit = 7.94

Between Interest Income & Expenses = 13.64

Calculation of Trend Line

$$Y = a + bX$$

Here,

Y = Dependent variable taken in to consideration.

a = Fixed value of variable in to consideration.

b = Slope of trend line or annual growth rate, calculated value.

X = Year to be predicted (2066/067 to 2070/071)

Note: All the values of a and b are calculated by using SPSS Programmed

Trend line of Deposit for F/Y 2066/067 (6th year) Y₆

$$= 7,880,636,668 + 5,809,094,229 \times 6 = \text{Rs } 42,735,202,044.10$$

Loan & adv for F/Y 2066/067(6th year) Y₆

$$= 5,201,834,282.3 + 4,258,522,906.3 \times 6 = \text{Rs } 30,752,971,720.10$$

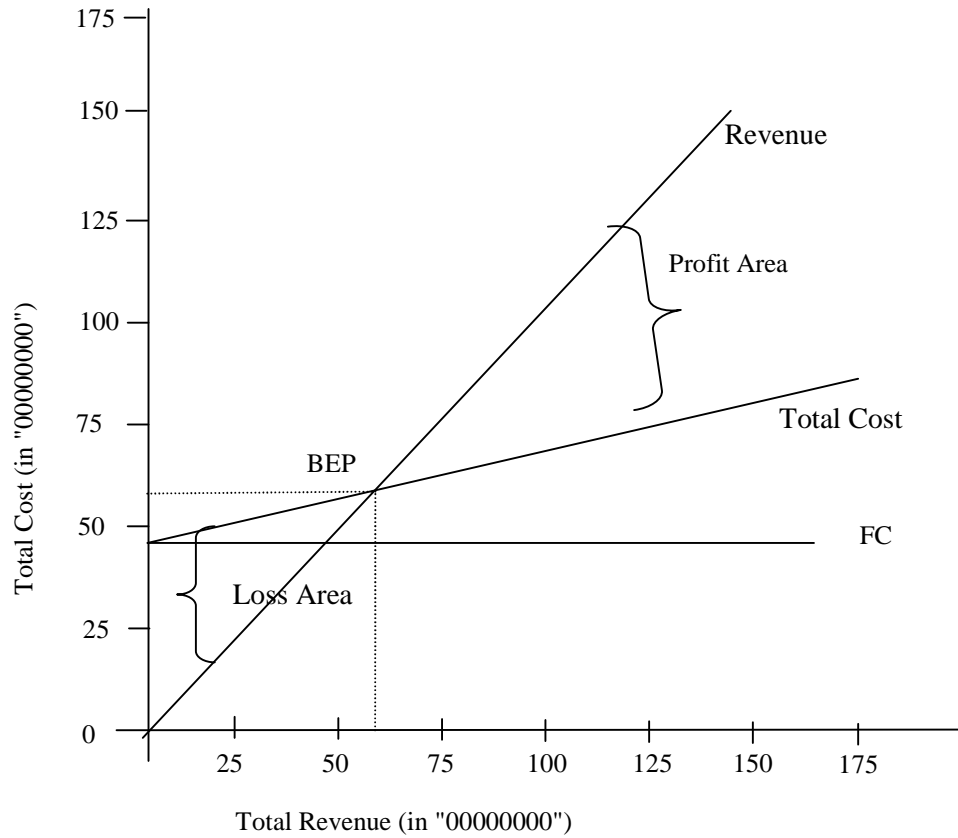
Net Profit for F/Y 2066/067(6th year) Y₆

$$= 380,263,634.7 + 113,604,074.3 \times 6 = \text{Rs } 1,061,888,080.50$$

APPENDIX

Graphical presentation of BEP of Nabil Bank Limited

For Fiscal Year 2061/062



Fixed cost = Rs 468,627,941.00

Variable cost = Rs 164,684,268.00

Total cost = Rs 633,312,209.00

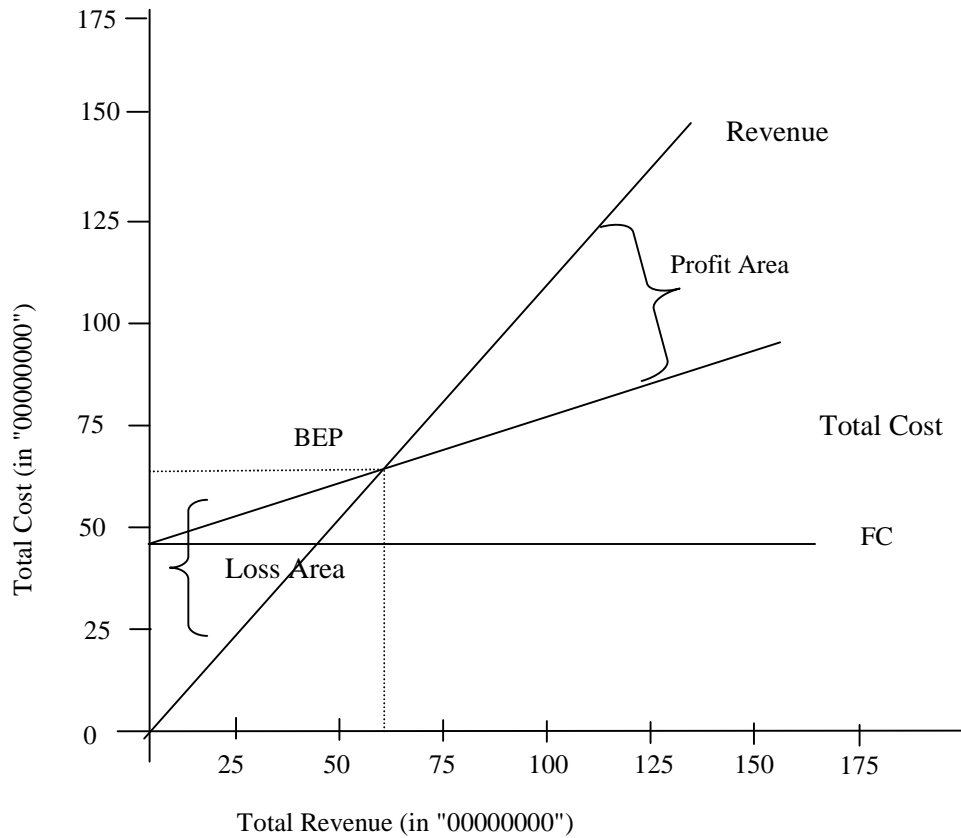
Total Revenue = Rs 1,479,551,256.00

BEP Sales = Rs 527,322,584.74

Profit = Rs 846239,047.00

Graphical presentation of BEP of Nabil Bank Limited

For Fiscal Year 2062/063



Fixed cost = Rs 595,058,003.00

Variable cost = Rs 164,580,567.00

Total cost = Rs 759,638,570.00

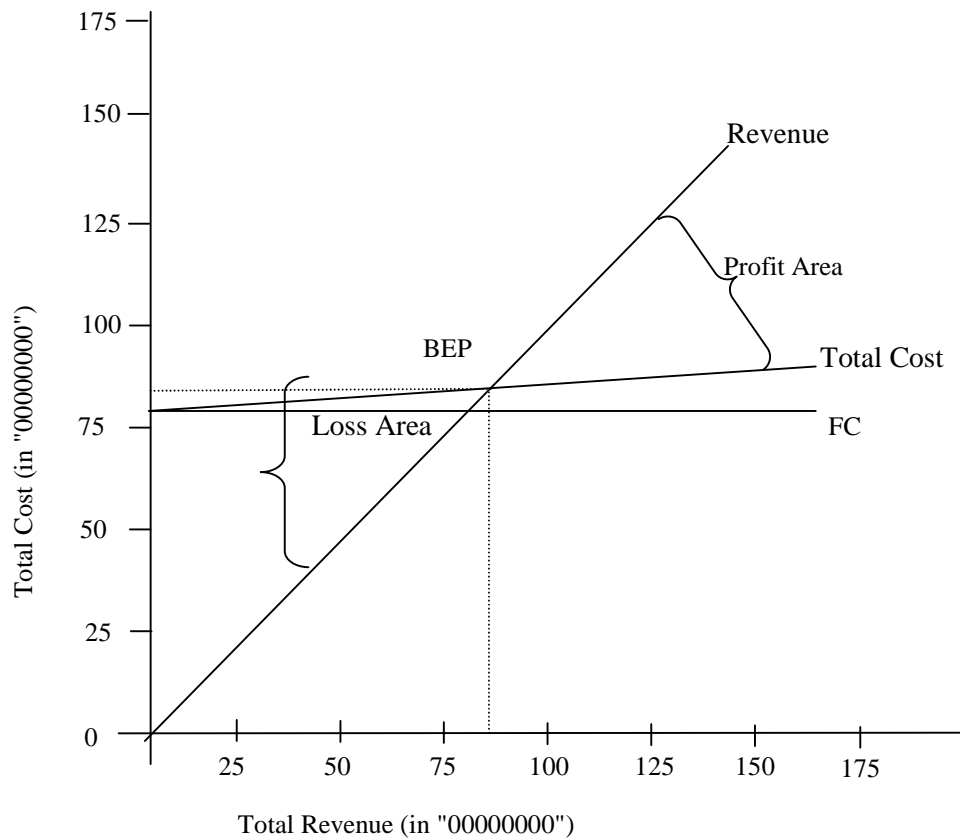
Total Revenue = Rs 1,743,482,839.00

BEP Sales = Rs 657,085,264.13

Profit = Rs 983,844,269.00

Graphical presentation of BEP of Nabil Bank Limited

For Fiscal Year 2063/064



Fixed cost = Rs 803,254,188.00

Variable cost = Rs 180,800,526.00

Total cost = Rs 984,054,717.00

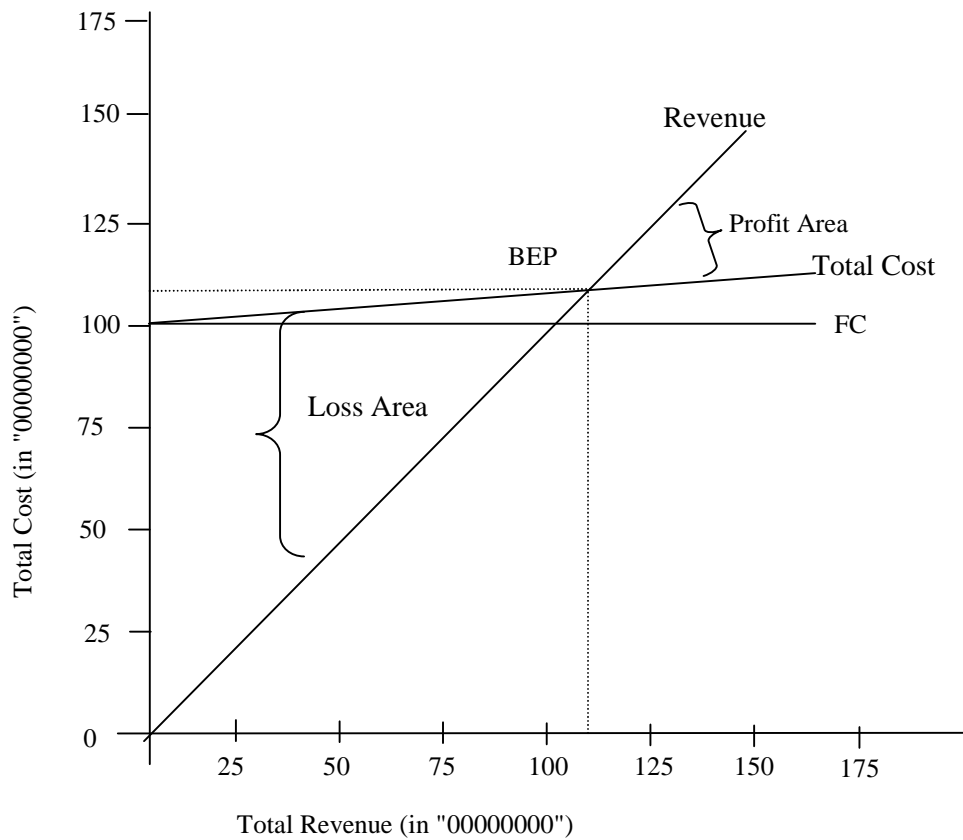
Total Revenue = Rs 2,081,885,319.00

BEP Sales = Rs 879,646,771.98

Profit = Rs 1,097,830,605.00

Graphical presentation of BEP of Nabil Bank Limited

For Fiscal Year 2064/065



Fixed cost = Rs 1,029,521,895.00

Variable cost = Rs 212,572,463.00

Total cost = Rs 1,242,094,358.00

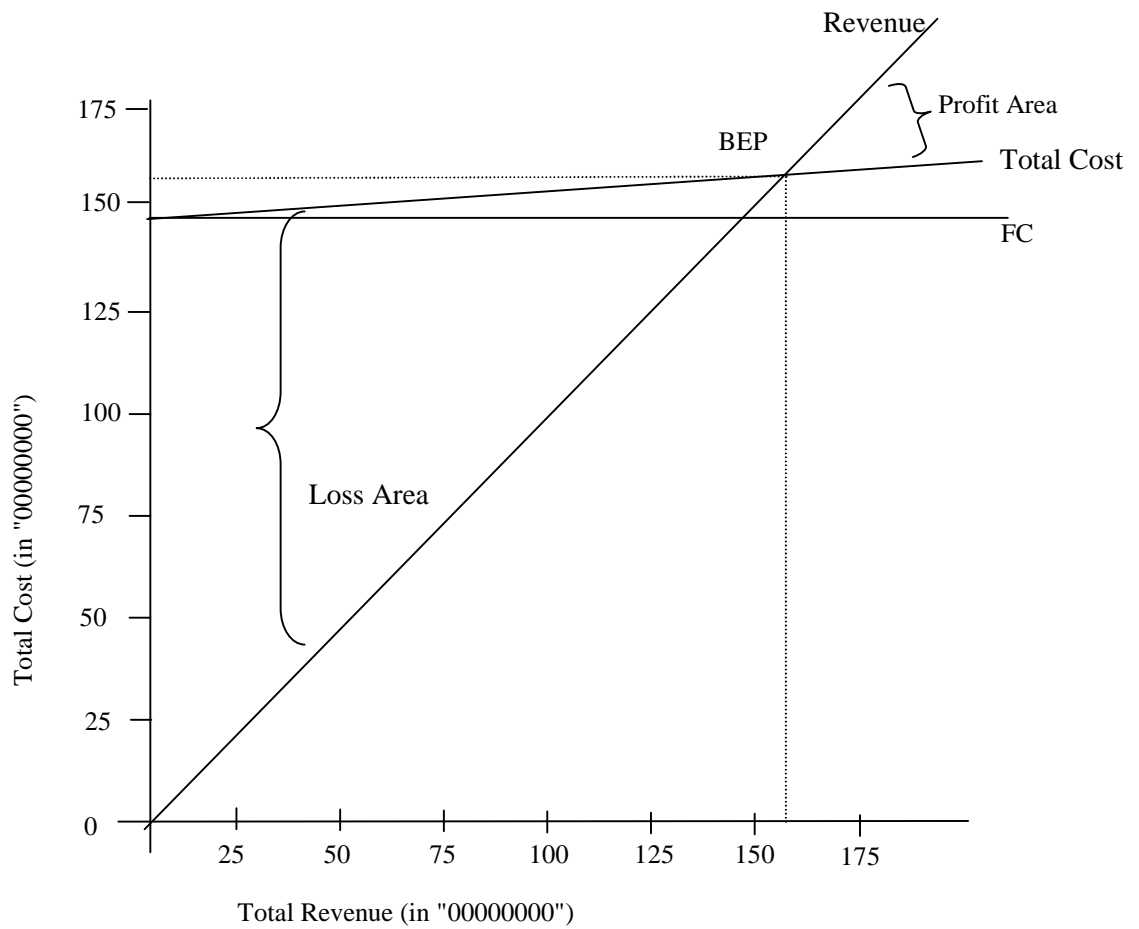
Total Revenue = Rs 2,492,938,019.00

BEP Sales = Rs 1,125,492,474.96

Profit = Rs 1,250,843,661.00

Graphical presentation of BEP of Nabil Bank Limited

For Fiscal Year 2065/066



Fixed cost = Rs 1,492,079,949.00

Variable cost = Rs 266,256,049.00

Total cost = Rs 1,758,335,998.00

Total Revenue = Rs 3,419,975,046.00

BEP Sales = Rs 1,618,050,370.71

Profit = Rs 1,661,639,048.00

APPENDIX

Total Capital Fund an Risk Weighted Assets

Year	Core Capital	Supplementary Capital	Total Capital	Total Risk weighted Assets
2061/062	1,610,510,308	155,562,222	1,766,072,530	14,193,071,630
2062/063	1,830,794,417	258,529,605	2,089,324,022	16,976,368,425
2063/064	1,992,849,715	314,782,680	2,307,632,395	19,166,766,033
2064/065	2,363,598,989	635,131,175	2,998,730,164	27,010,564,315
2065/066	3,044,340,637	682,742,150	3,727,082,787	34,816,500,849

Total Loan and Advances, Performing & Non - Performing Loan and Loan Loss Provision

Year	Total Performing Loan	Total Non Performing Loan	Total Loan & Advances	Total Loan Loss Provision
2061/062	10,802,229,684	144,506,893	10,946,736,577	360,566,575
2062/063	13,096,157,779	182,624,480	13,278,782,259	356,239,106
2063/064	15,724,729,781	178,293,983	15,903,023,765	357,245,035
2064/065	21,598,374,339	161,085,995	21,759,460,334	394,407,016
2065/066	27,774,194,658	224,817,413	27,999,012,071	409,079,030

**Total Assets, No of Shares, No of Staffs, Total Share Holders fund
and Net Profit after Tax**

Year	NPAT	No of Shares	No of Staffs	Total Share Holders Fund	Total Assets
2061/062	520,114,085	4,916,544	426	1,766,072,530	17,186,330,816
2062/063	635,262,349	4,916,544	441	2,089,324,022	22,329,971,078
2063/064	673,959,698	4,916,544	427	2,307,632,395	27,253,393,008
2064/065	746,468,394	6,892,160	416	2,998,730,164	37,132,759,149
2065/066	1,031,053,098	9,657,470	505	3,727,082,787	43,867,397,504

**Total investment in Government Securities, Cash & Bank Balance,
RBB Balance, Local Currency Deposit and of Total Deposits**

Year	Total investment in Government Securities	Total Cash & Bank Balance	NRB Cash Balance & Cash Balance of LCY	LCY Deposit Except Margin Deposit	Total Deposit
2061/062	2,418,431,378	559,380,614	500,578,575	10,963,692,429	14,586,608,707
2062/063	2,301,463,338	630,238,588	519,175,384	14,291,995,416	19,347,399,440
2063/064	4,808,348,503	1,399,825,851	1,344,095,341	18,072,475,905	23,342,285,327
2064/065	4,646,883,136	2,671,141,055	2,312,946,057	24,529,797,200	31,915,047,467
2065/066	3,706,102,662	3,372,512,471	3,258,303,354	29,729,431,566	37,348,255,840