

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal may be backward in terms of economic development but in respect of cultural heritage, it is one of the richest members of the world community. Nepal has many natural resources like minerals and forest, water and many more but not managed properly and efficiently due to the underdeveloped economy and technology.

Nepal is predominantly an agricultural country due to the topographical feature. However, the central issue of the development in Nepal, even today continues to be the eradication of poverty. Since, 82% of the population is dependent upon agriculture; the sector is unable to provide full employment to the rural labor force. The economic development of the country heavily depends upon the improvement of the agricultural sector. To support this view, Sapkota had mentioned that, “here exist a great need for agricultural financial institute to provide the loans because the main problem on economic development is related to agriculture sector and lack of adequate credit facilities” (*Sapkota; 1979*). In spite of the huge investment in the past 44 years, low saving rate, heavy dependence on external assistance, a low export base, a low level of industrialization, vulnerability in agricultural productions, high population growth are some constraints that the country presently faces in its quest for sound and sustainable development.

To overcome this economic situation, government has to formulate and implement strategies focusing overall industrialization of the nation and development of a sound banking system is necessary for the rapid industrial development. Dr

Shrestha says “Financial infrastructure of an economy consist of financial intermediation, financial institution and financial market” (*Shrestha; 1990/91*). Therefore the financial institution plays a grate role in the overall development of the country. In this aspect “**Bank**” is a financial institution which plays a great in facilitating the growth of the trade and industry. Bank is also a resource for economic development, which maintains the self- confidence of various segments of the society & extends credit to people. We can also say that a bank is related to collection of deposits, advancing loan and other credit activities. A Bank will generally collect deposits from different individuals and institution and utilizes it by giving loans to industries and commercial enterprises.

1.1.1 Banking History of Nepal

Although the first step towards the establishment of a modem bank was taken as late as in 1937 AD, it does not that banking in Nepal is of recent origin. "Historically the banking system is traceable for back into dim ages of the past although the old chronicles contain at place obscure details, inaccurate figures and even impossible facts" (*Pant; 1980:117*). However, "the history of banking and currency in the country becomes definite only from the fifth century that is in the Lichhavi period, when the first coins were minted" (*Pant; 1980: 940*).

In the history of Nepal, banking activities in ancient time can be inferred. Guna Kam Dev did rebuilding of Kathmandu in 723 from borrowing. In the Nepalese chronicle, it was recorded that Shakhadhar and Sudra merchant of Kathmandu introduced a new era known as Nepal Sambat in 879 or 880 AD after having paid all the outstanding debts in the country. This is considered to be an adequate basis for a logical inference that the money lending operations were in practice during that period.

The reign of Jayasthiti Malla is recognized as the glorious age for codifying the law relating to commercial transaction and immovable property. This reform “has left a lasting impression upon the Nepalese Nation of even today; and it is from about Raja Jayasthiti Malla reign onward that the granting of loans against immovable property must have more commonly, if not newly, practiced in the country” (*Pant; 1980: 8*). He also classified the people in 64 classes on the basis of their occupations, which included a class called "Tanka dhari" meaning money dealers. This is lenders and bankers during the medieval period of Nepal. It is believed that money lending business, particularly for financing the foreign trade with Tibet, become quite popular during the reign of Mallas. Advance for commercial transactions against personal security or merchandise, remittance service for foreign trade (with India and Tibet) and loans for personal use were common with the increases in demand for these services. A large number of personal talking to this business, demoralization crept in the profession and consequently, several type of malpractice becomes their favorable technique. Thus, cheating and fraud were common in the absence of any regular measure during the Malla period and onward. The unscrupulous money was known to have changed exorbitant rates of interest and other extra dues on loans advanced. Also people were facing great inconveniences in obtaining loans at reasonable terms.

Ranodip Singh, the Prime Minister for 8 years from 1877-1885, took a concrete step by establishing a government institution called "Tejarath" for supplying easy and cheap credit 5% interest to the public on the security of gold and silver ornaments. At the same time government servants also the privilege of taking loans from this newly established office, repayable in investment from their salaries at source.

In the overall development of banking system in Nepal, the "Tejarath Adda" may be regarded as the father of modem banking institutions, and for quite a long time

it rendered a good service to general public as well as to the government servants. Later on, with the evolution of some kind of systematic banking the government's cashier office had the primary responsibility of handling government accounts but not the public account.

Only in 1937, during the time of Juddha Shamsheer, even with the non-existence of a central bank, the first commercial bank of the country, Nepal Bank Limited (NBL) was established on November 15 (Kartik 30; 1994 BS). This marked the beginning of an era of formal banking in Nepal, thus "Tejarath" was replaced by a commercial bank. The establishment of NBL solved to the great extent the problem of commercial banking in Nepal. It made available facilities for depositing and borrowing money for commercial and agricultural pursuits. It also provided remittance facilities for settling internal and external transactions to create banking habits of the people, widening monetized areas and helped the government and business community in various ways.

Despite the above facts, the lone NBL was not in a position to cope with all problems due to its limitations in respect of financial position and scope of business. "The credit needs of the people are still predominantly met by dangerous money lenders and a very large portion of the productive activity of the community banking system" (*Pant; 1980:115*). In order to overcome these difficulties the government established in 1956, the first Central Bank, "Nepal Rastra Bank" under the NRB Act of 1954. The setting up of this Central Bank marked another milestone in the history of growth of banking.

While the Nepal Bank Ltd. was facing the problem of utilization of funds mobilized by it, the government came forward with a proposal to set a new commercial bank in the public sector. Accordingly, to spread banking habits and to fulfill the growing credit requirements, a state commercial bank, known as Rastriya Banijya Bank was

set up on July 23, 1966. It contributes to the development of banking system, particularly in the remote areas lying in the hilly regions.

But these institutions could not properly fulfill the demand of public. There is a great need of other commercial banks. So, Nepal has adopted the policy of economic liberalization to develop the economic condition through the participation of private sector equally on in the market on the area of industry, trade, business and banking. The government did amend the commercial banking Act 1974 in 1984 to increase competition between commercial banks, to develop their working capacity and also to open the foreign joint-venture banks. As per the provision made in this act, private sector, including foreign investor was given freedom in opening commercial banks.

1.1.2 Introduction to NABIL Bank Limited

NABIL Bank Limited was first joint venture bank in Nepal, established in 2041 B.S. under commercial bank act 2031 and company act 2021. This bank has renamed as NABIL Bank Limited from 1st January 2002. First, Dubai Bank Limited was partner of 50% equities capital. Later Dubai Bank Limited takeouts its hand from this bank and transferred its equities share capital to National Bank Limited of Bangladesh. NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. This bank is the leader in bringing the best international standard of banking practices, products & services.

The capital Structure of NBL is as follows:

Authorized Capital NRs. 1600 million

Issued Capital NRs. 965.7 million

Paid up Capital NRs. 965.7 million

Total Share of NABIL Bank Limited is subscribed as follows:-

National Bank Limited Bangladesh	50%
Nepalese Public Shareholders	30%
NIDC	10%
Rastriya Beema Sasthan	9.66%
Nepal stock exchange	0.34%
Total	100%

Mission

- To be the Bank of 1st choice to all the stakeholders
- To be the first choice in meeting all the financial requirements for the customer
- To be the investment of choice for the shareholders.
- Practice total quality management and embrace good governance and be the example of model bank for the regulators.

Vision

- A full service bank providing an entire range of products / starting with deposit ,
- Visa & Master Card,
- Customer satisfaction is the 1st priority of bank
- Employees are treated with respect, good faith & provided equal opportunities.
- The bank is transparent in their dealings & conduct.

Values

Customer Focused, Result oriented, Innovative, Synergistic & Professional

Service offered by NABIL Bank Limited

NABIL Bank Limited has offers various types of services to its customers are as follows:-

- a. Accepting deposits from it customer in various account like current, fixed and saving account.
- b. Granting loan and advance in terms of overdraft, demand loan, time loan, making investment in treasury bills, foreign bills and indigenou s bill.
- c. Discounting bills.
- d. Providing bank guarantee
- e. Opening facility of letter of credit
- f. Remittance service
- g. Issuing traveler cheques.
- h. Safety locker's facility. (*source:www.nabilbank.com*)

1.2 Focus of the Study

Commercial banks play a vital role in the economic growth of the country. Likewise they are equally liable to the benefits of their shareholders, customers, and depositors and overall to the whole society. Amidst the unfavorable circumstances their success mainly depends on their financial decisions. This thesis focuses on the analysis of their financial performance to disclose the truth about their financial decisions, present problems and recommendations for corrections. For research purpose only one commercial bank has been chosen i.e. NABIL Bank Limited.

1.3 Statement of the Problems

For each and every bank or financial institution it is very crucial to analyze the financial performance. Every banking sector cannot reach their objective without a good financial performance. The financial sector has not

been responsive enough for them to meet the growing resources. In this competitive market each and every bank and financial institution need to analyze their financial situation to develop strategies and to identify the strengths and weaknesses. Similarly investors are also needed to evaluate the performance of the companies for secured investment. In the Nepalese capital market financial institutions have dominated to the other sectors. Many researchers have been made in the field of the performance evaluation of the commercial banks among the financial institutions.

The study aims to find out the answer to the following questions.

- Does the overall financial statement analysis and financial position indicate any specific strengths and weakness?
- What are the major factors effecting the financial performance of NABIL?
- Is there is any relationship between net profit with investment and total deposit.
- What is the financial position of the bank in the market?

1.4 Objectives of the Study

The main objective of this study is to analysis the financial performance of the NABIL Bank Ltd. The other specific objectives are as follows.

1. To analyze the financial performance of NABIL Bank Ltd.
2. To analyze the relationship between net profit with investment and total deposit.
3. To see the trend of deposit, investment and net profit.
4. To provide recommendation and suggestions on the basis of analysis the financial performance of NABIL Bank Ltd.

1.5 Limitations of the Study

Limitations of the study are as follows:

- This research has been conducted on the requirement of partial fulfillment of Master Degree in Business Study.
- It has been conducted in the limited time and resources.
- The study mainly focuses with the financial performance of NABIL Bank Ltd.
- Generally it is based on secondary data like balance sheet, profit and loss account and other useful documents.
- It is covering the period of 5 years from 2004/05 to 2008/09 of NABIL bank.

1.6 Organization of the Study

This study has organized into the following five chapters:

Chapter – I: Introduction

This chapter includes background of the study, focus of the study, statement of the problems, objectives of the study, significance of the study and limitations of the study.

Chapter - II: Review of Literature

This chapter reviews the existing literature on the concept of financial performance analysis. It also contains reviews of journals and articles, and earlier thesis related to the subject.

Chapter - III: Research Methodology

This chapter expresses the way and technique of the study applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and method of analysis.

Chapter - IV: Data Presentation and Analysis

In this chapter collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools.

Chapter - V: Summary, Conclusion and Recommendations

In this chapter, summary of whole study, conclusions and recommendations are made.

At the end of the study, Bibliography and Appendices have also been incorporated.

CHAPTER - II

REVIEW OF LITERATURE

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

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

2.1 Conceptual Framework

2.1.1 Concept of Banking

The writers on the banking are divided regarding the origin of the word "Bank". Some authors feel that the word bank is derived from the words "Banco", "Bancus" or "Banque" which all mean a bench.

A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credit and transfer funds by written order of depositors (*The Encyclopedia America; 1984:234*).

Bank is an institution, which deals with money & credit. It accepts deposits from public, makes fund available to those who need them and helps in remittance of fund from one place to another. “A bank seeks optimum combination of earning liquidity and safety. While formulating investment policy" (*Chandler; 1973:138*). The more developed financial system of the world characteristically falls into three parts, the central bank, the commercial bank and other financial institutions (*Sayer; 1976:16*).

2.1.2 Function of Commercial Banks

“Banks accept the deposits from unproductive sectors and utilize them in the productive sectors. This is the basic function of banks. By this they earn profit as interest by advancing the funds as loan at the interest rate higher than its cost. At the same time, bank generates capital for economic development of a country. In the past, banks used to be just an intermediary between the savers and users of fund. They used to collect deposits from savers and provider loans to the businessmen and others. Now, the services provide by bank have been expanded to many areas as human wants and development of technology” (*Singh; 2005: 15*). General commercial banks offer the following services to customers.

Accepting Deposits

The main function of commercial bank is to accept deposit from their customers. People consider it more rational to deposit their savings in a bank because by doing so they generally banks accepting different types of deposits as follows.

- i. Saving Deposit Account
- ii. Current Deposit Account
- iii. Fixed Deposit Account
- iv. Recurring Deposit Account

Loan Extension

The second important function of commercial bank is to extension of loan to their entrepreneurs and general public. After keeping certain cash reserve the banks lend their deposits to the needy borrower. Following some types of loan is providing by banks to their customer.

- i. Money at call
- ii. Terms Loans
- iii. Overdraft
- iv. Cash Credit
- v. Discounting of bills of Exchange

Agency Function

Banks also perform creation agency function for and on behalf of their customers.

- Remittance of funds.
- Collection and Payments of Credit Instruments
- Executing of standing orders
- Collection of Dividends on Share

General Utility Function

- Locker Facility
- Underwriting Securities
- Letter of Credit
- Foreign Exchange

The role of joint venture banks in Nepal are as follows.

- Good banking services and modern management.
- Joint venture bank plays a important role in Nepalese Economy
- Expose the Nepalese financial rules, regulations and policies to foreign Investors.

- Competitive environment
- Introducing foreign investment in Nepal

A business contract of management effort between two persons, companies or organization involving risk and benefit sharing (*Ahuja;1999:201*). When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity more or less capital and establish a new organization, it is known as joint venture (*Jauch and Glueck; 1988:232*).

Some various functions of commercial banks are as follows:

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

2.1.3 Financial Statement Analysis

Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable condition of a business concern; therefore, financial analysis reflects the financial position of a firm which is the process of determining the operational and financial characteristics of a firm.

Financial statements analysis is largely a study of relationship among the various financial factors in a business as disclosed by the statement and a study of the trend of their factors as shown in a series of statement (*Pandey; 1989:46*).

Local commercial banks have been found relatively higher leveraged compared to other joint venture banks. Loans and advances has been the main form of the investment. Two third of the assts have been used for earning purpose (*Joshi, 1989:56*).

Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firms to identify problems, if any in the past or present and/or likely to be in the future and to provide recommendation to solve the problems (*Pradhan; 1991:71*).

Financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statement by making comparison of various components and by examining. Their context, this can be used by financial managers as the basis to plan future financial requirements by means of forecasting and budgeting procedures (*Van Horne;2000:144*).

It is both the analytical and judgmental process that helps answer and question that have been posed. Therefore, it is means to end. A part from the specific analytical answer, the solutions to financial problems and issues depend significantly. On the view of the issue and on the nature and reliability of the information available.

- **Objective of Financial Analysis**

The main objectives of financial analysis is explain various facts related to the past performance of business and predict the potentials for achieving desired results. Some of the main objective of financial analysis can be pointed out as follows:

- To understand the solvency of short term and long term of a firms.
- To know the present and future profitability of the firm.
- To compare with different firms.

- For cast the future & preparing budgets.
- The financial stability of business firm.
- The long term liquidity of its fund.

- **Need of Financial Analysis**

The analysis of financial statement is mainly focus with the some questions.

- What is the present performance of the firm?
- Which are the problem existing areas?
- What is the present performance of the firm? What will be the position of the firm in future? What are the projections?
- Is there any likely problems are the way in the future?
- What are the recommendations?

2.2 Review of Journals and Articles

Shrestha (1990), in his article “*Commercial Banks’ comparative Performance Evaluation*” published in **Nepal Bank Patrika** stresses on a proper risk management with appropriate classification of loans under performing and non performing category. He further clarifies that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income.

Regarding the risk management of the bank Shrestha suggests that:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio related to overdue loans.

- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

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

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

Shrestha (1990), in his article "*Capital Adequacy of Bank*" published in **Nepal Bank Patrika** said that banks deal with in highly risky transactions to maintain strong capital base. He suggested that capital should be optimum level to keep the standard ratio of capital for each bank.

Pradhan (1991), made a Comparative "*Study between Government Shared Commercial Banks and JVBs in Respect of their Performances and Profitability*" and published in The Raising Nepal.

In his article he concluded that:

- The foreign banks have better deposit collection.
- Current deposits in JVBs are higher but fixed is lower in comparison to government shared banks.
- By profitability JVBs are better.

Shrestha (1995), made a study "*Portfolio Behavior of Commercial Banks in Nepal*" in Economic Review analyzed the financial performance of the commercial banks through ratios and management achievement index. She also analyzed the investment and lending operations of commercial banks and their contribution to the national economy. She used data from 1975 to 1990 and analyzed the portfolio composition of the commercial banks and their behavior by testing the relationship with economic and fiscal variables of the country.

Some of her conclusions relevant to this thesis are:

- Per capita deposits as well as per capita credit in commercial banks have increased tremendously. The contribution of deposit in GDP has also been increasing.
- Structural ratios show 75% of their total deposits invested in the government securities and the shares.
- Reserve position shows quite high percentage of deposit as cash reserve.
- The commercial banks are highly leverage and highly risky.
- By risk and return JBVs are aggressive.
- BY comparative total management achievement index JBVs are better.
- Among the commercial banks, Standard Chartered Bank seems to have highest growth rate of EPS.

Poudel (1996), in his article "*Financial Statement Analysis*": "*An Approach to Evaluate Banks Performance*" published in Business Age has indicated that balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank's balance sheet and P/L account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial

innovations which are generally contingent in nature are considered as off balance sheet item.

Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decision. The requirements of bank's financial statement have been expressly laid down in the concerned act. The Commercial Banking Act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

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

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

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

increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

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

Shrestha (1997), in his article "*Nepalma Baniya Bank Haruko Bhumika: Ek Paridrist*" published in Banking Samachar pointed out some important activities, seen in the banking sector, that deserve reviews:

- Possibility of capital flight: The unstable political situations caused the possibility of capital flight soaring high. Joint venture banks can become the main source of capital flight. It should be seriously considered and analyzed and corrective actions to be taken in time.
- Minimum deposit amount: Commercial banks and financial institutions have increased the minimum deposit amounts (threshold). This policy harasses depositors. Therefore this policy deserves review.
- Debt recovery and its effectiveness: Debt recovery has become a problem to the banks. Therefore, effective evaluation of collateral and monitoring of loans use should be done effectively.

Poudel (1997), in his article "*An Overview of Financial Companies of Nepal*" published in Business Age observed that the finance companies violating the directives regarding deposits mobilization. He found companies mobilize the deposits by more than ten times their capital base. Credit to deposit ratio remained high. The loan diversification is improved. Hire purchase and housing loan consumed greater amount of loans. He found due to increasing number of companies sources of funds declined. He suggested that the regulatory and

supervisory authority to keep close eyes on the activities of the financial companies.

Sharma (1998), in his article “*Joint Venture Banks in Nepal Co-Existing and crowding Out*” published in *Business Age* opined that the government should favor domestic banking sector in order to build competence against JVBs. He said that both should coalesce and co-exist complimenting each other and contributing for the development.

Pant (2001), in an interview to “*Business Age*” monthly said that due to slow down in the world economy and poor law and order situation in the country many economic sectors of Nepal are sick. He said when a sector of economy catches cold, banking sector sneezes. From this perspective, the banking industry as a whole is not healthy. However, JVBs for example NABIL with its strong risk management system, sound capital adequacy provision, quality staff can survive in the difficult times.

K.C (2003), in his article *Financial Sector Reforms Still a Long Way to Go*. Published in “*The Rising Nepal*” on June 6, 2003, he concludes that the financial sector has a direct impact in the national economy. It is oblivious that any change in the financial sector brings a significant change in the national economy. Following the implementation of the financial sector reform policy, the country's economy has seen a great change.

Rana (2003), in his interview to “*Business Age*” monthly said that though JVBs have short term threats they are operating efficiently and earning and paying handsome dividends. Hence the share prices have gone up. If the law and order situations do not improve in the country, in two three years time top ranked banks are expected to survive somehow but others may find harder time.

Dhungana (2005), in his article "*Non Performing Loan and Commercial Banks*" published in The Kathmandu Post said that the banking sector is severely affected by the non-performing loan. It is estimated that non-performing loan of the Nepalese banking system is around 16%. Due to the non-performing loan, two old commercial banks, RBB and NBL, are in the worst position today. JVBs are also facing non-performing loan problem. It has a serious implication on economic performance of the country. Hopefully the Debt Recovery Act 2058 will tackle this problem.

Roy (2006), in his article, "*Micro Finance in Nepal*" published in **Business Age** said that the micro-credit programmers, which began in Nepal in 1975, have become a powerful tool for poverty alleviation. Micro finance has enabled the poor to utilize opportunities, generate self-employment and be enterprising. It enhanced self-confidence and self-esteem and purchasing power. It empowered the poor people economically and socially. It contributes at overall economic growth.

Thapa (2005), in his article "*Deficit Financing: Implementations and Management*" published in Business Age said that developing countries use internal borrowing and outside loans for financing development activities. This in turn soars the debts and demands more financing from the debts. It's a vicious circle that drains out the resources of the developing countries. Liquidity is also involved while borrowing and servicing. Thus debt management should be effective and the country is in a comfortable position with regard to the liquidity.

Grönlund and Ponni (2007), in their article, "*Financial Performance of Commercial Radio in Sweden*", published in Stockholm City Business Journals have stated despite slowing median growth of turnover, the profitability of Swedish commercial radio companies improved slightly in 2005. Both operating

margin and net result have improved and are now positive. After the recession in 2001 the profitability of Swedish radio companies sank fairly badly, with the net result being almost -11 percent in 2002. Since then profitability has improved steadily. Median growth of turnover was only 0.1 percent in 2005, down from 5.1 percent in 2004. The total advertising investments in different Swedish media increased around 7 percent in 2005 and advertising investments in Swedish commercial radio grew by 4.5 percent, being now SEK 513 million. Despite the overall growth, slowing median growth of turnover suggests that growth in advertising investments has not been distributed evenly. Clearly it has been concentrated in the bigger companies in radio business.

The solidity of the Swedish commercial radio companies has improved slightly. Equity ratio was 36.4 percent in 2005 (35.8% in 2004) and relative indebtedness was 31.5 percent (32.7% in 2004). Both of these key figures are on fairly good levels for the radio business. Current ratio (1,4) remained on the same level in 2005 as it was in the previous year, at the moderate level. It is quite obvious that an industry that has created losses for many years, must be financed from outside. In Sweden most of the commercial radio companies are owned by large media houses that are paying the losses as a price for participating in the marketplace. The productivity of the Swedish commercial radio companies has improved steadily during the past three years. Value added per personnel was 290,400 SEK compared to 286,000 SEK in 2004. This is, of course, a good development, but when compared to commercial radio companies in Finland, Swedes are still clearly behind. In other key figures Swedish commercial radio companies are slightly ahead of Finnish counterparts. Although the economic performance of Swedish commercial radio companies has improved in 2005, it is still not at a good level. The radio business is still fighting with profitability and the industry losses are seen as a cost for establishment and thus an investment into a future (hopefully more profitable) presence on the radio market. The consolidation and

forming of radio networks, cost-cutting and synergy seeking are all a part of the attempts to improve the profitability of companies.

Abraham (2007), in his article, "*A Model of Financial Performance Analysis Adapted for Nonprofit Organizations*", published in Australian Accounting Business and Finance Journal has stated that measurement of financial performance by ratio analysis helps identify organizational strengths and weaknesses by detecting financial anomalies and focusing attention on issues of organizational importance. Given that the mission of a nonprofit organization is the reason its existence, it is appropriate to focus on financial resources in their relationship to mission. The application of this financial performance model to an individual organization will indicate a number of issues which need to be grasped. However it must be realized that these issues will not be purely financial, but bear direct relationships to the culture and traditions of the organization - for mission is central to the heart of every NPO.

This view is consistent with the challenge for nonprofit organizations to explore new ways of raising the operating revenue and capital they need to pursue their mission. To continue as a viable organization into the future, an NPO may have to deal with some difficult issues, issues that may very well move people out of their comfort zones. The organization's management team may need to consider advice on how to say goodbye to services, programs and assets that have outlived their time because It's vitally important in a changing environment, as your customers' or clients' needs change, that you adapt your services to meet their current and future needs.

Pille (2008), in his article, "*Financial Performance Analysis of Ontario (Canada) Credit Unions: An Application of DEA in the Regulatory Environment*" published in Canadian Journal of Business has stated that the equity/asset ratio and some

DEA models appear to be equally competent in predicting the failure of Credit Unions. However, DEA Model 1 offers indicators of where the problems are and how to address them. Hence it should be the preferred tool for the regulator. Each of the models shows that failures, on average, have lower scores than healthy units, for up to three years before failure, thus our Hypothesis is proven. Prediction of failure is most reliable at one year prior to failure, and declines as we go further out.

Prediction improves when only larger asset sized DMUs are included, and also when failures due to plant closure or fraud are excluded. Catastrophic failures due to the latter two causes cannot be predicted and should be excluded from all analyses. DICO management believes that many cases of mismanagement are actually fraud but that cannot be proven. If this belief is true, then prediction of failure is more difficult than it would otherwise be. The models in this work do not consider the risk involved if a Credit Union has a large proportion of its assets in a single large loan or investment. Yet, this may be the most serious potential problem because a large loan default may well wipe out the entire equity of the Credit Union. Hence, size matters because the relative size between the firm's equity and the largest loan or investment is a crucial survival issue.

McGrann and Richardson (2009), in their article, *“Measuring Producer Level Beef Cattle Alliance Financial Performance”* published in *Journal of Small Business Management*, have stated that there has been a movement toward developing production and marketing alliances in the beef cattle sector in the United States to improve communications and ultimately provide higher priced branded products that are more consistent with consumer demand. Beef cattle producers do not employ a consistent methodology to measure the financial performance of participating in an alliance. Nor do they have the information to negotiate agreements that are financially sustainable at the producer level. Given the concentration of packer and retail sector there is little reason to expect them to

share cost and financial returns information beyond the general corporate total business performance required by public traded corporations. Described is a methodology to measure financial performance from breeding, growing and finishing segments to measure return on assets from an alliance. Application of the methodology is demonstrated in an example from cow-calf to finishing phase.

The methodology uses cost accounting and economic analysis to calculate ROA as a measure of alliance's financial sustainability. Questions of profitability, competitiveness and the opportunity cost of participation can be addressed. This information can be used to inform the margin sectors, feed yards, packers and retailers to provide them insights into what share of increased revenue from branded product sales must be passed to the cow-calf segment. The cow-calf segment must absorb the added costs and cyclical financial loss to participate in alliances. Increased revenue is required to make branded products a more profitable marketing option for beef producers. The return can be compared to ROA in the other segments of the alliance to establish the criteria for net margin sharing or to evaluate alternative production or marketing systems irrespective to the information shared by the concentrated packer and retail sectors. Further studies to employ this methodology with producer members of an alliance could provide valuable decision information for participants to negotiate alliance arrangements.

2.3 Review of Thesis

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

Oli (2003), made "*A Comparative Study on Financial Performance of HBL, NSBIBL, and NBBL*". His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like

ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And he observed that NSBIBL and NBBL are always above the normal standard, HBL always below the normal at liquidity position. Liquidity position of NBBL is better than NSBIBL and NSBIBL is better than HBL. And they are suggested to utilize the excess of resources for income generation. Total debt to equity and total assets is higher for HBL than both. NBBL has been able to mobilize total deposits in loan and advances than HBL and NSBIBL. NSBIBL is better than HBL at this. HBL has better utilization of fixed deposits in earning. NSBIBL has better used of saving deposits than other two net profit to total assets of HBL is better. The profit level is lower in all. The main objectives are:

- To analysis the financial performance of the selected banks.
- To compare the liquidity position of the selected banks.
- To suggested and recommend the both joint venture banks.

The major findings of this research are:

- HBL always below the normal at liquidity position.
- Total debt and total assets is higher for HBL than both.
- NBBL has been able to mobilize total deposits in loan and advances than HBL and NSBI.

Ghimire (2003), has made a study on, *“Financial Performance of Commercial Banks: A comparative Case Study of Nepal Bangladesh Bank Ltd., Himalayan Bank Ltd. and Everest Bank Ltd.”* the main objective of the study is to reveal the comparative financial performance of NBBL, HBL and EBL. The other specific objectives are;

- To analyze and compare the liquidity, portability, stability and market value positions among three commercial banks.
- To analyze and compare solvency ratio such as total capital fund.
- To analyze the financial strength and weakness of these banks.

His major findings are;

- The saving deposit to total deposit ratio of NBBL has been recorded the lowest of all. It indicates the better liquidity position of the bank to meet short-term obligation.
- Analysis of activities ratio reveals that all the banks have been able to utilize the resources satisfactorily.
- Total debt to equity ratio of all banks reveals that the claims of the outsiders exceed far more than those of the owners over the banks assets.
- Comparatively Himalayan Bank has more levered capital structure. Profitability ratio indicates the degree of success in achieving desired profit level.
- All the banks need lot of exercise in more credit creation and reducing the interest rate for loan and advances. This helps them to remain more competitive.

Joshi (2004), has made a study on, “*Financial Analysis of Nepalese Commercial Banks.*” The main objective of the study is to find the comparative financial strength and weakness of various commercial banks. The other specific objectives are;

- To trace out the credit position of the commercial banks.
- To analyze the earning capacity of the banks.
- To measure the investors’ degree of satisfaction on the banks.

His major findings are;

- The lending condition of commercial banks is in decreasing trend. However, the outstanding loan is in increasing trend.
- Strong banks are holding good customers and discouraging low rated and less amounted loans. Instead of that they are initiated towards remittance, bank guarantees and other commission generating activities.

- Many banks are showing aggressive and are spontaneously increasing loan loss provision. Deposit in the banks is also decreasing while some banks are holding enough funds.
- The earning capacity of SCBNL and NABIL is comparatively higher than that of other banks. Also, the dividend payout ratio of these banks is higher than other banks.

Deoja (2004) made “*A Comparative Study of the Financial Performance Between Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd*”. His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And after having studied the performance of five consecutive years till 2000 he concludes a sound liquidity position in both banks. NBBL has better utilization of resources to generate income than NSBIBL. Profitability of NBBL is better than NSBIBL. Interest earned to total assets and return on net worth of NBBL is higher than NSBIBL. Both are highly leveraged. The main objectives of this research are:

- To analysis the financial performance of selected banks.
- To analysis the cash position of both selected banks.
- To analysis the profitability position of both selected banks.

The major findings are:

- The liquidity positions of both selected banks are consecutive years till 2000.
- NBBL is better profitability than the NSBIBL.
- Interest earned to total assets and return on net worth of NBBL is higher than NSBIBL.

Pyakurel (2005), has conducted a study on, “*A Comparative Appraisal on Financial Performance of Nepal Bangladesh Bank and Bank of Kathmandu.*” The main objective of the study is to show the causes of changes in cash position of the two banks. The other objectives are;

- To evaluate the liquidity position of NBB and BOK.
- To analyze the profitability ratios of NBB and BOK.
- To examine the marketability position of NBB and BOK.

His major findings are;

- NBB is more efficient than BOK in all respect and the study found the current ratio of NBBL was high.
- NBBL is utilizing its deposits more effectively than BOK, all the profitability rates were found to be higher in case of NBBL than BOK.
- Since BOK is suffering losses in three fiscal years, thus showing its operational deficiencies in mobilizing the resources in production sectors. On the other hand, NBBL has always been increasing its profit from the outset.
- On average, BOK was generating more cash from financial activity than NBBL. However, the contribution of financial activity in the final cash and bank balance of the bank was not as significant that of operating activities.

K.C. (2006), has conducted a study on, “*Comparative Study of Financial Performance Between Everest Bank Limited and Bank of Kathmandu Limited.*” The main objective of the study is to make a comparative financial analysis between EBL and BOK. The other specific objectives are;

- To compare the liquidity position of EBL and BOK.
- To examine the efficiency of EBL and BOK.
- To analyze the solvency of EBL and BOK.
- To trace out the financial strength and weakness.

His major findings are;

- The current ratios of both banks are not satisfactory. Cash and bank balance to total deposits of EBL and BOK do not go outward equally. EBL has more secured credit position than BOK.
- Loans and advances to total deposit ratio of BOK is better than EBL. But the ratio implies that EBL is utilizing its fixed deposit in loans and advance more efficiently.
- Net profit to working fund ratios on both banks is in poor condition but in latest years, it seems in positive way. Both banks have been improving or overcoming from the weak condition.
- Average earning per share of EBL is seen well rather than BOK but both of them are not running in favor of investors. Market value per share of EBL is increasing slowly while in case of BOK, it has zero value in initial three years.
- To sum up, it can be said that EBL has performed better than BOK during the study period. It seems that EBL will perform better than BOK in future too.

Joshi (2007), has conducted a study on, “*A Comparative Study on Financial Performance of NABIL Bank Ltd. and Nepal Bangladesh Bank Ltd.*” The main objective of the study is to know the financial condition, financial performance and financial growth of NABIL and NBL. The other specific objectives are;

- To examine the EPS and DPS of NABIL and NBL.
- To analyze the efficiency of NABIL and NBL in utilizing the assets.
- To evaluate the trend of net profit of the concerned banks.

His major findings are;

- The overall liquidity position of NBBL was stronger than that of NABIL. Analyzing the activity or turnover of both banks, NBBL mobilized its

deposits more on loan and advances whereas NABIL mobilized its deposits more prudently and efficiently in generating income.

- Similarly, capital adequacy position of NABIL was found to be better than that of NBBL. Regarding the capital structure of the banks, NBBL was found to have adopted high risk, high return strategy as suggested by its highly leveraged i.e. debt dominated.
- According to profitability analysis, NABIL was found sound profitability due to its higher ratio. Also, other indicators as EPS, DPS, TPS were found sharply higher in NABIL which implies positive attitude of stakeholders toward NABIL.
- NBBL should keep only the reasonable amount of liquidity, which will save the bank from creating low return; NBBL should improve its capital adequacy by investing the assets and deposits in highly returnable sector; NABIL should invest its deposit in profit generating sectors.

Dahal (2007), made "*A Comparative Study of Financial Performance of HBL and NBBL*". His main objective was to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and statistical tools like average, CV, SD, hypothesis tests (F test) in his study. And he concludes that NBBL maintains above the standard liquidity ratio, NBBL is better at mobilizing the deposits, at mobilizing fixed deposits HBL is better, HBL is more leveraged and riskier, NBBL has been found better performed at utilizing overall resources, where as net profit to total deposit ratio is higher with HBL, HBL is better at mobilizing the equity. NBBL has higher fluctuation at net profit margin so it has high risk of solvency, NBBL is better at commission and discount whereas HBL is better at interest income, operational cost of HBL is higher.

The main objectives are:

- To make comparative study of financial performance of the above mentioned banks.
- To analysis the net profit margin of both selected banks.
- To analysis the leverage ration of both commercial banks.

The major findings are:

- NBBL maintains above the standard liquidity ratio.
- NBBL is better at mobilizing the deposits.
- HBL is better at mobilizing the equity.
- NBBL has higher fluctuation at net profit margin so it has high risk of solvency.

Dangi (2008), made “*A Comparative Study of Financial Performance of SCBNL, NABIL and HBL*”. His main objective to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools excessively but did not use any statistical tools in his study. And he concludes all have unsatisfactory liquidity position, all are highly leveraged, all have low coverage ratio due to excessive use of debts, and SCBNL is better at mobilizing assets, SCBNL is better at EPS suggesting effective utilization of owners” equity. DPR higher with SCBNL, HBL is better at lending and SCBL better at service giving, SCBNL has higher expenditure at staff, HBL at interest payment, NABIL at general expenditure, all borrowed but SCBNL is continuously borrowing throughout the period, suggests to improve quality of current assets structure, to increase equity base, and EBT.

- To analysis the financial performance of selected banks.
- To analysis the cash position of both selected banks.

- To analysis the profitability position of both selected banks.

The major findings are:

- The liquidity positions of both selected banks are unsatisfactory.
- All have low coverage ratio due to excessive use of debts.
- SCBNL is better at mobilizing assets.

Manandhar (2008), has conducted a study on, “*A Comparative Study on Performance Analysis of Top Five Commercial Banks of Nepal.*” The main objective of the study is to analyze and compare liquidity, profitability, stability and market value position among the top five commercial banks. The other specific objectives are;

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

His major findings are;

- EBL and NIBL have been getting lower net profit out of total income with comparison to all the banks.
- EBL comparatively fails to maintain operating ratio on total assets whereas NIBL did best. HBL, EBL and NIBL have been suffering from ineffectively using the total fund. So, they are getting lower return than SCBNL and NABIL.
- All top five commercial banks have been earning sufficient interest income on loan and advances. It means they have been high utilizing the loan and advances.
- NABIL has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NIBL have been providing

lower cash dividend in inconsistency manner. SCBNL has been providing dividend on share capital comparatively greater than other banks in a consistency manner.

- NABIL has also been providing better dividend in a consistency manner to some extent too. As a lower average, NIBL has not provided dividend on share capital. NABIL shows greater inconsistency too.

Rai (2009), has made a study on, “*A Comparative Study on Financial Performance Between the Commercial Banks*”. The main objective of the study is to examine the financial performance of SBI bank and NBBL bank. The other objective are;

- To study the liquidity position of both the banks.
- To analyze the lending position of both the banks.
- To examine marketability position and the efficiency ratio of SBI and NBBL.

His major findings are;

- The analysis of liquidity position of these commercial banks shows different position. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities, i.e. it indicates the availability of current assets in rupees for every one rupee of current assets than current liabilities. The average current ratio of SBI (1.05) is greater than that of NBBL (0.98) therefore, the liquidity position of SBI bank is in normal standard and NBBL is also trying to gain that position.
- From the analysis of turnover of these two banks, NBBL has better turnover than SBI bank in terms of loans and advances to total deposit ratio. Thus, NBB has better utilization of resources in income generating activities, than SBI bank.

- The analysis of profitability of these two commercial banks is also different. The overall calculation seems to be better for NBBL. Though certain ratio like dividend per share, dividend payout ratio etc better for SBI Bank. The writer has also conducted that earning per share of NBBL is better than that of SBI bank.

Research Gap

After reviewing the researches done throughout the past, the present researcher has found that the study of the financial performances of the NABIL Bank Ltd. has not been long analyzed. The past studies have recommended some of the remedial references like to reduce the debt, increase the liquidity, to limit the operating cost. It's been time to check how far the differences have occurred in the bank. The present study explores the financial performances of the NABIL Bank as sample bank.

CHAPTER - III

RESEARCH METHODOLOGY

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

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (*Wolff & Pant; 2000:68*).

Research design is plan, structure and strategy of investigation conceived. So as to obtain answer to research question and to control variances to achieve of the study, descriptive and analytical research design have been used.

3.2 Sources and Collection of Data

For the purpose of study only the secondary data are used. The required data and information for analysis are directly collected from the annual reports of the respective banks. The supplementary data are collected from number of institution like Shanker Dev Campus Library and documentation section of T.U. Library, company office etc. Similarly related books magazine Journals articles reports bulletins and data from security board Nepal. Further the secondary data have been collected from reports and financial statement of the company, published and unpublished officials reword, books, articles magazine, annual report etc.

3.3 Method of Data Analysis

For the purpose of analysis, financial, statements, profit and loss account and Balance Sheet of the concerned banks have taken financial as well as statistical tools have been used.

3.3.1 Financial Tools

a) Ratio Analysis

Ratio analysis is such a powerful tool of financial analysis that through it economic and financial position of a business unit can be fully (*Kothari; 1992:34*). Ratio analysis is a widely used tool of financial analysis it is defined as the systematic use of ratio to interpret the financial analysis statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined (*Khan and Jain; 2003:49*).

The following financial ratios are used in this research.

1) Liquidity Ratio

These ratios mainly used to evaluate the financial position of the banks. This ratio includes cash, bank balance, total deposits, NRB Balance and Current and saving deposits.

I) Current Ratio

The current ratio is the ratio of total current assets to total liabilities. It is calculated by dividing current assets to current liabilities which presented as follows

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

Where,

Current assets include cash and bank balance, money at call or short-term notice, loans and advances, investment in government securities and other interest

receivable and miscellaneous current assets or (Total asset - Fixed assets- share, debenture and other Bond) whereas current liabilities include deposits and other accounts short term loan, bill payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities or (Liabilities- Pension/Gratuity fund/ welfare fund - NABIL Bond).

II) Cash and Bank Balance to Total Deposit Ratio

This ratio measures the percentage of most liquid current with the bank to make immediate payment to the depositors. A high ratio indicates the sound ability to meet their daily cash requirement of their customer and vice versa. This ratio can be presented as follows

$$\text{Cash \& Bank Balance to Total Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

III) Cash and Bank Balance to Current and Saving Deposit Ratio

It measures the ability of the bank to meet its immediate obligations. Current and saving deposits consist of all type of deposit excluding fixed deposits. The ratio can be calculated by dividing cash and bank balance by current and saving deposits as follows.

Cash & Bank Balance to Current and Saving Deposit Ratio

$$= \frac{\text{Cash and Bank Balance}}{\text{Current \& Saving Deposit}}$$

IV) NRB Balance to Fixed Deposit Ratio

$$\text{NRB Balance to Fixed Deposit Raito} = \frac{\text{NRB Balance}}{\text{Fixed Deposit}}$$

V) Fixed Deposit to Total Deposit Ratio

Fixed deposit is a long-term and high interest bearing deposit. More fixed deposit may be an advantage if it can be invested in long-term credit. This ratio is

calculated in order to find out the proportion of fixed deposit in total deposit. Fixed deposits are long-term deposit and banks can mobilize them on investment, loans and advances.

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

2) Activity Ratio

Activity ratio measure the effectiveness of the employment of resources in a business concern. Through these ratios we can know whether the funds have been used efficiently in the business activities or not.

i) Investment to Total Deposit Ratio

This ratio is calculated investment dividing by total deposits. This ratio presents how efficiently the resources the banks have been mobilized high ratio shows managerial efficiency regarding the utilization of deposits and vice-versa.

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

ii) Loan and Advance to Saving Deposit Ratio

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

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

iii) Loan and Advance to Total Deposit Ratio

This ratio shows the banks how they invested of total deposits in loans and advances.

This ratio can be calculated in this way.

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

iv) Loan and Advances to Total Assets Ratio

Loan and Advances to total assets ratio reflects the extent to which the bank is successful in mobilizing its total assets on loan and advance for the purpose of income generating. It is calculated by dividing loan and advances by total assets.

$$\text{Loan and Advances to Total Assets Ratio} = \frac{\text{Loan and Advance}}{\text{Total Assets}}$$

3) Capital Adequacy Ratio

Capital adequacy ratio is used especially in case of bank to assess the strength of the capital adequacy of the capital. It is evaluated by compliance with the requirement stipulated by NRB. The capital adequacy ratio of banks is regularly monitored through their returns to submit to NRB. A very high or very low ratio is undesirable in terms of lowered return or lowered solvency respectively.

i) Net worth to Total Assets Ratio

Net worth to total assets ratio reflects the sufficiency of shareholder's fund against the total assets. This ratio is calculated by dividing net worth by total assets.

$$\text{Net worth to Total Assets Ratio} = \frac{\text{Net Worth}}{\text{Total Assets}}$$

ii) Net worth to Total Deposit Ratio

This ratio is computed by net worth by total deposits.

$$\text{Net Worth to Total Deposit Ratio} = \frac{\text{Net Worth}}{\text{Total Deposit}}$$

This ratio shows the percentage of net worth in relation of the total deposit collected in the bank.

4) Capital Structure Ratio

Capital structure ratio measures bank's capacity of borrowings as a means of capital accumulation. Its measures of long form solvency of a bank. The combination of capital structure is debt and equity of banks. The ratio indicates the long term financial position. The following ratios are calculated to defined capital structure ratio of NABIL Bank Ltd.

i) Debt to Equity Ratio

This ratio represents the relationship between the both debt capital and equity capital. The ratio indicates the high debt and equity both are risky to the banks. This ratio is calculated in this way

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholders Equity}}$$

ii) Debt to Total Capital Ratio

This ratio determines the relationship between total debt and total capital of the banks.

This ratio is calculated in this way

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

iii) Total Debt to Total Assets Ratio

This ratio shows the portion of capital assets that are financed by outside funds on total assets. A high ratio implies a bank's success in exploiting debt to more profitable and riskier capital structure. It is calculated by dividing total debts by total assets.

iv) Interest Coverage Ratio

This ratio is calculated by dividing earnings before interest and tax by interest.

This ratio shows the bank can pay the interest easily.

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

5) Profitability Ratio

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

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

i) Return on Total Assets Ratio

This ratio can be calculated as

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

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

ii) Return on Net worth Ratio

This ratio also represents the relationship of net profit and assets, and this ratio shows to the investment in the banks are favorable or unfavorable. The ratio can be calculated in this way

$$\text{Return on Net worth Ratio} = \frac{\text{NPAT}}{\text{Net Worth}}$$

iii) Staff Expresses to Total Income Ratio

Staff Expenses refers to staff salary, allowance, personnel expenses, medical expense, and staff training expenses are involved. This ratio is calculated by staff expresses dividing by total income.

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

Total interest expenses consists of loan & advance, deposit and total interest paid and total interest income consists of government securities retain from loans and advances etc.

v) Return on Total Deposit Ratio

This ratio is computed by net profit after tax dividing by total deposits. This ratio indicated the relation & net profit earned by bank with the total deposits accumulated.

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

vi) Office Operation Expenses to Total Ratio

It is calculated in this way

$$\text{Office Operation Expenses to Total Ratio} = \frac{\text{Office Operating Expenses}}{\text{Total Income}}$$

This ratio shows what portion of income spends in daily operation.

6) Invisibility Ratio

i) Earning Per Share

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

This ratio is calculated the following formula

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

ii) Dividend per Share

Dividend means that portion of net profit, which is allocated to share holders as their return in term of cash EPS implies went the owners are theoretical entitled to get from the company.

This ratio is calculated in this way

$$\text{DPS} = \frac{\text{Earning to Shareholders}}{\text{No of common share outstanding}}$$

iii) Tax per share

This ratio is computed by dividing tax paid to government by company divide by number of common share outstanding

$$\text{TPS} = \frac{\text{Tax paid to Government}}{\text{No of Common Share Outstanding}}$$

iv) Dividend Pays out Ratio

Dividend payout ratio (DPR) indicated how much of amount to be paid to share holders out & EPS. Normally, it declares how much of earnings will be left in business and hour much of earnings to be distributed to its actual owners. If the banks DPR policy to retained the more amounts it will be available for internal sources of financing for the banks.

Dividend payout ratio (DPR) is calculated by dividing dividend per share by earning per share.

$$\text{DPR} = \frac{\text{DPS}}{\text{EPS}}$$

3.3.2 Statistical Tools

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

- i) Karl Pearson's Coefficient of Correlation
- ii) Probable error of correlation
- iii) Trend Analysis

Karl Pearson's Coefficient of Correlation (r)

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

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

Where,

N = no of observation in series X and Y

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

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

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

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

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

Probable Error of Correlation

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

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

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

1. If $r < P.E.$, it is insignificant. So, perhaps there is no evidence of correlation.
2. If $r > 6 \times P.E.$, it is significant.
3. In other cases nothing can be concluded.

Trend Analysis

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

Mathematically,

$$Y = a + bX$$

Where,

Y = Value of dependent variable

a = Y- intercept

b = slope of trend line or yearly increment

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

Normal equations of the above are:

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

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

In this chapter, various elements and variables related with financial performance of NABIL bank are analyzed. During analysis data gathered from various sources have been inserted in tabular form. The analysis of data consists of organizing, tabulating and evaluating the collected data. The data have been analyzed by using financial and statistical tools.

4.1 Ratio Analysis

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of a firm to meet its short-term obligations and reflects the short-term financial solvency of a firm. Sales factory liquidation position is one of the distinguishing characteristics of a sound banking system. Liquidity position of NABIL is analyzed using the following relevant liquidity ratio.

a) Current Ratio

The current ratio is the ratio of total current assets to total current liabilities. Current ratio measure the short-term solvency, i.e. its ability to meet short-term obligation or as a measure of creditors versus current assets.

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

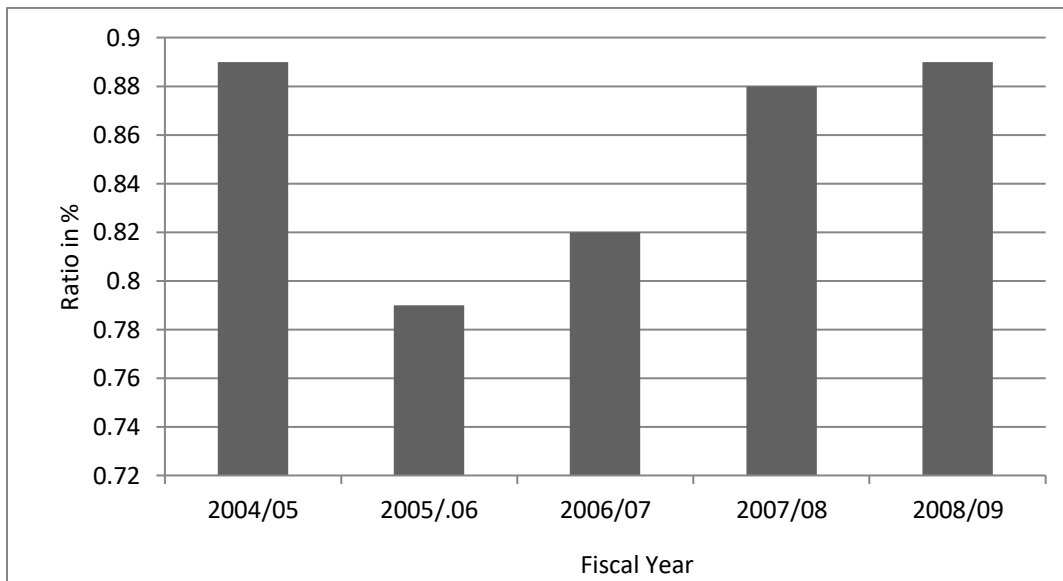
Table 4.1
Current Ratio

(Rs. In Thousand)

Year	Current Assets	Current liabilities	Current Ratio
2004/05	9444549	10576369	0.89:1
2005/.06	11608239	14581807	0.79:1
2006/07	16287160	19862893	0.82:1
2007/08	21729306	24787313	0.88:1
2008/09	30541208	34182697	0.89:1

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.1
Current Ratio



The above analysis shows the relation of current ratio and current liabilities. Current assets consists cash balance, Balance with NRB, Balance with others institutions, Loan advances & Bills purchased, Money at calls and others assets. Current liabilities includes borrowing, deposits, bills payable, income tax liabilities and others liabilities.

The above calculated ratios of NABIL show current ratio is below the standard 2:1. However looking at the nature of assets and liabilities of the commercial banks the ratio, below the standards may be accepted as satisfactory. But it signifies bank have poor liquidity position. The bank may face the problem of working capital if they need to pay current liabilities at demand. Bank may lose their goodwill in case of delay in the payment of liabilities. Bank will have the problem in winning the confidence of current depositor and short term lenders.

b) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio of NABIL different year have been presented in table 4.2.

Table 4.2
Cash and Bank Balance to Total Deposits Ratio

(Rs. In Thousand)

Year	Cash and Bank Balance	Total Deposits	Ratio (%)
2004/05	3544564	10097691	35.10
2005/.06	1552967	13802445	11.25
2006/07	2391420	18186253	13.15
2007/08	2667971	23976298	11.13
2008/09	6164371	36916848	16.70
Average			17.46

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.2

Cash and Bank Balance to Total Deposits Ratio

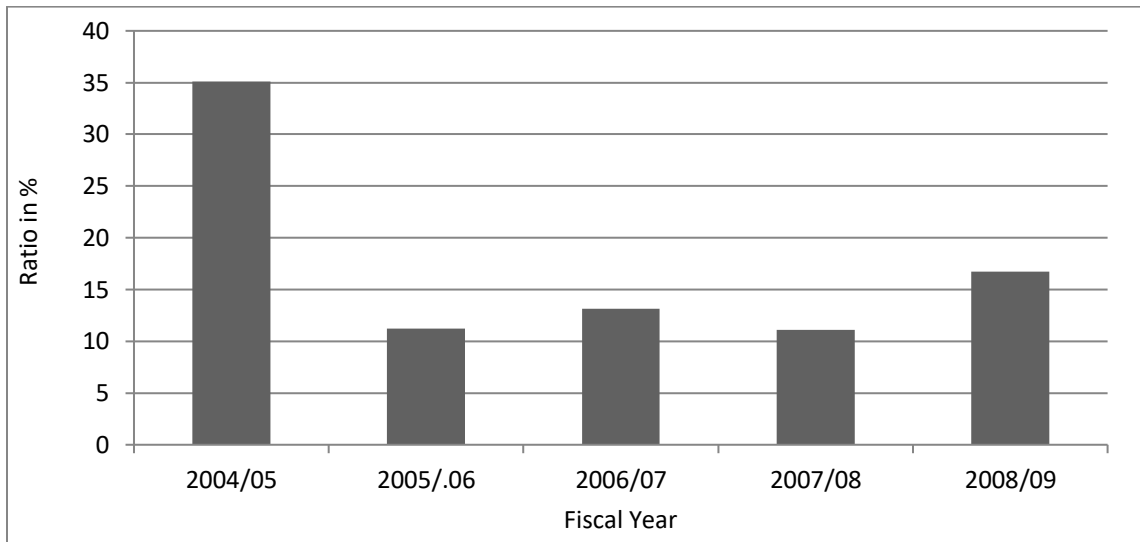


Table 4.2 and figure 4.2 show that the cash and bank balance to total deposit ratio of the NABIL is 35.10, 11.25, and 13.15, 11.13 and 16.70 respectively in the selected year. It has highest in the year 2004/05 and lowest in 2007/08. The above analysis helps to conclude that the cash and bank balance position of NABIL with the respect to deposits is better against the readiness to serve its customers deposits. The calculation of cash and bank balance to total deposit ratio indicates that payment of deposits and liquidity of NABIL. Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa.

c) Cash and Bank Balance to Current and Saving Deposit Ratio

Cash and Bank Balance to current and saving deposit Ratio measures the ability of the bank to meet its immediate obligations. Current and saving deposits consist of all type of deposit excluding fixed deposits.

Table 4.3

Cash and Bank Balance to Current and Saving Deposit Ratio

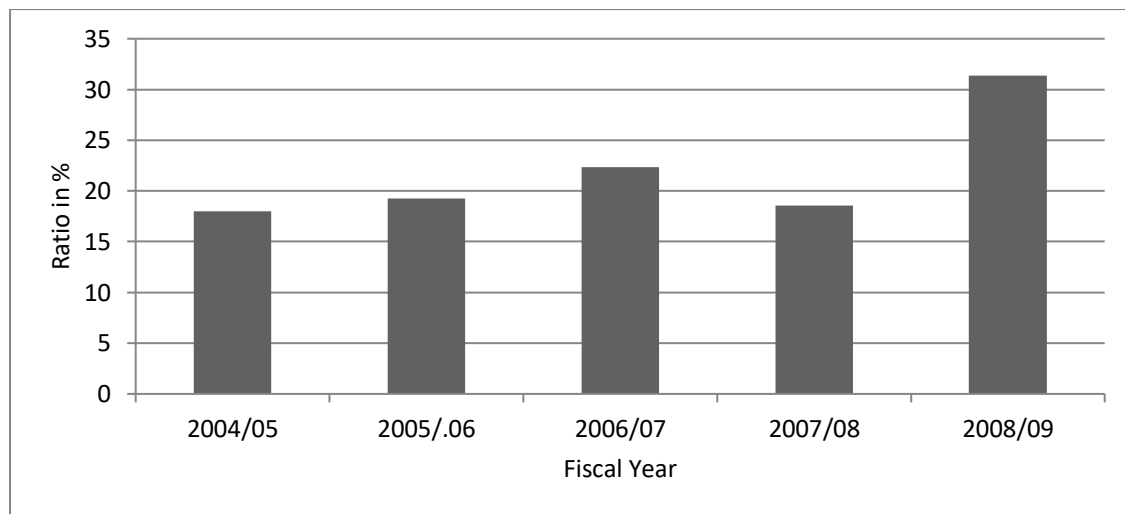
(Rs. In Thousand)

Year	Cash & Bank Balance	Current & Saving Deposit	Ratio (%)
2004/05	1050565	5831858	18.01
2005/.06	1552967	8075012	19.23
2006/07	2391420	10703230	22.34
2007/08	2667971	14376203	18.56
2008/09	6164371	19642276	31.38
Average			21.91

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.3

Cash and Bank Balance to Current and Saving Deposit Ratio



Above calculated ratio shoes Cash and bank balance to current & saving deposit ratio. Cash and bank balance to current & saving deposit ratio remained 18.01, 19.23, 22.34, 18.56, and 31.38 respectively over the five year of study period. It was fluctuated over the five year period. The bank should maintain suitable cash and bank balance in current and saving deposit.

d) NRB Balance to Fixed Deposit Ratio

This ratio shows the portion of fixed deposit deposited in the Nepal Rastra Bank. The ratio of NABIL has been presented in table 4.4.

Table 4.4
NRB Balance to Fixed Deposit Ratio

(Rs. In Thousand)

Year	NRB Balance	Fixed Deposits	Ratio (%)
2004/05	1002910	2794742	35.88
2005/.06	1139514	4242351	26.86
2006/07	1178198	5626661	20.94
2007/08	1080914	6446181	16.77
2008/09	4787163	7049978	67.90
Average			33.67

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.4
NRB Balance to Fixed Deposit Ratio

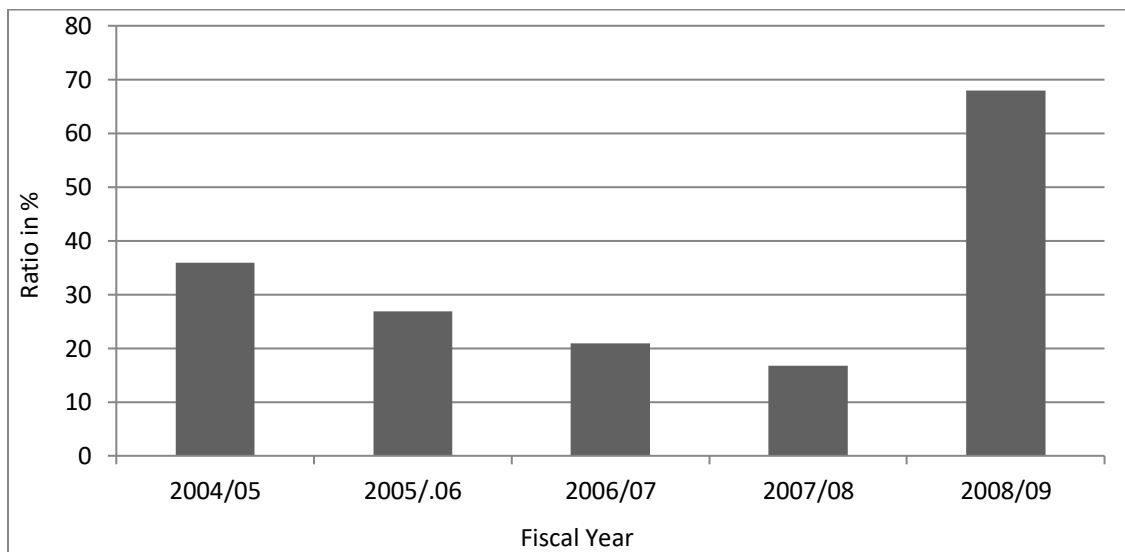


Table 4.4 shows that the average ratio of NABIL over the period is 33.67. This ratio is highest in the year 2008/09 and lowest in the year 2007/08. This indicates

the amount of fixed deposit in the last year has decreased substantially and increased in the year 2008/09.

e) Fixed Deposit to Total Deposit Ratio

Fixed deposits to total deposits ratio shows the portion of fixed deposit in total deposit. Higher the ratio more chances will be to earn higher return in the future.

Table 4.5
Fixed Deposit to Total Deposit Ratio

(Rs. In Thousand)

Year	Fixed Deposits	Total Deposit	Ratio (%)
2004/05	2794742	10097691	27.68
2005/.06	4242351	13802445	30.73
2006/07	5626661	18186253	30.94
2007/08	6446181	23976298	26.88
2008/09	7049978	36916848	19.09
Average			27.07

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.5
Fixed Deposit to Total Deposit Ratio

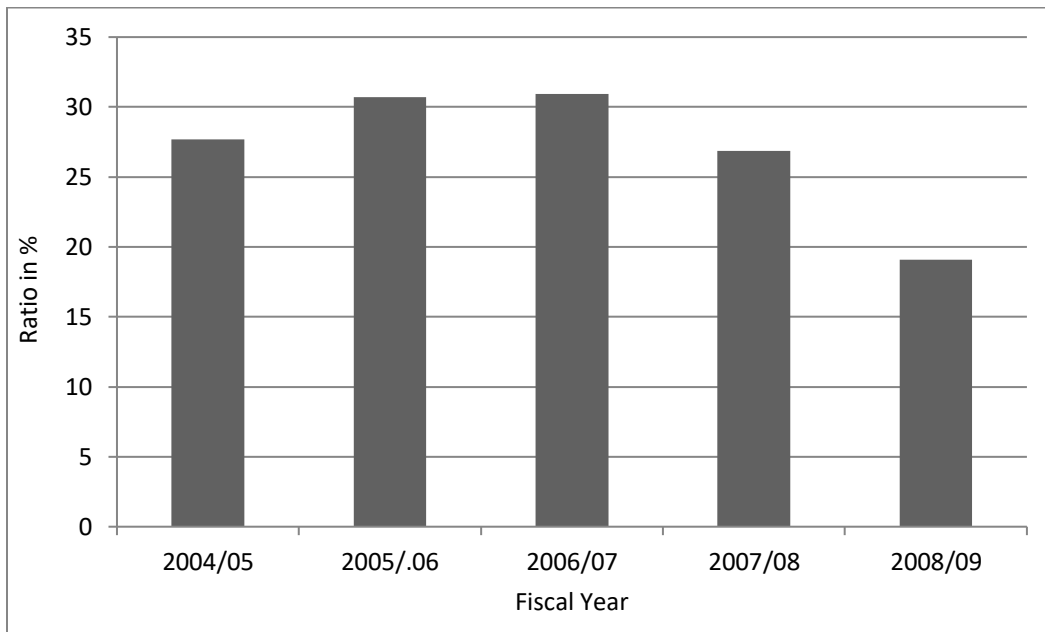


Table 4.5 shows that the mean ratio of NABIL is 27.07. The ratio over the period is decreasing over the period. The deposit in the year 2004/05, 2005/06 and 2006/07 are higher than average and in other year lower than average. This indicates the decreasing creditworthiness of the bank in the market. The decreasing trend of the banks also indicates the increasing competition in the market. So NABIL can invest in short term loans and current assets so as to strength its liquidity position.

4.1.2 Activity Ratio

This ratio is used to measure the efficiency and proper utilization of assets. Investment to total deposit ratio, loan & advance to total deposit ratio, loan & advance to total assets ratio, loan & advances to total saving deposit ratio here are included in this ratio.

a) Investment to Total Deposit Ratio

Investment to total deposit ratio of NABIL is presented in table 4.6

Table 4.6
Investment to Total Deposit Ratio

(Rs. In Thousand)

Year	Investment	Total Deposit	Ratio %
2004/05	2128932	10097691	21.08
2005/.06	4200515	13802445	30.43
2006/07	4984314	18186253	27.41
2007/08	5059557	23976298	21.10
2008/09	5948480	36916848	16.11
Average			23.22

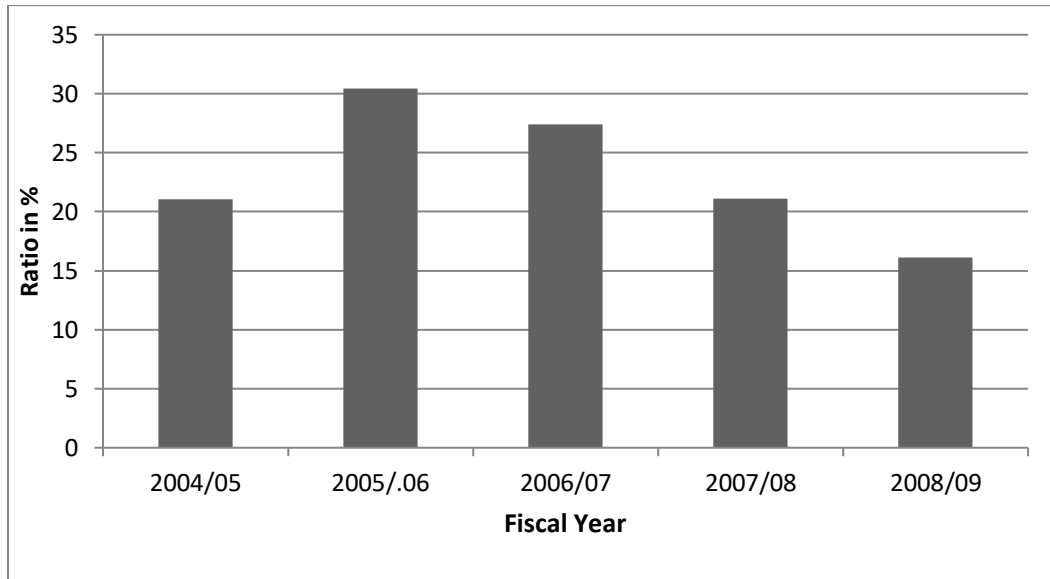
Source: Annual Reports of NABIL (2004/05 to 2008/09)

Table 4.6 shows investment portion out of total deposit in the sampled year. The average ratio of NABIL is 23.22% which mean that in average the bank is

investing 23.22 percent of its deposit in different sectors. Greater average ratio indicates successful utilization of deposit.

Figure 4.6

Investment to Total Deposit Ratio



b) Loan and Advances to Total Deposit Ratio

This ratio is calculated by following formula.

$$\frac{\text{Loan and Advance}}{\text{Saving Deposit}}$$

Table 4.7

Loans and Advances to Total Deposit Ratio

(Rs. In Thousand)

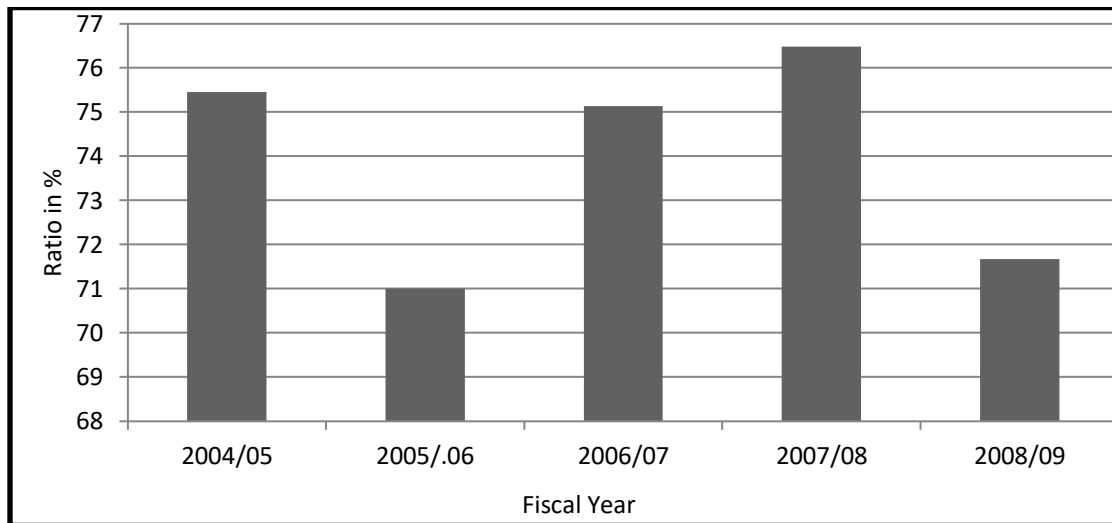
Year	Loans and Advances	Total Deposit	Ratio %
2004/05	7618671	10097691	75.45
2005/.06	9801308	13802445	71.01
2006/07	13664081	18186253	75.13
2007/08	18339085	23976298	76.49
2008/09	23884673	33322946	71.67
Average			73.95

Source: Annual Reports of NABIL (2004/05 to 2008/09)

This ratio shows to the extent of saving has been turnover to loans and advance. Table 4.7 shows loan and advances to total deposit ratio in the sampled year. The mean ratio of NABIL is 73.95 which mean that in average the bank is lending more than 73% of its deposit. The ratio is fluctuated over the period. Greater the average ratio indicates successful utilization of deposit.

Figure 4.7

Loans and Advances to Total Deposit Ratio



c) Loan and Advances to Total Assets Ratio

Table 4.8

Loan and Advances to Total Assets Ratio

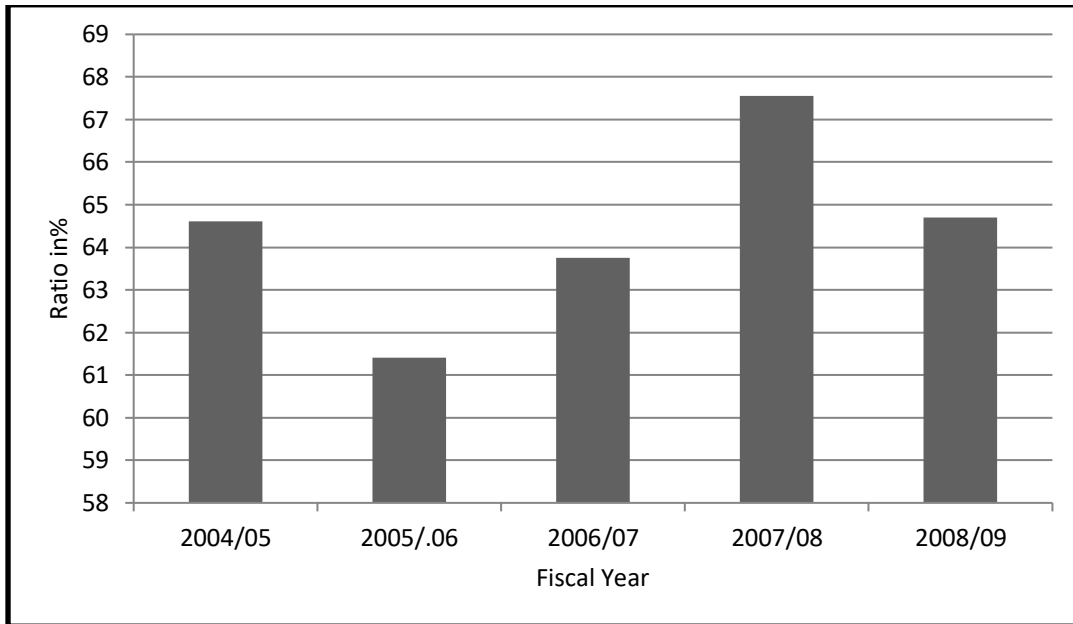
(Rs. In Thousand)

Year	Loans and Advances	Total Assets	Ratio %
2004/05	7618671	11792126	64.61
2005/.06	9801308	15959285	61.41
2006/07	13664081	21432574	63.75
2007/08	18339085	27149342	67.55
2008/09	23884673	36916848	64.70
Average			64.40

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Table 4.8 shows loan and advances to total assets ratio in the sampled year. The average ratio of NABIL is 64.40. This ratio is also fluctuating over the period which means the bank may have the idle cash or investing its money in marketable securities.

Figure 4.8
Loan and Advances to Total Assets



d) Loan and Advances to Saving Deposit Ratio

Table 4.9
Loan and Advances to Saving Deposit Ratio

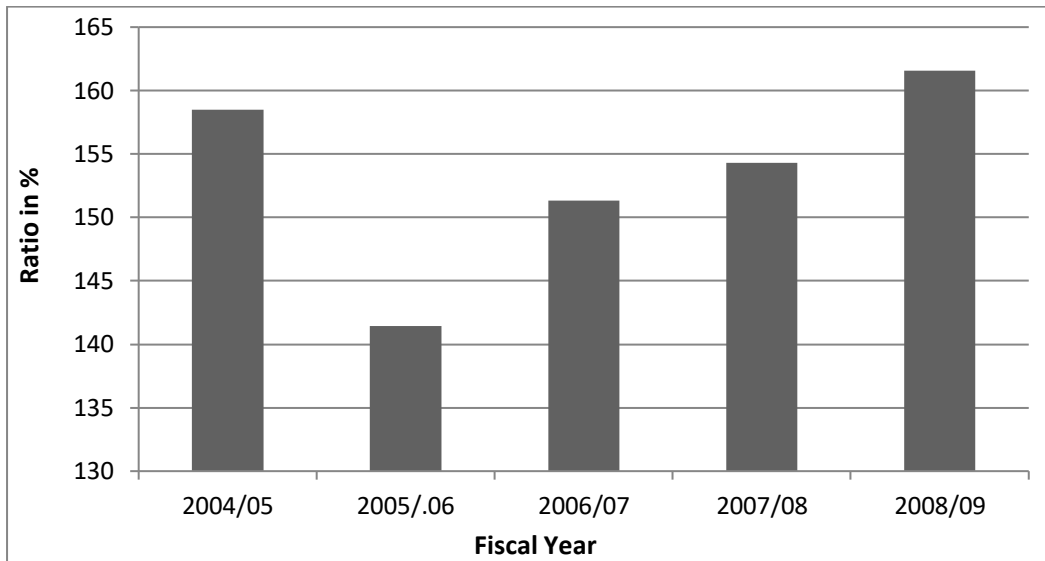
(Rs. In Thousand)

Year	Loans and Advances	Saving Deposit	Ratio %
2004/05	7618671	4806832	158.50
2005/06	9801308	6929217	141.45
2006/07	1366408	9029255	151.33
2007/08	1833908	11883857	154.32
2008/09	23884673	14782330	161.57
Average			153.43

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.9

Loan and Advances to Saving Deposit Ratio



The above table and figure shows loan and advances to saving deposit ratio in the sampled year. The average ratio of NABIL is 153. This ratio is increasing from 2005/06 which means the bank investing its deposit properly and may not have idle cash or investing its money in marketable securities. Greater average ratio indicates successful utilization of deposit.

4.1.3 Capital Adequacy Ratio

Banks and financial institutions have to maintain a sufficient amount as capital fund as required by the NRB. Holding an excess amount of capital there required may have higher holding cost and lower return from their investment.

a) Net Worth to Total Assets Ratio

Table 4.10

Net Worth to Total Assets Ratio

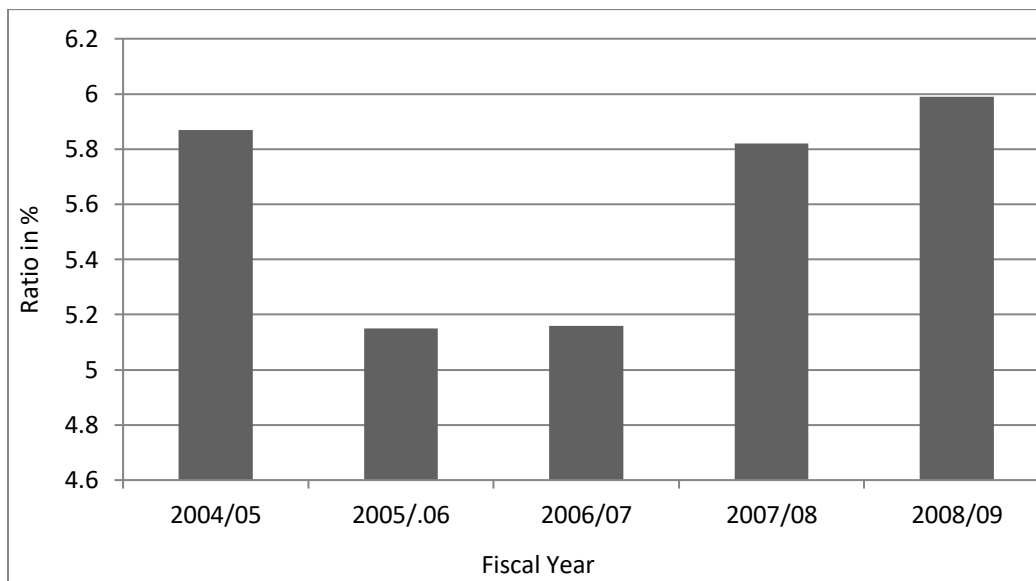
(Rs. In Thousand)

Year	Net Worth	Total Assets	Ratio %
2004/05	692600	11792126	5.10
2005/.06	822800	15959280	5.15
2006/07	1106000	21432574	5.16
2007/08	1581200	27149342	5.82
2008/09	2211310	36916848	5.99
Average			5.60

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.10

Net Worth to Total Assets Ratio



The above table and figure illustrate net worth to total assets ratio of the bank over the selected period. The average ratio of NABIL is 5.60. This ratio is increasing over the period which means the bank's profitability over the period is increasing. The higher average ratio indicates that bank has strong and highly capital adequacy position to contribution to investors.

b) Net Worth to Total Deposit Ratio

Table 4.11

Net Worth to Total Deposit Ratio

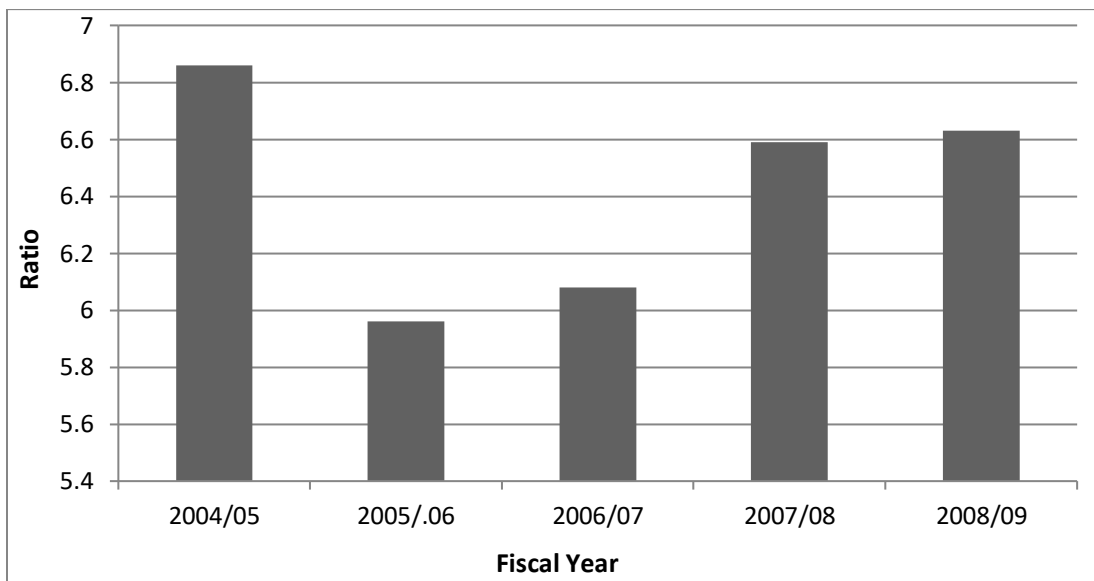
(Rs. In Thousand)

Year	Net Worth	Total Deposit	Ratio %
2004/05	692600	10097691	6.86
2005/.06	822800	13802445	5.96
2006/07	1106000	18186253	6.08
2007/08	1581200	23976298	6.59
2008/09	2211310	33322946	6.63
Average			6.42

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.11

Net Worth to Total Deposit Ratio



The above table and figure shows Net Worth to Total Deposit Ratio. The ratios of NABIL were 6.86, 5.96, 6.08, 6.59 and 6.63 in respective year. Greater the ratio shows the favorable capital adequacy ratio. So the capital adequacy ratio of the NABIL was average in sampled year.

4.1.4 Capital Structure Ratio

Capital structure or leverage ratio is used to judge the long-term financial position of the firm. As short term creditors are interested to know the liquidity or short-term financial position of the firm, long-term creditors are interested to know the long-term financial position of the firm & this is reflected through capital structure or leverage ratio.

a) Total Debt to Total Assets Ratio

Table 4.12

Total Debt to Total Assets Ratio

(Rs. In Thousand)

Year	Total Debt	Total Assets	Ratio
2004/05	9980000	11792126	0.058
2005/.06	11980000	15959280	0.06
2006/07	1514600	21432574	0.07
2007/08	2112600	27149342	0.08
2008/09	3322500	36916848	0.09
Average			0.07

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.12

Total Debt to Total Assets Ratio

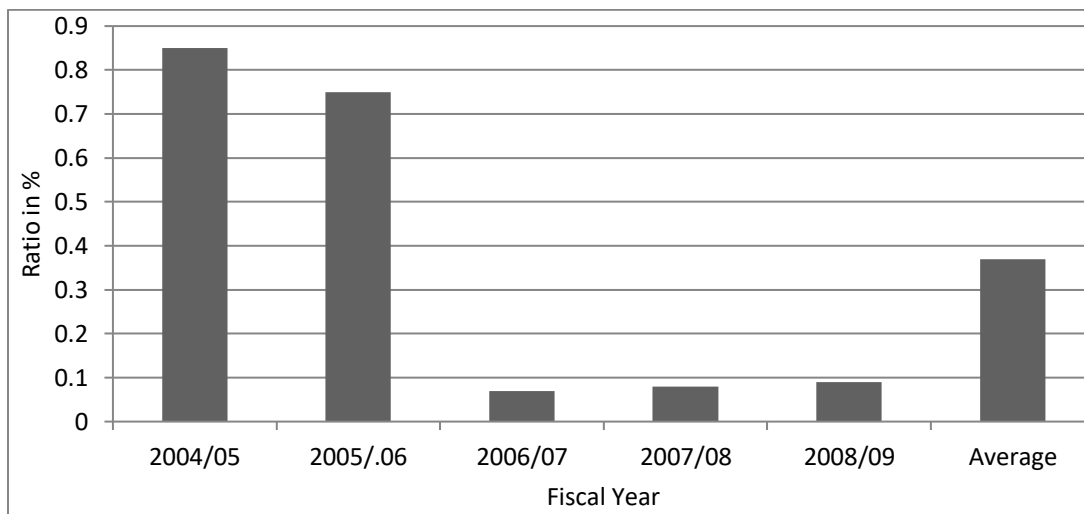


Table 4.12 and figure shows total debt to total assets ratio. The ratios of NABIL over the fiscal year 2004/05 to 2008/09 are 0.058, 0.06, 0.07, 0.08 and 0.09 percent respectively. The average ratio is 0.07. Higher debt ratio indicates the higher risk. This indicates that the risk is increasing in NABIL.

b) Interest Coverage Ratio

Table 4.13
Interest Coverage Ratio

(Rs. In Thousand)

Year	EBIT	Interest Expenses	Ratio (Times)
2004/05	170813	299565	0.57
2005/.06	237290	401295	0.59
2006/07	296409	517166	0.57
2007/08	451218	632609	0.71
2008/09	638732	1012874	0.63
Average			0.62

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.13
Interest Coverage Ratio

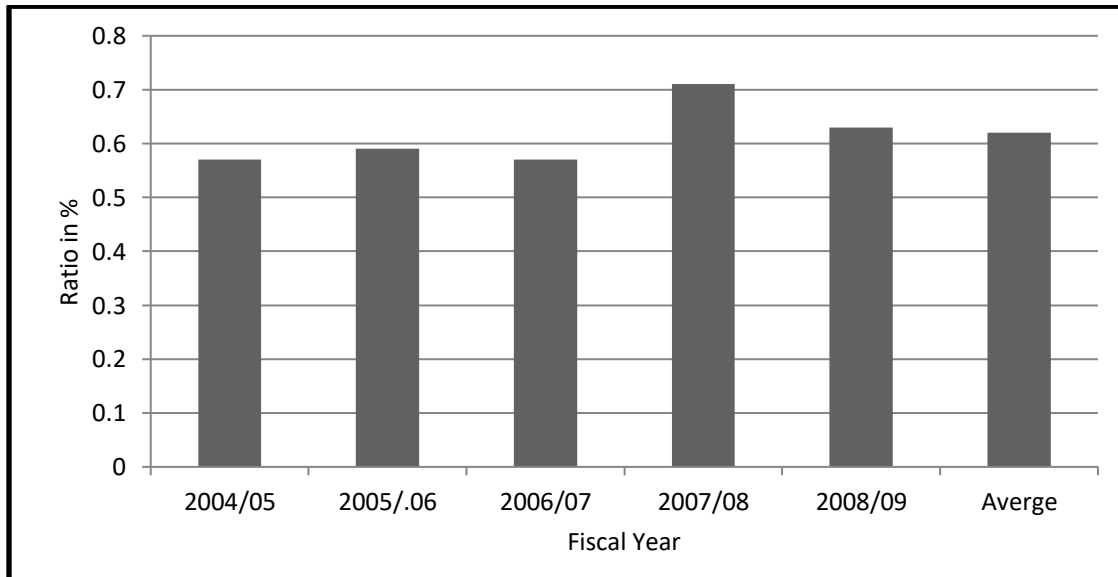


Table 4.13 shows the interest coverage ratio of the NABIL for sampled years. The ratio over the period of NABIL is 0.57, 0.59, 0.57, 0.71 and 0.63 respectively. The average ratio of the bank is 0.62. This ratio shows that the interest paying ability of NABIL.

4.1.5 Profitability Ratios

Profit is the difference between total revenue & total expense over a period of time. Profitability ratios are used to indicate the overall efficiency of the firm. There are many measures of profitability. Higher degree of profitability ratio shows better financial position & performance to the firms.

a) Return on Total Assets Ratio

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

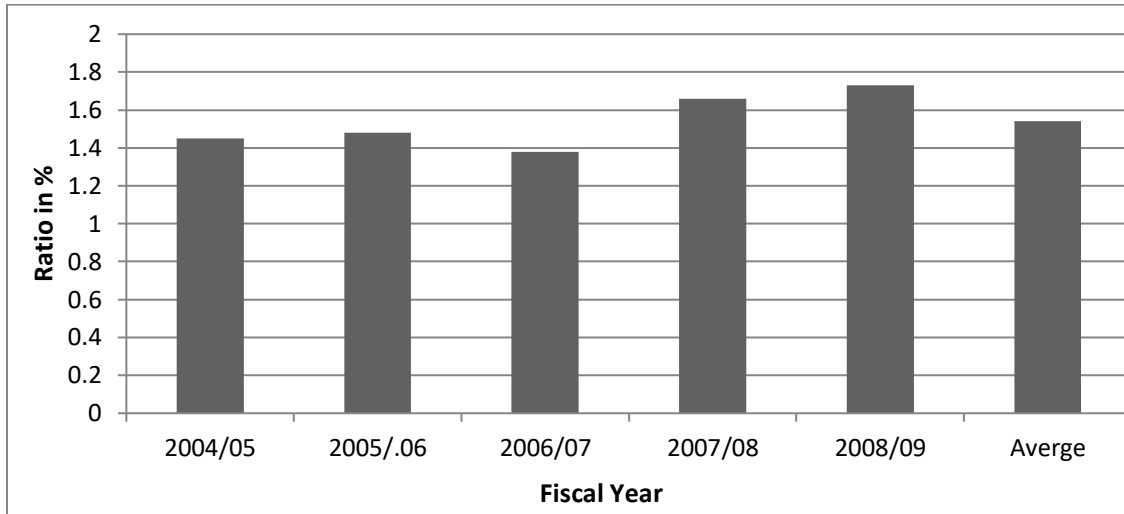
Table 4.14
Return on Total Assets Ratio

(Rs. In Thousand)

Year	NPAT	Total Assets	Ratio
2004/05	170813	11792126	1.45
2005/06	237290	15959280	1.48
2006/07	296409	21432574	1.38
2007/08	451218	27149342	1.66
2008/09	638732	36916848	1.73
Average			1.54

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.14
Return on Total Assets Ratio



The above table and figure shows analysis of return on total assets of the NABIL over the selected period. The ratios of the NABIL are 1.45, 1.48, 1.38, 1.66 and 1.73 respectively. The average ratio is 1.54. NABIL has the highest profit ratio in the fiscal year 2008/09 and lowest in the fiscal year 2006/07. This ratio shows the profitability position over the total assets.

b) Return on Net worth Ratio

Table 4.15
Return on Net worth Ratio

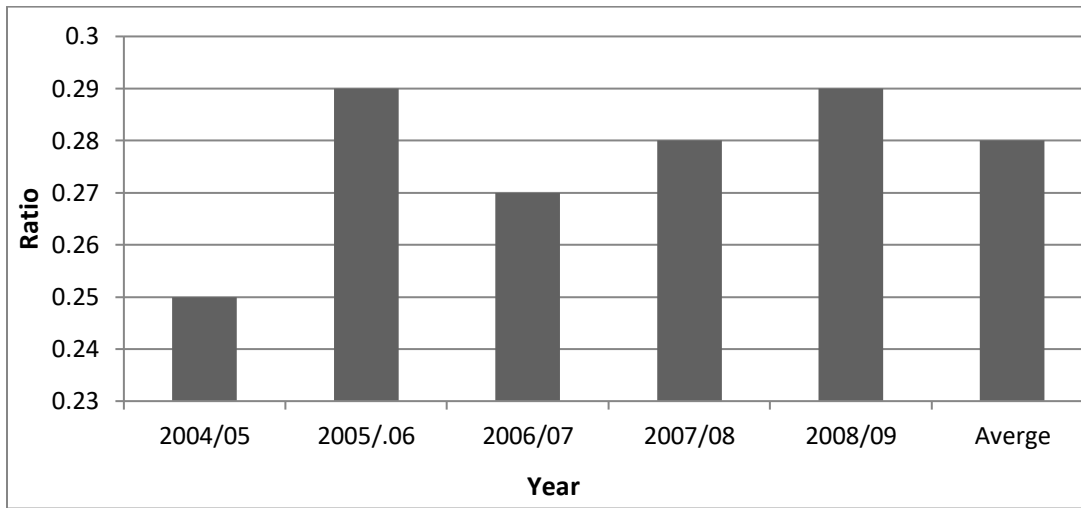
(Rs. In Thousand)

Year	NPAT	Net Worth	Ratio
2004/05	170813	692600	0.25
2005/.06	237290	822800	0.29
2006/07	296409	1106000	0.27
2007/08	451218	1581200	0.28
2008/09	638732	2211310	0.29
Average			0.28

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.15

Return on Net Worth Ratio



The above table and figure shows the return on net worth. Return on net worth ratio of NABIL over the period is fluctuating and highest in 2005/06 and lowest in 2004/05. The average ratio of the bank is 0.28 percent. This ratio shows that how much the bank is able to generate return on equity to the shareholders.

c) Total Interest Expenses to Total Interest Income

Table 4.16

Total Interest Expenses to Total Interest Income

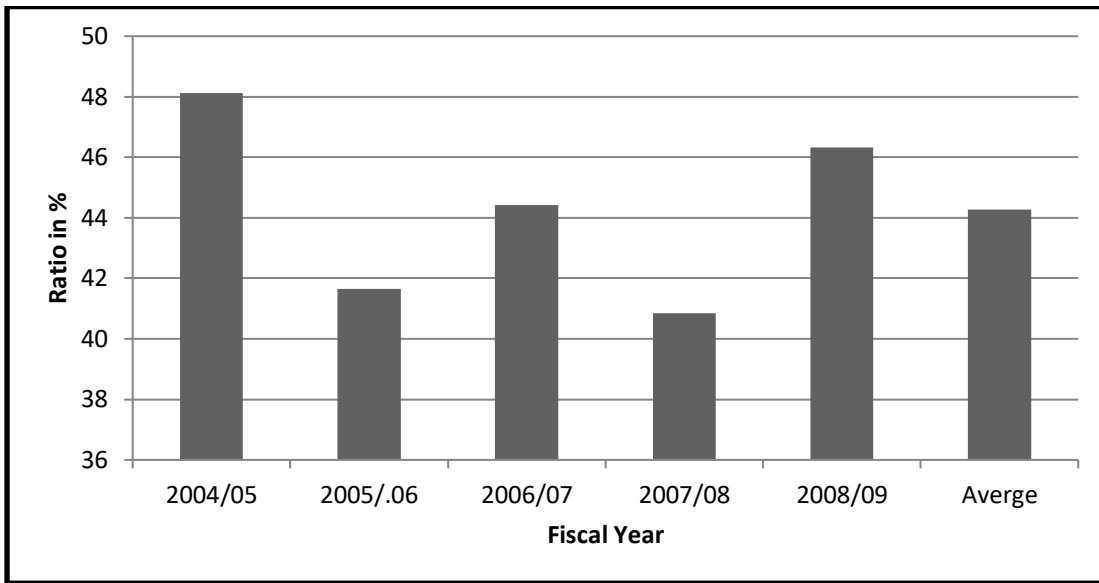
(Rs. In Thousand)

Year	Interest Expenses	Interest Income	Ratio
2004/05	316366	657249	48.13
2005/06	299565	719298	41.65
2006/07	401397	903411	44.43
2007/08	632609	1548657	40.85
2008/09	1012874	2186814	46.32
Average			44.27

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.16

Total Interest Expenses to Total Interest Income



The main source of income of the bank is interest income. The above table and figure shows the interest expenses to total interest income ratio. The mean ratio of NABIL is 44.27. Total interest expenses to total income ratio of NABIL is in fluctuating trend over the five years of study period. It indicates that the bank is not able to earned more interest.

d) Return on Total Deposit Ratio

Table 4.17

Return on Total Deposit Ratio

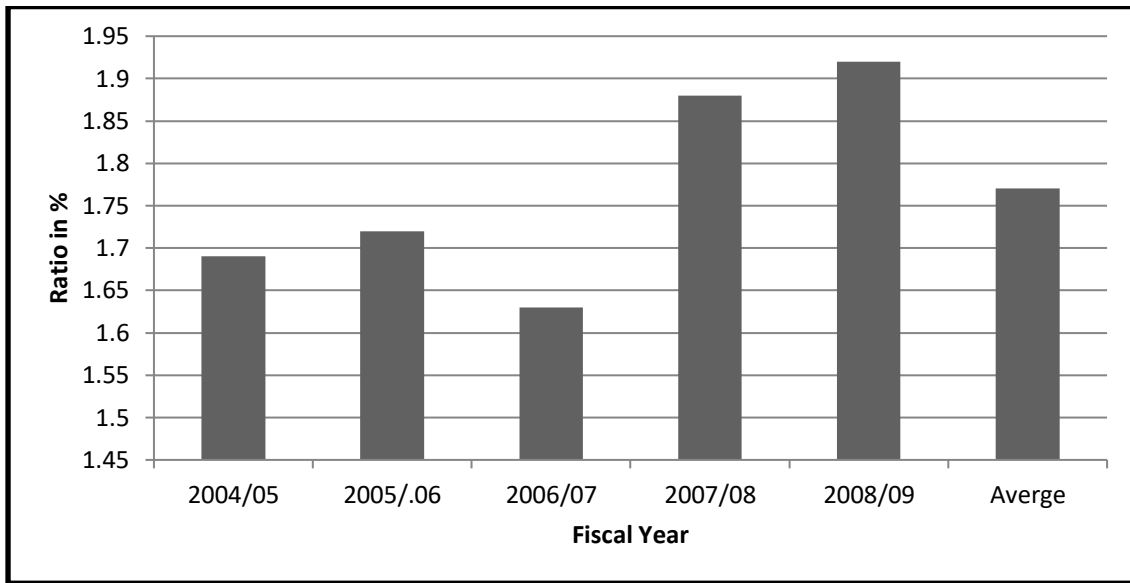
(Rs. In Thousand)

Year	NPAT	Total Deposit	Ratio
2004/05	170813	10097691	1.69
2005/06	237290	13802445	1.72
2006/07	296409	18186253	1.63
2007/08	451218	23976298	1.88
2008/09	638732	33322946	1.92
Average			1.77

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.17

Return on Total Deposit Ratio



The above table and figure shows return on total deposit ratio of Bank. The ratios are 1.69, 1.72, 1.63, 1.88 and 1.92 in respective year. The average ratio of NABIL is 1.77 which indicates that NABIL is successful to earn almost constant profit over the study period.

4.1.6 Invisibility Ratio

a) Earning Per Share

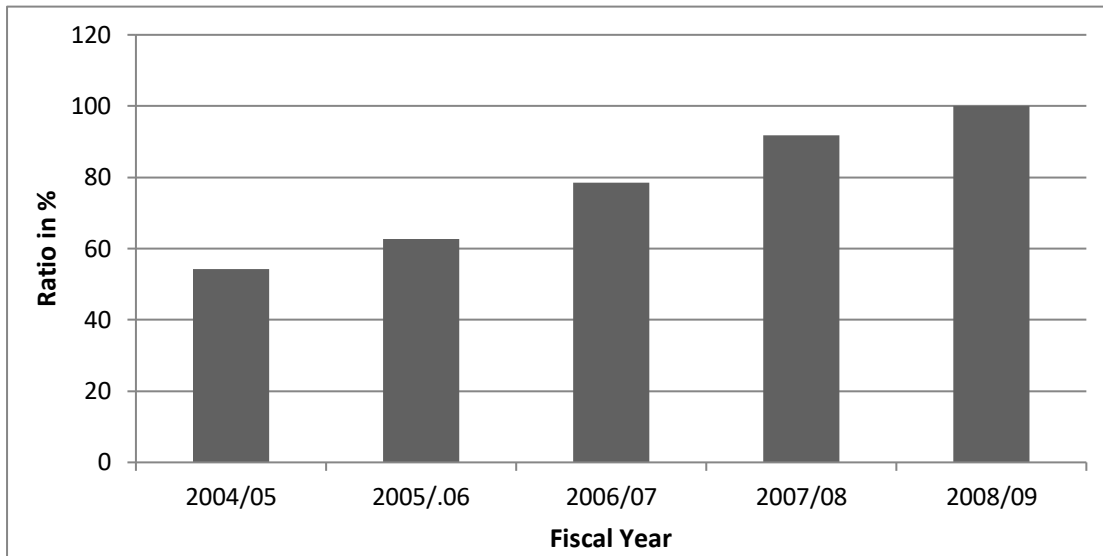
Table 4.18

Earning Per Share

Year	EAC	No of Ordinary Share	Ratio (Rs)
2004/05	246701000	4550000	54.22
2005/06	325200400	5180000	62.78
2006/07	455620200	5810000	78.42
2007/08	763391480	8314000	91.82
2008/09	838737118	8388210	99.99

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.18
Earning Per Share



EPS refers to the income available to the common shareholders. It is calculated by dividing earning available to equity shareholders by number of common share outstanding. The above table and figure analysis of five year period the ratio came of NABIL were 54.22, 62.78, 78.42, 91.82 and 99.99. The ratio is in increasing trend it indicates that NABIL is able to earn more profit per share to the common share holders which reflects sound profitability position of the bank.

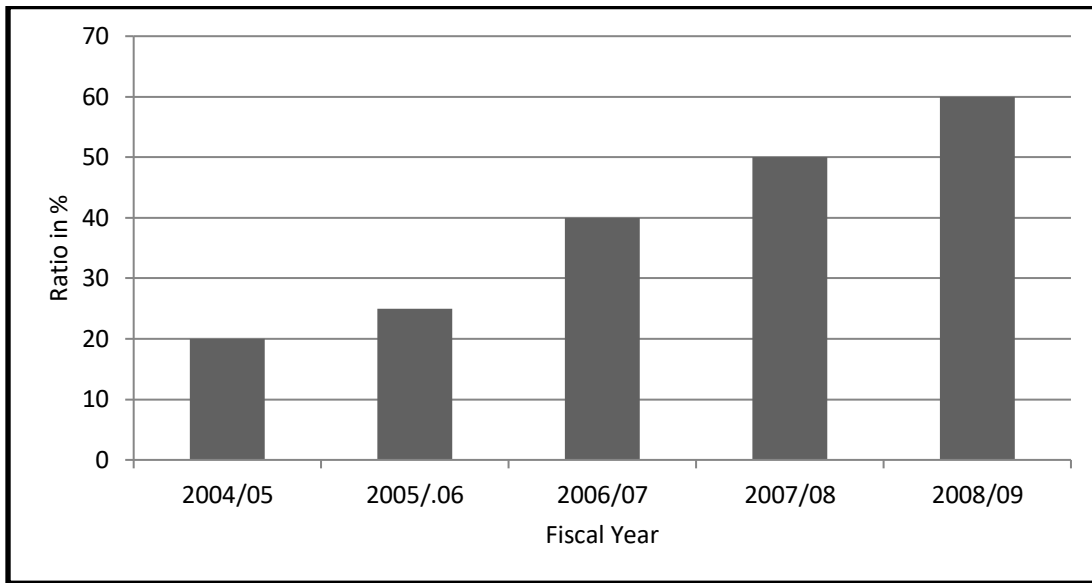
b) Dividend per Share

Table 4.19
Dividend per Share

Year	Paid to shareholders	No of Ordinary Share	Ratio (Rs.)
2004/05	91000000	4550000	20
2005/.06	129500000	5180000	25
2006/07	232400000	5810000	40
2007/08	415700000	8314000	50
2008/09	503292600	8388210	60
Average			39

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.19
Dividend per Share



The above table and figure shows the dividend paid by the NABIL over the period. Over the study period NABIL has paid dividend each year with an average 39 per share. The ratio is in increasing trend it indicates that NABIL is able to earn more profit per share and it also reflects the better performance of the company.

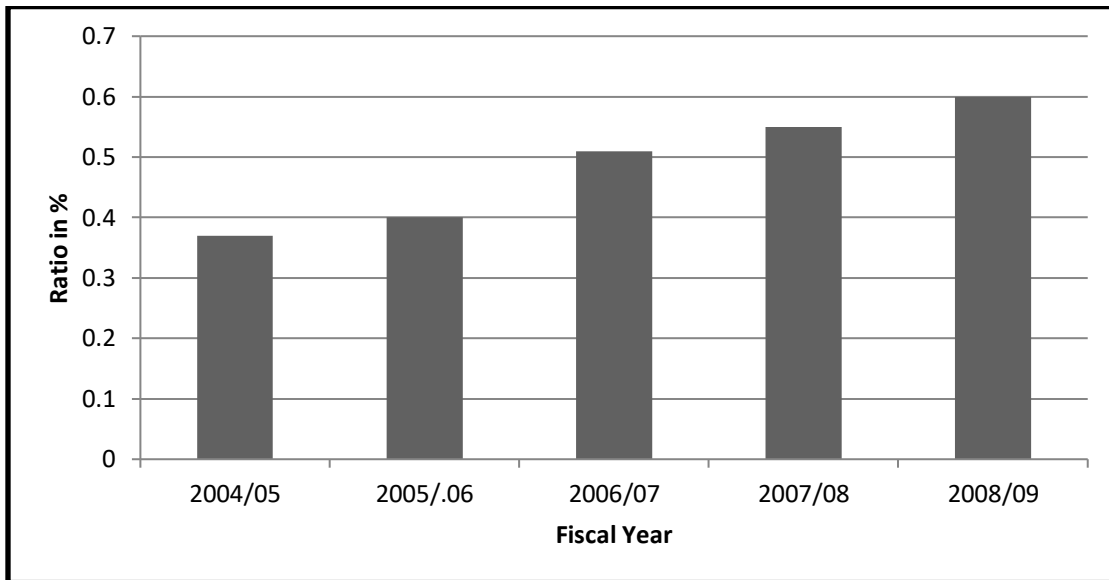
c) Dividend Payout Ratio

Table 4.20
Dividend Payout Ratio

Year	DPS	EPS	Ratio
2004/05	20	54.22	0.37
2005/.06	25	62.78	0.40
2006/07	40	78.42	0.51
2007/08	50	91.82	0.55
2008/09	60	99.99	0.60

Source: Annual Reports of NABIL (2004/05 to 2008/09)

Figure 4.20
Dividend Payout Ratio



The above table and figure shows the dividend payout ratio of the NABIL over the period 2004/05 to 2008/09. NABIL has paid dividend in each year of study period with an increasing trend. Higher dividend shows the bank successful to pay dividend to the shareholders.

4.2 Statistical Tools

4.2.1 Correlation Analysis

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

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

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

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

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

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

A. Correlation Analysis between Total Deposit and Net Profit

Coefficient of correlation between total deposit and net profit measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether deposit and net profit is significantly correlated or not.

Table 4.21
Correlation between Total Deposit and Net Profit

(Rs. In Thousand)

Year	Total Deposit (X)	Net Profit (Y)
2004/05	10097691	170813
2005/.06	13802445	237290
2006/07	18186253	296409
2007/08	23976298	451218
2008/09	33322946	638732
Correlation Coefficient (r)		1
Probable Error (P.E)		0
6 × P. E.		0

Source: Annual Reports of NABIL (2004/05 to 2008/09 and Appendix 1)

The above table 4.23 shows correlation coefficient (r) between total deposits and net profit of the bank is 1 i.e. perfectly positive and probable error multiplied by six found to be 0. Since $r > 6 \times PE$, it is significant and there is significant correlation between total deposits and net profit of NABIL. This shows the net profit of NABIL increases almost to the same degree with increase in the same amount of deposit.

B. Correlation Analysis between Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of relationship between these two variables. In this analysis, total investment is independent variable (X) and net profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether investment and net profit are significantly correlated or not.

Table 4.22
Correlation between Investment and Net Profit

(Rs. In Thousand)

Year	Investment (X)	Net Profit (Y)
2004/05	2128932	170813
2005/06	4200515	237290
2006/07	4984314	296409
2007/08	5059557	451218
2008/09	5948480	638732
Correlation Coefficient (r)		0.838
Probable Error (P.E)		0.0898
6 × P. E.		0.5388

Source: Annual Reports of NABIL (2004/05 to 2008/09 and Appendix 2)

Its correlation and probable error remained 0.838 and 0.0898 respectively. Correlation coefficient appeared greater than six times of probable error i.e. $0.838 > 0.5388$, which means that the investment and net profit are highly positive

correlated. This ratio shows that NABIL is able to invest its deposit in the profitable sectors.

C. Correlation Analysis between Deposit and Investment

Coefficient of correlation between total deposit and total investment measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and investment is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as investment in a proper way or not. The table 4.23 shows the correlation between total deposits and total investment.

Table 4.23
Correlation between Deposit and Investment

(Rs. In Thousand)

Year	Total Deposit (X)	Investment (Y)
2004/05	10097691	2128932
2005/06	13802445	4200515
2006/07	18186253	4984314
2007/08	23976298	5059557
2008/09	33322946	5948480
Correlation Coefficient (r)		0.8715
Probable Error (P.E)		0.0725
6 × P. E.		0.435

Source: Annual Reports of NABIL (2004/05 to 2008/09 and Appendix 3)

The above table 4.24 shows correlation coefficient (r) between total deposits and total investment of the bank is 0.8715 i.e. high degree of positive correlation and probable error multiplied by six found to be 0.435. Since $r > 6 \times PE$, it is significant and there is correlation between total deposits and investment in NABIL.

4.2.2 Trend Analysis

Under this topic, we analyze and interpret the trend of deposits and net profit of NABIL that helps to make forecasting for next five years. The following trend value analysis have been used in this study.

A. Trend Analysis of Total Deposit

Here, an effort has been made to calculate the trend values of total deposits of NABIL for five years from FY 2004/05 to 2008/09 and forecasted for next five years till 2013/2014. The following table 4.24 shows the trend values total deposits of NABIL for 10 years from 2004/05 to 2013/14.

Table 4.24
Trend values of Total Deposit of NABIL

(Rs. In Thousand)

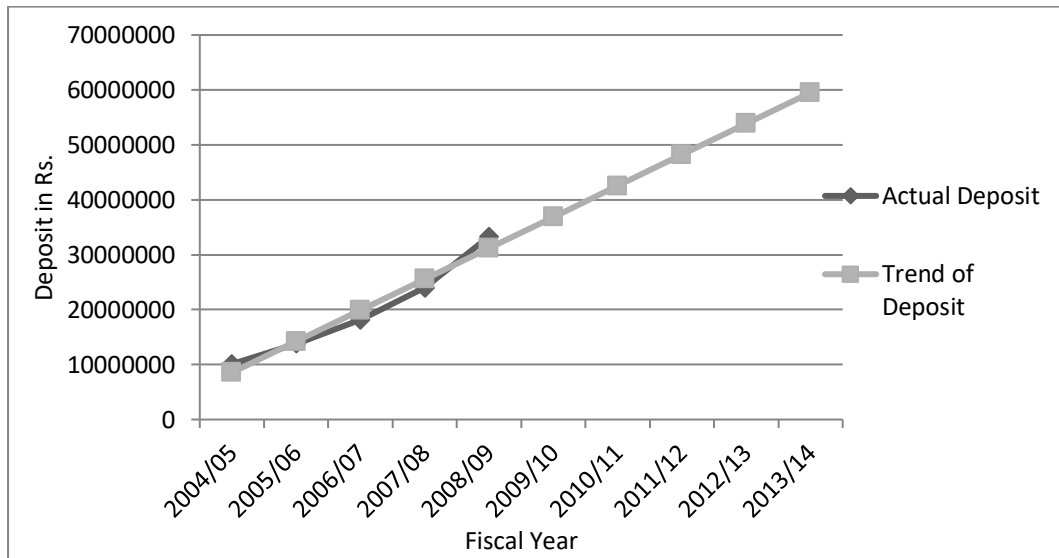
Year (t)	Total Deposit (Y)	$Y = a + bX$
2004/05	10097691	8552254
2005/06	13802445	14214690.3
2006/07	18186253	19877126.6
2007/08	23976298	25539562.9
2008/09	33322946	31201999.2
2009/10		36864435.5
2010/11		42526871.8
2011/12		48189308.1
2012/13		53851744.4
2013/14		59514180.7

Source: Annual Reports of NABIL (2004/05 to 2008/09 and Appendix 4)

From the above table 4.24, it is clear that the total deposit of NABIL is in increasing trend. On the basis of the above trend equation forecasted total deposit for the coming five years would be Rs 36864435.5, 42526871.8, 48189308.1, 53851744.4 and 59514180.7 thousand. The table can be presented in the following figure also.

Figure 4.21

Trend values of Total Deposit of NABIL



B. Trend Analysis of Total Profit

Here, an attempt has been made to analyze the trend values of total net profit of NABIL for five years from FY 2004/05 to 2008/09 and forecasted for next five years till 2013/2014.

Table 4.25

Trend Values of Net Profit of NABIL

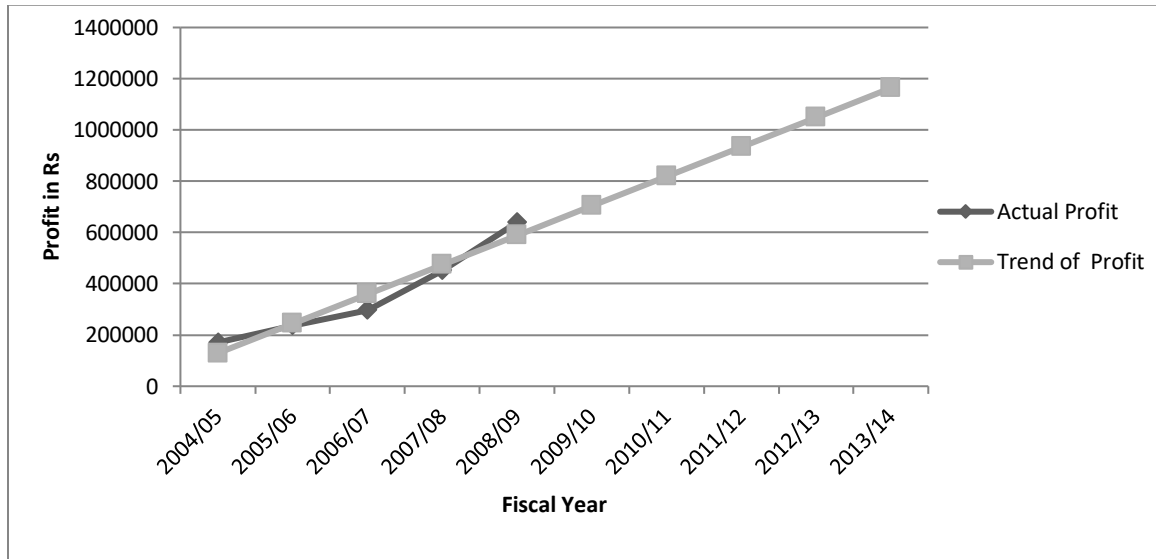
(Rs. In Thousand)		
Year (t)	Total Profit (Y)	$Y = a + bX$
2004/05	170813	128939.2
2005/06	237290	243915.8
2006/07	296409	358892.4
2007/08	451218	473869
2008/09	638732	588845.6
2009/10		703822.2
2010/11		818798.8
2011/12		933775.4
2012/13		1048752
2013/14		1163728.6

Source: Annual Reports of NABIL (2004/05 to 2008/09 and Appendix 5)

From the above table 4.25, it is clear that the net profit of NABIL is in increasing trend. Other things remaining same, the net profit of NABIL will be Rs. 1163728.6 thousand in 2013/14, which is the highest under the study period. Trend analysis shows that its profit will increase in coming five years.

Figure 4.22

Trend Values of Net Profit of NABIL



C. Trend Analysis of Investment

Here, an effort has been made to calculate the trend values of investment of NABIL for five years from FY 2004/05 to 2008/09 and forecasted for next five years till 2013/2014. The following table 4.26 shows the trend values total deposits of NABIL for 10 years from 2004/05 to 2013/14.

Table 4.26

Trend Values of Investment of NABIL

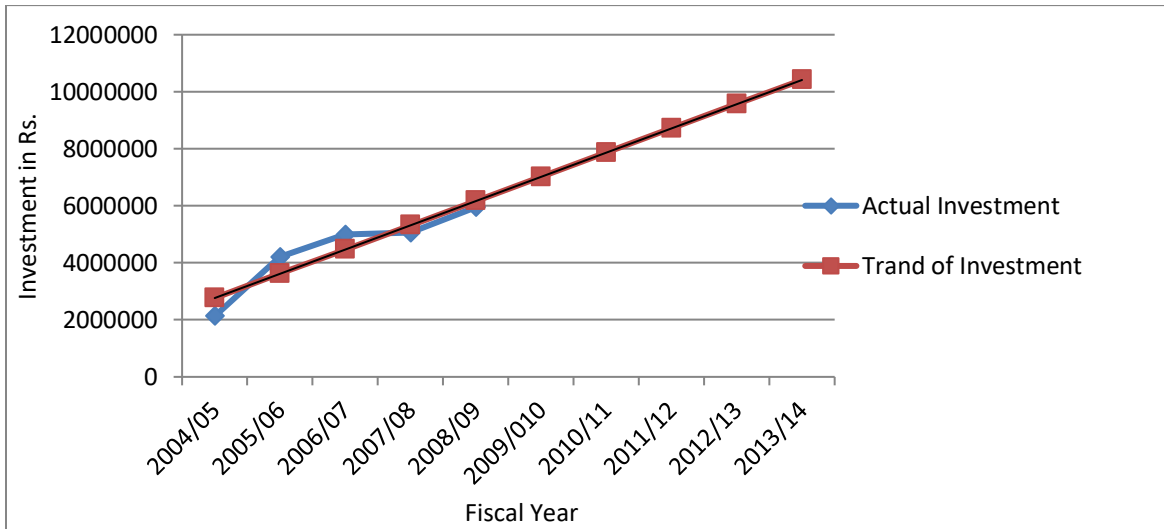
(Rs. In Thousand)

Year (t)	Investment (Y)	Y= a + bX
2004/05	2128932	2764732
2005/06	4200515	3614545.8
2006/07	4984314	4464359.6
2007/08	5059557	5314173.4
2008/09	5948480	6163987.2
2009/10		7013801
2010/11		7863614.8
2011/12		8713428.6
2012/13		9563242.4
2013/14		10413056.2

Source: Annual Reports of NABIL (2004/05 to 2008/09 and Appendix 6

Figure 4.23

Trend Line of Investment of NABIL



4.3 Major Findings

- NABIL didn't meet current ratio 2:1 over the five years of the study period; it is not a satisfactory because it in increasing trends.
- The cash and bank balance position of NABIL with the respect to total deposits is better against the readiness to serve its customers deposits. The calculation of cash and bank balance to total deposit ratio indicates that payment of deposits and liquidity of NABIL.
- Cash and bank balance to current & saving deposit ratio was fluctuated over the five year period.
- It is found that the NRB balance to fixed deposit ratio of NABIL is rise and fall and the amount of fixed deposit in the last year has decreased substantially and increased in the year 2008/09.
- The Fixed deposits to total deposits ratio over the period is in decreasing trends. This indicates the decreasing creditworthiness of the bank in the market.
- The average investment portion out of total deposit in the NABIL is 23.22% which mean that in average the bank is investing 23.22% of its deposit in different sectors.
- The mean loan and advances to total deposit ratio of NABIL is 73.95 which mean that in average the bank is lending more than 73% of its deposit.
- The loan and advance to total assets ratio is fluctuating over the period which means the bank may have ideal cash or investing its money in marketable securities.
- Loan and advances to saving deposit ratio of NABIL is 153 in an average and the ratio is increasing from 2005/06.
- The average net worth to total deposit ratio of NABIL is 5.60 and in increasing over the period which shows the bank's profitability over the period is increasing.

- The debt to total assets ratio of the NABIL is in increasing trends this shows that the risk is increasing in NABIL.
- Interest coverage ratio shows the interest paying ability of banks, the average ratio of NABIL is 0.62.
- Return on assets ratio indicates the profitability position over the total assets, which is in increasing trends with an average of 1.54.
- The return on total assets ratios of the NABIL are 1.45, 1.48, 1.38, 1.66 and 1.73 respectively. The average ratio is 1.54. NABIL has the highest profit ratio in the fiscal year 2008/09 and lowest in the fiscal year 2006/07.
- Return on net worth ratio of NABIL over the period is fluctuating and highest in 2005/06 and lowest in 2004/05. The average ratio of the bank is 0.28 percent. This ratio shows that how much the bank is able to generate return on equity to the shareholders.
- Total interest expenses to total income ratio of NABIL is in fluctuating trend over the five years of study period. The mean ratio of NABIL is 44.27. It indicates that the bank is not able to earned more interest.
- The average return on total deposit ratio of NABIL is 1.77 which indicates that NABIL is successful to earn almost constant profit over the study period.
- The EPS ratio is in increasing trend it indicates that NABIL is able to earn more profit per share to the common share holders which reflects sound profitability position of the bank.
- Over the study period NABIL has paid dividend each year with an average 39 per share. The ratio is in increasing trend it indicates that NABIL is able to earn more profit per share and it also reflects the better performance of the company.
- The correlation coefficient between total deposits and net profit of the bank is 1 i.e. perfectly positive relationship and there is significant correlation between total deposits and net profit of NABIL. This shows the net profit of

NABIL increases almost to the same degree with increase in the same amount of deposit.

- The investment and net profit are highly positive correlated. This ratio shows that NABIL is able to invest its deposit in the profitable sectors.
- The correlation coefficient between total deposits and total investment of the bank is 0.8715 i.e., it is significant and there is correlation between total deposits and investment in NABIL.
- The total deposit of NABIL is in increasing trend. On the basis of the above trend equation forecasted total deposit for the coming five years would be Rs 36864435.5, 42526871.8, 48189308.1, 53851744.4 and 59514180.7 thousand.
- The net profit of NABIL is in increasing trend. Other things remaining same, the net profit of NABIL will be Rs. 1163728.6 thousand in 2013/14, which is the highest under the study period.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter deals with the summary, conclusion and recommendation. The first part of the chapter is summary, second conclusion and third recommendation.

5.1 Summary

Commercial banks have played significant role in the economic development of country. They have introduced new technology in the banking system mobilized the saving of community. They have focused their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the bank. Therefore the study has been conducted to evaluate the performance of bank especially, that of NABIL Bank in order to find out their strengths and weakness.

To avoid the chances of duplication in the study and confirm whether the study is in accordance with the principles and doctrines, supportive text and the previous dissertation have been reviewed. For analyzing the financial data of the sampled bank the financial tools- ratio analysis, income and expenditure analysis and the statically tool-mean, CV correlation, and least square liner trend analysis have been used.

The first chapter of the study explains the background and statement of the problem and objective of the study and limitation. The second chapter includes the review of literature from the conceptual frame work and past studies. The third chapters explain the research methodology followed in this study. In this study only one commercial bank has been selected from twenty six commercial banks. Different financial as well as statistical tools have been used to analyze the

collected data to achieve the stated objective. Five year financial data have been used to analyze the financial performance of the selected bank.

5.2 Conclusion

NABIL bank limited is one of the growing banks of Nepal. It has been steadily growing in its size and operation ever since its inspection and it has established itself as a leading private sector bank of nation reckoned as a one of the fastest growing commercial bank of country.

The main objective of the study is to analyze financial performance of the NABIL Bank Limited. Liquidity position of the bank is not seems satisfactory. The cash and bank balance position of NABIL with the respect to total deposits is better against the readiness to serve its customers deposits. The creditworthiness of the bank in the market is in the decreasing trends. The loan and advance to total assets ratio is fluctuating over the period which means the bank may have ideal cash or investing its money in marketable securities. The profitability of the bank is also increasing trends.

The debt to total assets ratio of the bank is in increasing trends this shows that the risk is increasing in NABIL. The profitability position over the total assets is better. Return on net worth ratio of bank over the period is increasing so the bank is able to generate return on equity to the shareholders. The bank is not able to earned more interest with respect to expenses. It is successful to earn almost constant profit over the study period. NABIL is able to earn more profit per share to the common share holder which reflects sound profitability position of the bank.

Correlation analysis reveals that the coefficient of correlation between total deposit and net profit; performing assets and net profit; net worth and net profit, total deposit and investment; total deposits and loans and advances remained

highly significant in NABIL. It signifies that NABIL is successful to utilize its resources efficiently. The total deposit and net profit shows rising trend of the NABIL. Interest seems to occupy major part of the both income and expenses.

5.3 Recommendation

On the basis of major findings some important suggestions have been forwarded so that they will help the sampled banks to strengthen weaker aspects of financial activities.

- The bank has maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by NRB. The fund tied up in NRB balance cannot yield good return. So, the bank suggested lowering this ratio and investing the surplus fund in other current assets such as loans and advances, bills purchase and discount, money at call and short notice.
- It is suggestive that bank should hold the fund in form of cash or cash equivalent items only to the extent of requirement. Though it is difficult to know the exactly suitable liquidity ratio, estimation can be done on the basis of past experience, nature of depositors, situation of financial market and nature of competition.
- The bank has employed considerably greater portion of debt in their capital therefore, the bank should be aware of the possible risk that may arise due to slackness in the business activities.
- Debt servicing capacity of NABIL appears poor. So, it is better to search for the profitable sectors for investment and utilization of the deposits collected.
- Turnover of the fund raised form the outsiders appears less satisfactory in NABIL. So, NABIL has a challenge to allocate the deposit in income generating sectors. It will be better for NABIL to open the branches in other cities and rural areas in order to find the profitable opportunities.

- NABIL in the last years has given more priority to increase in government security. Though the government securities are free of risk, they yield lower risk. It is recommended not to give all attention to government sectors and diversify investment policy
- NABIL is suggested to review their investment portfolios to see if there is any better mix than the present one.
- Although, profit needs to be earned for survival and growth of any institution, it should not be the one and only one goal. The country has expected services from the financial sectors in such a way that it encompasses the balanced development. Economic level of the country can be raised only when the level of the people depending upon the agriculture increases. So the bank is suggested to diversify their loans in priority and deprived sectors as per the directive of NRB.

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<http://www.nabilbankltd.com>

<http://www.nrb.org.np>

APPENDICES

APPENDIX - 1

Correlation between Total Deposit and Net Profit

	Total deposit (X)	Net Profit (Y)	$x = X - \bar{X}$	x^2	$y = Y - \bar{Y}$	y^2	xy
05	10097691	170813	-9779435.6	95637360654547.40	-188079.4	35373860704	18393103799
06	13802445	237290	-6074681.6	36901756541378.60	-121602.4	14787143686	73869586179

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07	18186253	296409	-1690873.6	2859053531176.96	-62483.4	3904175276	10565153149
08	23976298	451218	4099171.4	16803206166577.90	92325.6	8524016415	37845845900
09	33322946	638732	13445819.4	180790059337416.0	279839.6	78310201728	376267272250
al	99385633	1794462	0	332991436231097.0	0	140899397809.20	68247889548

$$\bar{X} = 19877126.6$$

$$\bar{Y} = 358892.4$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{6824788954856.80}{\sqrt{332991436231097.0} \times \sqrt{140899397809.20}} = 1$$

$$P. E. = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-1^2}{\sqrt{5}} = 0$$

$$6 \times P. E. = 6 \times 0 = 0$$

APPENDIX - 2

Correlation between Investment and Net Profit

(Rs. In Thousand)

Year	Investment (X)	Net Profit (Y)	$x = X - \bar{X}$	x^2	$y = Y - \bar{Y}$	y^2	xy
2004/05	2128932	170813	-2335427.6	5454222074841.76	-188079.4	35373860704	439245821751.4
2005/.06	4200515	237290	-263844.6	69613972949.16	-121602.4	14787143686	32084136587.04
2006/07	4984314	296409	519954.4	270352578079.36	-62483.4	3904175276	-32488518756.96
2007/08	5059557	451218	595197.4	354259944966.76	92325.6	8524016415	54951957073.44
2008/09	5948480	638732	1484120.4	2202613361696.16	279839.6	78310201728	415315659087.8
	22321798	1794462	0	8351061932533.20	0	140899397809.20	909109055742.80

$$\bar{X} = 4464359.6$$

$$\bar{Y} = 358892.4$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{909109055742.80}{\sqrt{8351061932533.20} \times \sqrt{140899397809.20}} = 0.838089$$

$$P. E. = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.838^2}{\sqrt{5}} = 0.0898$$

$$6 \times P. E. = 6 \times 0.0898 = 0.5388$$

APPENDIX - 3

Correlation between Deposit and Investment

(Rs. In Thousand)

r	Total Deposit (X)	Investment (Y)	$x = X - \bar{X}$	x^2	$y = Y - \bar{Y}$	y^2	xy
05	10097691	2128932	-9779435.6	95637360654547.40	-2335427.6	5454222074841.76	228391638126
06	13802445	4200515	-6074681.6	36901756541378.60	-263844.6	69613972949.16	160277193687
07	18186253	4984314	-1690873.6	2859053531176.96	519954.4	270352578079.36	-87917716816
08	23976298	5059557	4099171.4	16803206166577.90	595197.4	354259944966.76	243981615943
09	33322946	5948480	13445819.4	180790059337416.00	1484120.4	2202613361696.16	199552148662
	99385633	22321798	0	332991436231097.00	0	8351061932533.20	459577896070

$$\bar{X} = 19877126.6$$

$$\bar{Y} = 4464359.6$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{45957789607068.20}{\sqrt{332991436231097.00} \times \sqrt{8351061932533.20}} = 0.871508743$$

$$P. E. = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.8715^2}{\sqrt{5}} = 0.0725$$

$$6 \times P. E. = 6 \times 0.0725 = 0.435$$

APPENDIX - 4

Trend Analysis of Total Deposit

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Year (X)	Total Deposit (Y)	x (t-2006/07)	X ²	XY	yc = a + bx yc = 19877126.6 + 5662436.3x
2004/05	1009769	-2	4	-20195382	8552254
2005/06	1380244	-1	1	-13802445	14214690.3
2006/07	1818625	0	0	0	19877126.6
2007/08	2397629	1	1	23976298	25539562.9
2008/09	3332294	2	4	66645892	31201999.2
	$\sum Y =$ 9938563 3	$\sum x = 0$	$\sum x^2 = 1$ 0	$\sum xy = 5662436$ 3	
2009/10					36864435.5
2010/2011					42526871.8
2011/12					48189308.1
2012/13					53851744.4
2013/14					59514180.7

$$a = \frac{\sum Y}{N} = 19877126.6$$

$$b = \frac{\sum XY}{\sum X^2} = 5662436.3$$

APPENDIX - 5

Trend Analysis of Total Profit

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Year (X)	Total Profit (Y)	X (t- 2006/07)	X ²	XY	yc = a + bx yc= 358892.4.6+114976.6 x
2004/0 5	170813	-2	4	-341626	128939.2
2005/0	237290	-1	1	-237290	243915.8

6					
2006/0 7	296409	0	0	0	358892.4
2007/0 8	451218	1	1	451218	473869
2008/0 9	638732	2	4	1277464	588845.6
	$\sum Y =$ 179446 2	$\sum x = 0$	$\sum x^2 = 1$ 0	$\sum xy = 114976$ 6	
2009/1 0					703822.2
2010/1 1					818798.8
2011/1 2					933775.4
2012/1 3					1048752
2013/1 4					1163728.6

$$a = \frac{\sum Y}{N} = 358892.4$$

$$b = \frac{\sum XY}{\sum X^2} = 114976.6$$

APPENDIX - 6

Trend Analysis of Investment

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Year (X)	Investmen t (Y)	X (t- 2006/07)	X 2	XY	yc = a + bx yc= 4464359.6+849813.8 x
2004/0 5	2128932	-2	4	-4257864	2764732
2005/0 6	4200515	-1	1	-4200515	3614545.8
2006/0 7	4984314	0	0	0	4464359.6
2007/0 8	5059557	1	1	2059557	5314173.4
2008/0 9	5948480	2	4	11896960	6163987.2

	$\sum Y =$ 22321798	$\sum x = 0$	$\sum x^2 = 1$ 0	$\sum xy = 849813$ 8	
2009/1 0					7013801
2010/1 1					7863614.8
2011/1 2					8713428.6
2012/1 3					9563242.4
2013/1 4					10413056.2

$$a = \frac{\sum Y}{N} = 4464359.6$$

$$b = \frac{\sum XY}{\sum X^2} = 849813.8$$