Chapter 1
INTRODUCTION

Background of the study

Commercial banks play an important role in the economic development of a country modern era because they carry financial activities. The term “financial activity” is used here to state those activities, which are, preformed by financial institutions basically commercial banks. For such activities to grow, it requires the banking habit of the community. People have small saving & they seek security as well as return on their savings. Gradual changes in social, economical and political sectors and liberalization in the field of economic in the nation; the necessity of the financial institutes is felt. The participation of private sector to perform activities in this field. Nepal Arab Bank Ltd is the first joint venture bank from private sector established in 2041 B.S. Subsequently, Nepal SBI Bank Ltd. Came as another joint venture bank from private sector in 2050 B.S. Functional and working of a commercial bank are governed by the Commercial Act.

Origin & Development of Commercial Bank

Origin of Commercial Banks

The ancient Rome of the 15th century the history about the practice of various banking function like money changing, transfer of funds, providing of loans etc. which are similar as to those of modern banking system. In the 7th century the use of commercial instrument was recorded. The revival of baking practices took place only in the beginning of the 12th century A.D. In case of eastern countries it started very late in comparison to western countries. “The Bank of Venice” was the first public banking institution established in 1157 A.D. The famous bank “Bank of Amsterdam” opened in 1609. It had occupied a very important place in the 17th century enjoying for a long time a position of international commerce as prominent as the “Bank of England” establishment in 1694 A.D.

In England, the goldsmiths were the original representatives of private bank. Banker practiced the function of accepting deposits. Gradually, they began other functions and practices as accepting of deposits by paying interest for attracting more deposits, advancing loan on security, transferring funds. Then in England “The Bank of England” was established in 1964 A.D. Napoleon founded the “Bank of French” in 1800 A.D. in France.

The 19th century came with the vast scope for development of commercial banking. Accordingly to M.C Vanish, the 19th century witnessed not only the phenomenal development of modern banking but also witnessed the solution of many stubborn monetary problems enabling banks to turn their attention

away from old money changing business to many new important jobs that came in the wake of industrial process. The 20th century observed development of various banking institutions highly specialized, sophisticated particularly in advanced countries like the U.S.A., U.K. and other. Today various international organizations like I.B.R.D., A.D.B etc. have been developed which are influencing the whole business of modern world.

In England the commercial bank used to be referred to as the joint stock bank. In London, it has been called as clearing bank. In Western Europe commercial banks used to be called credit bank and investment bank.

The commercial banks in Indian established by the British in colonial age were called "Exchange Banks". So, the term bank is different in various countries. According to Sayers, the general acceptable term 'The typical commercial banks in most countries are very large institution having a number of branches scattered all over the countries i.e. England, Canada, and Australia. (Sayer, 1978, P 107)

Development of Commercial Banks in Nepal

In ancient time, there was also a lending business in Nepal. During those days people use to borrow money from moneylenders paying some interest. There was no fixed interest rate. Interest rate was determined by moneylenders. So there was monopoly in interest rate. In this regard Prof. J.C. Ojha said "It is impossible to give correct chronological history in view of the fact that no authentic historical records are available in respect to banking. It can be inferred from the history of Nepal regarding the rebuilding of Kathmandu in 723 A.D. by Gunakama Dev, the king of the Kathmandu and that of Shankhadhar's (a merchant) action of introducing Nepal Sanbat, some fifty seven years thereafter to make lending has been prevalent long before that". (Ojha, 1965, P. 138)

Thus the above statement shows that lending system was introduced very long before 723 A.D. But there is no recorded document about lending. Then in 14th century during the rule of Malla King Jayasthiti Malla divided working occupation in 64 categories. Among them 'Tanka Dhari' was one. The main occupation of 'Tanka Dhari' was lending money. It also shows that lending process was prevailing during the Malla Rule in Nepal.

During the period of Rana Prime Minister, Ranodip Singh, the government unit called 'Tejarath' was established. In this regard Ojha States "(Ranodip Singh, a Rana Prime Minister for 8 years (from 1877 to 1885 A.D.) got interested in this problem an took concrete steps by establishing a government financial institution known as 'Tejarath'. The Tejarath helped the public by supplying easy and cheap credit at 5 percent interest on the security of gold and silver ornaments."

The Function of Tejarath was to supply credit at 5 percent interest rate per annum. It had benefited to government officials. There was no business of collecting deposits in Tejarath. So, it was not actually a banking institution.

From 1901 to 1929 A.D. Tejarath opened some limited branches to extend the credit facilities. Before establishment of NBL, Tejarath did not grant loan to general people; it was limited only for government officials. Tejarath was regarded as the new area in history of banking development in Nepal.

Tejarath could not fulfill the credit needs of the whole society. It was a government institution that benefited government officials only. So the general people had to depend on moneylender. The moneylenders exploited the rural people in different ways. On the other hand, there was need of trade and industry development programs. To make free the rural people from the grips of lenders and to develop trade and industry in the country the need for a commercial bank was realized in the country.

Nepal's banking history had begun with the establishment of Nepal Bank Ltd. in 1973. At that time this bank had authorized capital of Rs. 10 million & paid up capital of Rs, 842 thousand. Nepal bank Ltd. Was the first commercial bank with 51% government ownership with the authorized capital of Rs. 10 million & paid up capital of Rs. 2.5 million.

In 1980, the government introduced, "financial Sector Reforms". Nepal allowed the entry of Nepal Arab Bank Ltd as a foreign joint venture bank. It was established in 1984. Later on, the following joint ventures were established subsequently.

- Nepal Investment Bank Ltd in 1986 (Formal Name – Nepal Indo-Suez Bank Ltd)
- Nepal Standard Chartered Bank in 1987 (Formal Name – Nepal Grindlays Bank Ltd.)
- Himalayan Bank ltd & Nepal SBI Bank ltd in 1993
- Nepal Bangladesh bank & Everest Bank ltd in 1994
- Bank of Kathmandu Ltd in 1995
- Nepal Bank of Ceylon Ltd in 1996
- Lumbini Bank Ltd in 1998
- Nepal Industrial & commercial Bank in 1998
- Kumari Bank Ltd 1999
- Mahhapuchhre Bank ltd in 2000 &
- Laxmi Bank Ltd in 2001

Further – more lists of commercial banks and their branches in Nepal by Mid October 2006 are presented in table.

Table 0-1: List of Licensed Commercial Banks and Their Branches (Mid-October 2005)

S.N.	Commercial Banks	Established Date(B.S.)	Operation Date(B.S.)	Head Office	No. of Branches
1	Nepal Bank Ltd.	1994/07/30	1994/07/30	Kathmandu	153
2	Rastriya Banijya Bank	2022/10/10	2022/10/10	Kathmandu	166
3	Nepal Arab Bank Ltd.	2041/03/29	2041/03/29	Kathmandu	14
4	Himalayan Bank Ltd.	2049/10/05	2049/10/05	Kathmandu	11
5	Nepal SBI Bank Ltd.	2050/03/23	2050/03/23	Kathmandu	8
6	Nepal Bangladesh Bank Ltd.	2050/02/23	2050/02/23	Kathmandu	15
7	Everest Bank Ltd.	2051/07/01	2051/07/01	Kathmandu	10
8	Bank of Kathmandu Ltd.	2051/11/28	2051/11/28	Kathmandu	7
9	Bank of Cylon	2053/06/28	2053/06/28	SiddharthaNagar	7
10	Lumbini Bank Ltd.	2055/04/01	2055/04/01	Narayangadh	3
11	Nepal Industrial & Commercial Bank Ltd.	2055/04/05	2055/04/05	Biaratnagar	5
12	Kumari Bank Limited	2056/08/24	2057/12/21	Kathmandu	1
13	Machhapuchhre Bank Limited	2056/06/	2056/06/	Pokhara	1
14	Laxmi Bank Limited	2058/06/11	2058/12/21	Birgunj	1
				Total	**417**

Source: Banking and Financial Statistics, NRB, Mid-October 2006

Role of Commercial Banks in Nepal

The main objective of commercial bank is to mobilize resources for productive use after collecting them from scattered resources. Its role in economic development is so immense; it brings about greater mobility of resources to meet the emerging necessity of the economy. The essence of commercial bank is the financial intermediate between the ultimate savers and borrowers. In other words, a bank's main function is to act as middle- man between the surplus and deficit units in the economy and as a bank like any other firm in business to make profit for its shareholders. Commercials banks have become heart of financial system as they hold the deposits of millions of people, government and business units, and make-fund available through their lending and investing activities to individuals, business firms and government. In doing so, they facilitate both the flow of goods and services from producer to consumer. So, the commercial banks are the most important institutions for capital formations.

The major problem in almost all developing countries like Nepal is lack of capital formation and their proper mobilization. In such countries the commercial banks have to take more responsibilities and should act as development bank due to the lack of others specialized institutions. The importance of bank in economic life is greater. Nepal has sufficient natural resources. The commercial bank can help in economic development which can uplift the life style of the general people directly as the tax contribution from its operation profit and collecting the tax from interest from its account holders and generating the employment opportunity itself. Economic stability can be maintained as better by the commercial bank. The commercial banks

accumulate scattered savings in term of deposit grant long term as well as short-term loan The industries can get better way services thus will help to reduce import of foreign goods and increase exports. Due to the development of industrial activity on the one hand people can enjoy employment opportunity. Naturally, industrialization enhances to develop for agricultural sector. Thus 'Bank' can be rightly interpreted as the financial service provider of business world and promoter of economic development.

Functions of Commercial Banks in Nepal

The important function of commercial banks is to accept the deposits and lend money to merchants, home-owners, farmers and industrialists and to invest in government bonds. Commercial banks also perform variety of other functions. They usually accept current, saving and time deposits.

There are many functions of commercial banks. The following are the main function performed by the commercial banks.

(i) Accepting Deposits:

Commercial banks accept deposits in three forms, namely; current, saving & fixed deposits.

(a) Current Deposit:

Current deposit is also known as demand deposit. Under this, any amount may be deposited in this account. Generally the bank does not pay any interest on such deposits, instead of it bank may ask to maintain a minimum balance in the account.

(b) Saving Deposit:

Saving deposit is one of the deposits collected from small depositors and low income depositors. The bank usually pays small interest to the depositors against their deposit. This is also called saving account.

(c) Fixed Deposit:

Fixed deposit is the one in which a customer is required to keep a fixed amount with bank for a specific period, generally by those who do not need money for a stipulated period. The bank pays a higher interest on such deposits.

(ii) Advancing Loans:

Commercial bank provides loans and advances from the fund, which it receives by way of deposits. Direct loans and advances are given to all types

of persons against the personal security of the borrowers or against the security of movable and immovable properties. Loans are granted by banks in four forms, namely:

- Overdrafts
- Direct Loans
- Cash Credit
- Discounting bill of exchange

(iii) Agency Services:

Commercial bank undertakes the payment of subscription, insurance premium, rent etc. It collects cheques, bills, dividends, interest, pensions, etc. on behalf of the customers. The bank charges a small amount of commission for those services. It undertakes to buy and sell securities on behalf of its clients. Commercial bank also acts as a trustee.

(iv) Credit Creation:

Credit Creation is very important function of the commercial banks. They accept deposit and advance loans. When the bank advances loans, it opens and accounts to draw the money by cheque according to borrower's needs. Thus the loan amount remained with the lending bank in the form of deposit by granting loans, the bank creates credit on deposit.

(v) Other Functions:

Other functions of commercial banks can be explained as follows:

a) Assist in Foreign Trades:

Commercial bank discounts the bills of exchange drawn by Nepalese exporters on the foreign importers and enables the exporters to receive money in the native currency. Similarly, the banks also accept the bills drawn by foreign exporters.

b) Offers Security Brokerage Services:

Many commercial banks have begun to market security brokerage services offering customers the opportunity to buy stocks, bonds and other securities without having to go to a security dealer or broker.

c) Financial Advising:

Many banks offer a wide range of financial advisory services from helping in financial planning and consulting business managers.

Role of Joint Venture Banks in Nepal

In 1980, the government introduced 'Financial sector Reforms', Nepal allowed the entry of foreign banks as joint ventures with up to maximum of 50%, equity participation, A meaningful step towards financial liberalization was under-taken the FY 1987/88, with the objectives of expediting the process of economic development under structural adjustments program & major reforms including liberalization of interest rate, strengthening of banking operation & a shift from direct to indirect monetary control instruments.

The various roles of the joint venture banks in Nepal can be classified as follows:

Healthy Competition :

The induction of joint venture banks also brings the benefit of healthy competition. The competition would force the domestic banks, Nepal Banks Ltd. & Rastriya Banijya Bank, to improve their services & efficiency.

Foreign Investment:

Foreign investment is one of the important aspects for the economic development of the country. When looking at the possibility of investing in Nepal, multinational companies are unfamiliar with the local rules, regulations & practices. The joint venture bank helps the multinational companies to build up their confidence for investment by providing necessary information & financial support.

New Banking Techniques:

Modern banking services are being provided to Nepalese financial system by new joint venture bank. New banking techniques such as tele-banking, computerization, fee based activities, hypothecation etc. are the important contribution of joint venture to the gradually changing commercial Banking scenario.

Nepal Arab Bank

In 1980, the government introduced, "financial Sector Reforms". Nepal allowed the entry of Nepal Arab Bank as a foreign joint venture bank. It was established in 1984 (2041) under Company Acts 2031 B.S. The Bank Started it's banking operation with 50% equity participation of United Arab Emirates, 20% by Nepalese finance companies and rest 30% by Nepalese citizen.

Nepal SBI Bank Ltd:

Nepal SBI bank ltd was established in 2050 (1993) under the Company Act 1964. This is the joint venture of State Bank of Indian and Nepalese Promoters. The bank started its banking operations on 8th July 1993. With 50% equity participation by State bank of India, 15% by Employee's Provident Fund, 5% by Agriculture Development Bank & rest 30% of general Public. At the time of opening of this bank, its authorized capital was Rs. 24, 00, 00,000. Lots of people & business firm are taking advantages from the banking operation.

STATEMENT OF THE PROBLEM

Commercial banks are found to be making loan only on short term basic against movable merchandise. There is hesitation to investment on long term projects as they are much more safely they do not consider the profit potential of the project. There is raised criticism that commercial bank have send only richer communities and not the poor. They had directly negatively impact economic growth. Now days commercial bank do not seem to be able to invest their founds in more profitable sector i.e. treasury bills development bond and other securities. They keep high liquid position and how lower funds to the productive sector. This results lower profitability to commercial banks and ignorance to the national growth process. This is the main reason of crisis in the commercial banks and in the whole national economy as well.

Delivering efficient service to the common people by enhancing efficiency of the commercial banks and improving their management style pose a challenge to the banks and financial institutions. The existing condition of the liquidity of the banking and financial institutions also needs to be reduced through an appropriate investment policies. Equally important is the challenge to minimize the margin of interest rate these institution charge by minimizing their intermediation cost.

In order to help realize the goal of poverty alleviation access to increase flow of credit and investment in the economic activities to direct benefit the maximum number of low income people.

Therefore the study concentrates on the finding out answer of these following questions.

- What are the scenarios of financial performance of NABIL & NSBIBL?
- What is the financial growth trend of these banks?
- What are the growth rates of branches, manpower and services?
- What are the position of liquidity, capital structure, activity, capital adequacy and profitability of NABIL & NSBIBL?

OBJECTIVE OF THE STUDY

1. To analyze the financial performances of NABIL & NSBIBL.
2. To analyze, evaluate & interpret financial performance of NABIL & NSBIBL.
3. To examine the growth rates of branches, manpower & services of these banks.
4. To derive conclusion and draw suggestion

SIGNIFICANCE OF THE STUDY

The present study deserves some significance of its own kind in this field. This study will be concise, practical, and prove and valuable to the major parties interested in the performance of NSBIBL & NABIL .

Financial executive and policy making bodies would also find it as a useful reference. This study will also useful for teacher & students of the subject, particularly those in commerce, related accountancy & institutional finance.

LIMITATIONS OF THE STUDY

The limitations of the study are as follows.

1. The study is confirmed with NABIL & NSBIBL.
2. The study is of in between 2002 to 2007.
3. Most of the data are of secondary nature & the calculation & conclusion of the study are fully depended on the accuracy of the data provided by the respective organization.

PLAN OF WORK

This study divided into 5 chapters.

Chapter I This chapter contained Background origin of commercial banks. Development of commercial Banks in Nepal. Role of Commercial bank. Function of Commercial banks. Role of Joint Venture Bank in Nepal. Statement of the problems. Significance of the study, limitation of the study.

Chapter 2 This chapter contained Review of textual concepts which provide concept of financial analysis, importance of financial performance Analysis objective of financial analysis limitation of financial analysis, Sore of judging financial performance and also review of previous studies.

Chapter 3 This Chapter contained data collection procedure, sources of data and tools to analyze data. Both financial and statically tools are used.

Chapter 4 Interpretation of data which are generated through secondary source by different financial tools, statically tools and income and expenditure analysis.

Chapter 5 Deals with in brief of the study & provides a package of suggestion.

Chapter 2
REVIEW OF TEXTUAL CONCEPTS

Concept of Financial Analysis

"Financial analysis is one of the process of identifying the financial strength & weakness of the firm by properly establishing relationship between the components of balance sheet and profit and loss account and other operating data." (I.M. Pandey Financial Management, P.109)

Moreover, "financial analysis is both analytical and judgmental process that helps answer the questions that have been properly posed. Therefore, it is a means to an end. One can stress enough that financial analysis is an aid that allows those who are responsible for results to sound decision." (A.H. Erich "Techniques of Financial Analysis", P.2)

On the view of Matcalf and Tire, "Analyzing financial statement is a process of evaluating relationship among component parts of financial statement to obtain a better understanding of a firm's position and performance." (P.175) It is largely study of relationship statement and study of these factors as shown in a series of statement.[1] It means analysis of financial statement may be useful for different purpose such as: knowing the position and performance of the firm.

This analysis involves the use of various financial statement- the first is the balance sheet, which represents a snapshot of the firm's financial position at the moment and next is the income statement, that depicts a summary of the firm's profitability over the time.

In other hand, "profit is one of the indicators of sound financial performance. It is usually the results of sound business management, cost control, credit- risk management and general efficiency of operation".

In this way overall financial information can be obtained by analyzing balance sheet and income statement. However, there are three major steps for analyzing the financial statements. (R.M. Shreevastav. "' Financial Management" P.143)

The first step involves the reorganization and rearrangement of entire financial data as constrained in the financial statements.

The next step is the establishment of significant relationship between the individual components of balance sheet and P/L account.

Finally, significance of results obtain by means of financial tools is evaluated. This requires establishment of standards against which actual are evaluated.

With respect to the type of financial analysis, distinction can be made either on the basis of material used or by using modus operation of analysis or on the object of analysis.

Importance of Financial Performance Analysis

The analysis and interpretation of financial statements is an important accounting activity. There are different parties interested in it. Their aims and objectives of analysis are also differing significantly. The following are the uses of financial statement analysis to different parties.

- Financial Executives
- Top Management
- Creditors
- Investors and others

(a) Financial Executive

The first party interested in the financial statement analysis is financial department. Such analysis provides a deep insight into the financial condition of the enterprise and a view of the past performance which helps in future decision making to the financial manager. This means, analysis not only gives vital information concerning the position of the enterprise but also reflects the results of the operations.

(b) Top Management

The top management is also interested in the analysis of financial statements because it helps them in reaching conclusion regarding:

- Performance appraisal of overall business activities.
- Inquire about the current financial position
- Questions concerning the relationship of earning to trend in sales, etc and
- Questions concerning the relationship of earning to investment

(c) Creditors

The Financial analysis is also very useful to the creditors. They are interested to know over all financial position of the firm before giving loan. The financial performance indicates the financial position and it helps to judge the soundness and worthiness of the firm. Moreover, they get all information from the analysis of balance sheet and income statement of the company.

(d) Investors & others

Investors are also interested in the measurement of earning capacity of the securities. They are concerned with cash generation capability of an enterprise. For this purpose, cash flow analysis and fund flow analysis have proved to be very useful.

Besides the above mentioned parties, the information provides by the analysis and interpretation of various financial statements are important and useful those groups who are interested in the working of the business and their unions, government, consumer and general public.

Objectives of Financial Analysis

Basically there are three major objectives of financial analysis:

a. To select the pieces of financial information that are relevant to a particular problem.

b. To fit these pieces into a coherent picture of the problem in relation to the firms aims and financial resources.

c. To suggest alternative solution of the problem.

Besides these, there are other objectives of financial analysis which can be stated as under:

- To estimate the earning capacity of the firm.
- To gauge the financial position and financial performance of the firm.
- To determine the long term liquidity of funds as well as solvency.
- To determine the debt capacity of the firm.
- To decide about future prospectus of the firm.

As a matter of fact, the objectives of analysis depend on the analyst as well as quality of the data available.

Limitations of Financial Analysis

Although financial performance analysis is highly significance for financial executive, top management, creditors, investors and others, there are certain limitations.

The analysis of financial statement is only a means to reach up to conclusion and is not conclusion itself. So, it cannot work as a substitute for sound judgment. The judgment will depend upon the intelligence and skill of analysis.

In case the figure of a year is taken for analysis, it will not provide true financial picture of the firm/organization.

The basic nature of financial statement is historical. Past can never reflect hundred percent impacts in the future.

The result of financial analysis cannot be as an indication of good or bad management because the actions and other figures explain only probable state of events.

Financial statements fail to provide current information of exact value of assets because it records actual cost figures and do not records price level changes.

The figure of current period may have no comparability due to change in accounting method and whole exercise of analysis may become useless.

The figures of one firm may not have fully comparable with that of other because there is difference in the nature, accounting procedure and financial pattern etc. But analyst generally ignores these facts and makes objectives comparison of two business firms and result may occur misleading.

This result may be meaningless if suitable tools will not be used for analysis. These results may push the future of business toward the hell.

REVIEW OF PREVIOUS STUDIES

The researcher visited different libraries in the course of searching pilot studies. Various studies were available in the field of financial performance analysis of JVBs. Particularly on NABIL; more than a dozen of studies have been conducted. But few studies were found with respect to NSBIBL till 2003 A.D. More or less, all the JVBs perform similar functions and execute financial activities under the direction of NRB. Although their problems may differ to some extent, methods and techniques of analyzing financial performance may resemble. Therefore, the studies on various other JVBs have been reviewed keeping in mind to what extent to present study will stand distinct from them.

One study has evaluated the liquidity, profitability, turnover, credit and capital adequacy positions of NABIL and NSBIBL and has also shown the relationship between two variables of these banks. *(Shiva Pd. Rimal, 2000, N.C.Campus)*

Another study has analyzed the comparative financial performance of two joint venture banks, namely NISBL and NGBL. In course of it, they have used different ratios and have also highlighted on the role of JVBs.(KC 1998) N.C.Campus Unplished Thesis

Similarly, Resta Jha on his thesis has examined the comparative financial strengths and weakness of NABIL, NIBL, NGBL and HBL by analyzing different financial ratios, dividend policies and has also studied the operational aspects of these banks. (Resta Jha, 1998 Unpublished Thesis)

In the same way, another study has found out the reasons of changes on profitability and liquidity trends of NSBIBL & NGBL and has also identified their trading policies. (BalaRam Gurung, 2002. Unpublished Thesis. Shanker Dev Campus)

A next study has evaluated the financial performance of commercial banks and has highlighted on their activities. This study has also examined credit policy and profitability position. (V.C. Gurung 2005. Unpublished Thesis)

Sangeeta Shakya, in her thesis, has examined the financial strengths and weakness of HBL and NGBL comparing the liquidity, activity and profitability ratios, she has also shown the effectiveness and efficiency in financial performance. (Shangita Shakya, Unpublished Thesis, 2006 ShankerDev Campus)

A next study has concentrated on analysis, examination and interpretation of NABIL and NGBL with the help of ratio, income and expenditure and trend analysis. He has also shown the type of relationship between credit extension and expansion of the bank branches. (Gyanendra Thapa,2005, Unpublished Thesis, Shanker Dev Campus)

In the same way, a study has examined financial strengths and weakness of NABIL & NGBL with the help of calculating necessary financial ratios of both banks and has also evaluated the effectiveness of monitoring and collective policies of the banks.

A next study, Mahendra Mandal has analyzed and interpreted the financial data of NABIL, NGBL and NIBL. He has also highlighted conceptual framework of these three banks. (Mahendra Mandal, 2006, Unpublished Thesis, Shanker Dev Campus)

Another study, Deepak Dhakal has analyzed financial performance analysis of NABIL & NSBIBL. He has done a comparative study of these two banks.(Deepak Dhakal, 2006, Unpublished Thesis, Shanker Dev Campus)

A next study, Sharada shakya has analysis investment position of NABIL Bank ltd. (Sarada Shakyal, 2008, Unpublished Thesis, Shanker Dev Campus)

A next study, Monaj Kumar Gautam, analysis financial profermance analysis of NSBIBL Bank Ltd. In a frame work of Camel. (Monaj Kumar Gautam, 2008, Unpublished Thesis, Shanker Dev Campus)

Sources of Judging Financial Performance

The firm communicates financial information to users through financial statement and reports. They are the means to present financial situation or position to owners, creditors and general public. As this statement are used by investors and financial analysis to examine the firm's performance resources allocation decisions. Moreover, the analysis and interpretation of financial statement depends on the nature and type of information available therein.

Basically, there are two financial statements prepared for the purpose of external reporting to owners, investors and creditors which are main source for judging financial position. They are:

a. Balance Sheet

b. Income Statement

a. Balance Sheet

The balance sheet is a document that reports the financial position of a company as of specific point of time. It is one of the most significant financial statements for analysis of financial performance.

More specially, the balance sheet contains information about the resources and obligations of a business entity and about its owner's interests in the business at the particular point of time. Thus, it is used to prepare in the end of financial year and reveals the firm's financial position on a specific date.

In the language of accounting, the balance sheet communicates information about assets, liabilities, and owners' equity for a business firm as on a specific date. It provides a snapshot of financial position of the firm at the close of the firm's accounting period.

According to Mr. Khan & Jain, "The balance sheet provides information about the financial position of a firm at a particular point of time, say, as on Dec 31st. It can be visualized as a snapshot of the financial status of company.

Likewise, balance sheet is a screen picture of financial position of a going business at certain moment. It is also known a statement of financial condition, position statement or statement of resources and liabilities or statement of worth etc.

In this way, it can be said that balance sheet is a summary statement and comparative record of the progress as downfall of the business. It shows the clear picture of the financial position of business as well as the assets and liabilities of business, the relative proportion of borrowed and ownership capital, etc. which are necessary to analyze and evaluated their financial position of particular period. Hence, this is one of the important resources to examine financial weakness or strengths using different tools of any business firm especially the banks.

b. Income Statement

The second major statement for sources of financial information is income statement. It is also known as profit and loss account. It may be defined as any systematic array of revenues, expenses and other deductions, and net income of a business for a stated period. Furthermore, income statement is an abstract portrayal of the dynamic life of the business presenting a longitudinal picture of the gains and losses of the business, its fortunes and misfortunes.

In the words of Khan and Jain, “Income statement is of great importance and interest to end-users of financial statements because it enables them to ascertain whether the business operations have been profitable or not during the specific accounting period.

In addition, it shows whether enterprise has earned profit or losses within the particular period, so it is a statement of the profit earned or loss incurred. This statement is extremely useful to analyzer to evaluate financial positions as well as profitability of the business operation.

Hence, an income statement is classified record of the gain and loss to the business for a period of time. It is prepared from the various balances of subsidiary nominal account given in the shape of trail balance.

In conclusion, these two financial statements, i.e. balance sheet and income statement or profit and loss account of a business firm which contain useful information, so they are very helpful to know the financial strengths and weaknesses by analyzing those statements comparatively. They are not separate and independent statements, but are related to each other. Thus, both have vital role in the field of financial performance analysis.

Chapter 3

RESEARCH METHODOLOGY

RESEARCH DESIGN

The research design followed will be basically the comparative evaluation of financial performance of NABIL & NSBIBL. Analytical & descriptive approaches were used to evaluate the financial performance of these banks. The points evaluations were made on the basis of secondary data, and financial statement of past 6 years taken from the banks concered.

DATA COLLECTION PROCEDURE

Population & Sample

Sixteen commercial banks both domestic & foreign collaborated, operating in Nepal, is the population of this study NABIL & NSBIBL were selected as sample for evaluation. Similarly, financial statement of 6 years (beginning from 2000 to 2006) were selected as sample for the purpose of the same.

Sources & Types of Data

Secondary sources of data were collected in order to meet the objectives of the present study.

Secondary Data Mainly the study was based on secondary data. The secondary sources of data are the information received from books, journals, newspapers, annual reports of banks, financial statement of NABIL & NSBIBL different pilot studies and dissertation, etc.

TOOLS OF ANALYSIS

In order to ascertain actual financial position of any firm, various analytical tools can be used. It is true that suitable or appropriate tools, according to the nature of statement and data, make the analysis more effective and significant for achieving this objective. Basically two sorts of tools can be used: financial and statistical. The researcher has, therefore, applied these tools extensively.

Financial Tools

As this study is related to financial performance analysis, financial tools are more useful.

They help to identify the financial strengths and weaknesses of the firm. In spite of various financial tools available, the research has primarily stressed on ratio analysis assuming it the most suitable tool.

"A ratio is simply a number expressed in terms of other number and it expresses the quantitative relation between any two variables" C.R. Kothari, 1988, P.487. "However, it is used as a technique to quantify the relationship between two sets of financial data taken from either profit and loss account or balance sheet. It provides information relating to strengths and weaknesses of financial data in relation to others."

However, the researcher has employed his utmost effort to use as many ratios as possible to reach the point of true financial position of the banks. These ratios include the following:

- Liquidity Ratios.
- Activity Ratios.
- Capital Adequacy Ratios
- Leverage (Capital Structure)Ratios
- Profitability Ratios and
- Invisibility Ratios

Liquidity Ratios

Liquidity ratios measure the firm’s ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency position of a firm.

In this context, liquidity is measured by the speed with a bank’s assets that can be converted into cash to meet deposit withdraws and other current obligations. A bank is subject to a minimum cash reserve requirement (CRR) imposed by Central Bank to ensure a minimum amount of total assets to meet unexpected withdrawals. The following ratios have been applied to find out liquidity position of the banks.

- Current Ratio
- Cash and Bank Balance to Total Deposit Ratio

- Cash and Bank Balance to Current & Saving Deposit Ratio
- NRB Balance to Current and Saving Deposit Ratio
- NRB Balance to Fixed Deposit Ratio
- Fixed Deposit to Total Deposit Ratio

(a) Current Ratio (CR)

A current ratio is the quantitative relationship between current assets and current liabilities. So, this ratio is calculating by dividing current assets by current liabilities.

$$CurrentRatio = \frac{CurrentAsstes}{CurrentLiabilities}$$

Here, current assets are those items, which can normally be converted into cash within an accounting cycle. These normally include cash, stock, debtor, bank balance, prepaid expense, marketable securities, etc .On other hand, current liabilities refer to those obligations which must be paid within an accounting cycle These normally include creditors, bank overdrafts, bills payable, outstanding, etc. Although there is no hard and fast rule, conventionally, a current ratio of 2: 1 (current asses twice of current liabilities) is considered satisfactory.

(b) Cash and Bank Balance to Total Deposit Ratio (CBBTDR)

This ratio is calculated by dividing cash and bank balance by total deposits:

$$CBBTD = \frac{Cash\ \&\ bank\ balance}{Total\ deposit\ ratio}$$

Total deposits consist of current deposit, saving deposit, fixed deposit, money at call and short notice and other deposits. This ratio shows the proportion of total deposits held as compared to the most liquid assets. High ratio shows the strong liquidity position of the bank but very high ratio is not favorable for the bank because it does not produce appropriate profit to bear the high interest.

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

This ratio is calculated by dividing cash and bank balance by current and saving deposits. This stands as:

$$CBBCSDR = \frac{Cash\ and\ bank\ balance}{Current\ saving\ deposit}$$

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic bank and balance held in foreign banks. On the other hand, current and saving deposits consist of all types of deposits, excluding fixed deposits. This ratio measures the ability of bank to meet its immediate obligation. High ratio normally indicates sound liquidity position of the banks but too high ratio is not good as it reveals the under utilization of fund.

(d) NRB balance to Current and Saving Deposits Ratio (NRB-BCSDR)

This ratio is computed by using this formula.

$$NRB - BCSDR = \frac{NRB\ balance}{Current\ saving\ deposit}$$

Commercial banks are required to hold certain proportion of current and saving deposits in NRB's account. It is to ensure the smooth functioning and sound liquidity position of the bank. As per the directive of Nepal Rastra Bank, the required ratio is 8 percent. This means the ratio measures whether the bank is following the direction of NRB or not

(e) NRB Balance to Fixed Deposits Ratio (NRB-.BFDR)

This ratio is calculated by dividing NRB balance by fixed deposits. This is stated as:

$$NRB - BFDR = \frac{NRB\ balance}{Fixed\ deposit}$$

This ratio generally indicates the percentage of amount deposited by the bank in Nepal Rastra Bank as compared to the fixed deposits. According to the direction of NRB, this ratio should be at least 6 percent. Thus the ratio is calculated to find whether the bank has followed the direction of NRB or not.

(f) Fixed Deposits to Total Deposits Ratio (FDTDR)

This ratio is determined by dividing fixed deposits by total deposits

$$FDTDR = \frac{Fixed\ deposit}{Total\ deposit}$$

It indicates the percentage between total deposits and fixed deposits. High ratio shows better opportunity available to the bank to invest in sufficient profit gathering long-term loans but low ratio indicates the other way.

Activity Ratios

Activity ratios are also known as asset management ratios. These ratios look at the amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels. Mostly, activity ratio is used to evaluate managerial efficiency and proper utilization of assets.

The following ratios have been used while analyzing activity position of the banks.

- Investment to total deposit ratio
- Loans and advances to total deposit ratio
- Loans and advances to total assets
- Loans and advances to saving deposit ratio
- Total income gathering assets to total assets ratio
- Total income gathering assets to total debt ratio

(a) Investment to Total Deposits Ratio (ITDR)

This ratio is computed by dividing investment by total deposits This can be stated as Investment

$$ITDR = \frac{Investment}{TotalDeposit}$$

The numerator includes His Majesty's Government treasury bills, development bonds, company shares and other investments. This ratio presents how efficiently the resources of the banks have been mobilized High ratio shows managerial efficiency regarding the utilization of deposits and vice-versa.

(b) Loans and Advances to Total Deposits Ratio (LATDR)

This ratio is calculated by using following formula

$$LATDR = \frac{Loan\,and\,advance}{Total\,deposit}$$

Loans and advances consist of loans, advances, cash credit, overdrafts, local and foreign bills purchased & discounted. It indicates the proportion of total deposits invested in loans and advances. High ratio indicates greater use of deposits in loans and advances but low ratio may be the cause of ideal cash or use of fund in less productive sector. Very high ratio shows the poor liquidity position.

(c) Loans and Advances to Total Assets Ratio (LATAR)

This ratio is obtained by dividing loans and advances by total assets:

$$LATAR = \frac{Loan\ and\ advance}{Total\ Assets}$$

Total assets include total assets of balance sheet items. This ratio indicates what proportion of total assets has been used in loans and advances. Higher ratio means effective of total assets in loans and advances

(d) Loans and Advances to Saving Deposit Ratio (LASDR)

This ratio is calculated by using following formula

$$LASDR = \frac{Loan\ and\ advances}{Saving\ deposits}$$

This ratio indicates to what extent of saving deposits has been turn over to loans and advances. High ratio shows greater utilization of saving deposits in advances and loans.

(e) Total Income Generating Assets to Total Assets Ratio (IGATAR)

This ratio is calculated by dividing total income generating assets by total assets:

$$TIGATAR = \frac{Total\ incom\ generating\ assets}{Total\ assets}$$

Income generating assets are those assets, which are invested for generally income. This includes loans, advances; bills purchased and discounted investment and money at call or short notice. This ratio shows what

percentage of the assets has been invested for income generation. High ratio indicates sound profitability position and greater utilization of assets.

(f) Total Income-Generating Assets to Total Debt Ratio (TIGATDR)

This ratio is computed by using this formula:

$$TIGATDR = \frac{Income\ generating\ assets}{Total\ debt}$$

This ratio indicates the proportion of income generation from total debt. Higher ratio shows the well management in investment in productive area.

Capital Adequacy Ratio

Capital adequacy ratio deals about financial strengths and weakness and its solvency It helps to decide weather the existing capital is adequate or there is not need to reform.

The following ratios are used under capital adequacy ratios:

- Net worth to total assets ratio
- Net worth to total deposit ratio
- Borrowing to shareholders' fund ratio

(a) Net worth to Total Assets Ratio (NWTAR)

This ratio is computed by dividing net worth by total assets:

$$NWTAR = \frac{Net\ worth}{Total\ Assets}$$

This ratio measures the percentage of shareholders fund in relation to total assets owned by banks. High ratio means greater contribution of investors' fund and strong capital adequacy position.

(b) Net Worth to Total Deposit Ratio (NWTDR)

This ration is calculated by using the following formula:

$$NWTDR = \frac{Net\ worth}{Totaldeposit}$$

It indicates the percentage of net worth in relation to the total deposits collected in the bank. The direction of the Nepal Rastra Bank has maintained or not by the bank, is the yard Stick to measure the position.

(c) Borrowings to Shareholders Fund Ratio (BSR)

This ratio is obtained by dividing borrowing by shareholder's fund.

$$BSR = \frac{Borrowing}{Shareholder's\ fund}$$

Borrowing consists of borrowing from local and foreign banks. The shareholders' fund comprises paid up capital, general reserve, retained earnings of reserve, general loss provision, etc.

Leverage (Capital Structure) Ratio

Capital structure ratios, also known as leverage ratios, are the measures of long term solvency of a bank. Capital structure generally refers to the composition of debt and equity component of overall capital of a firm. These ratios are calculated to judge the long-term financial position of the banks.

Specifically, structural ratio and coverage ratio have been calculated and interpreted under capital structure ratio. The first ratio deals with the composition of debt and equity capital where as to second shows the relationship between shareholders' fund and total assets of the banks. These two categories of ratios, particularly, include the following.

- Debt to equity ratio
- Debt to total capital ratio
- Total debt to total assets ratio
- Interest Coverage Ratio

(a) Debt to Equity Ratio (DER)

This ratio can be calculated in this way

$$DER = \frac{Total\ debt}{Shareholder's\ equity}$$

This ratio shows the relationship between debt capital and equity capital. High debt- equity ratio indicates greater financing by debt holders than those of

equity holders. From the creditor's view - point, high debt- equity ratio of the bank is more risky to them. It means the bank may fail to satisfy creditors.

(b) Debt to Total Capital Ratio (DTCR)

This ratio is calculated by dividing total debt by total capital.

$$DTCR = \frac{Total\ debt}{Total\ capital}$$

Total capital consists of the sum of interest bearing debt and net shareholders' equity. This ratio represents the relationship between total debt and total capital of the firm. This ratio, like debt equity ratio, gives the same result in relation to the banks' capital structure.

(c) Total Debt to Total Assets Ratio (TDTAR)

This ratio can be obtained by using following formula:

$$TDTAR = \frac{Total\ debt}{Total\ assets}$$

This ratio denotes the relationship between total debt and total assets of the banks. The higher ratio indicates the greater portion of the outsiders' fund investment in term of the banks' assets.

(d) Interest Coverage Ratio (ICR)

$$ICR = \frac{EBIT}{Interest}$$

This ratio is computed by dividing earning before income and tax (EBIT) by interest. This ratio evaluates the debt serving capacity of the banks. The higher ratio shows that the bank can pay the interest easily.

Profitability Ratios

Profitability ratios are calculated to measure the earning performance and operational efficiency of the banks. It is directly related to the earning of the banks for a certain period.

A bank should be able to produce adequate profit on each rupee of investment. If investments do not generate sufficient profits, it would be very difficult for the banks to cover operating expenses and interest charges. The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return of investment, its survival is threatened.[2]

Under this group, the researcher has calculated the following ratios to obtain the stated objectives of the study.

- Return on total assets ratio
- Return on net worth ratio
- Staff expenses to total income ratio
- Total interest expenses to total interest income ratio
- Return on shareholders' fund ratio

(a) Return on Total Assets Ratio (ROA)

This ration can be calculated by using the following formula:

$$RTAR = \frac{NPAT}{Total\ assets}$$

Where, NPAT denotes Net Profit after Tax. This ratio represents the relation ship between net profit and assets. NPAT indicates the profit after deduction of interest and tax. Total assets mean the assets that appear in asset side of balance sheet. The increasing ratio shows favorable situation for the banks. The higher ratio also shows that the bank could well manage their overall operations. But the lower ratio shows vice- versa.

(b) Return on Net worth Ratio (RONW)

This is obtained by dividing net profit after tax by net worth.

$$RONW = \frac{NPAT}{Net\ worth}$$

This ratio determines weather the investment in the banks are attractive or not. The higher ratio indicates the higher over all efficiency of the banks.

(c) Staff Expenses to Total Income Ratio (SETIR)

This ratio is computed by dividing staff expenses by total income:

$$SETIR = \frac{Staff\ \exp enses}{Total\ income}$$

The numerator includes salary and allowance, bank contribution to provident and gratuity funds, staff training expenses, medical expenses and other personal expenses.

This ratio indicates the relation between income and expenses made by staffs. The higher ratio shows that the staffs are getting more facilities. However from the bank point of view, low ratio is advantageous although staffs prefer high ratio.

(d) Total Interest Expenses to Total Interest Income Ratio (TIETIIR)

This ratio can be computed by using the following formula:

$$TIETIIR = \frac{Total\ \text{int}erest\ \exp enses}{Total\ \text{int}erest\ income}$$

The numerator consists of total interest paid on deposit liabilities, loans & advances and other deposits. The denominator comprises total interest eared or retain from loans and advances, cash credit and overdrafts, government securities, inter bank and other Investment. This ratio indicates how much interest expenses have been made in relation to interest income received. The higher ratio shows unfavorable profitability situation of the banks.

(e) Return on Shareholders' Fund Ratio (RSFR)

This ratio is obtained by dividing net profit after tax by shareholders' fund.

$$RSFR = \frac{NPAT}{Shareholder's\ equity}$$

This ratio measures the return earned on shareholders' investment in the bank. The higher ratio of return on equity is better for the shareholder. It builds trustworthiness to the customers as well as reputation of the bank

(f) Office Operation expenses to Total Income Ratio (OOETIR)

This ratio is calculated using the following formula

$$OOETIR = \frac{Office\ operating\ \exp enses}{Total\ income}$$

This ratio shows what portion of income spend in daily office operation. The lower ratio indicates the sound office operation and it is also significant for the banks.

Invisibility Ratios

An analysis of invisibility ratios helps the investors to know about the performance of the banks. Therefore, fallowing ratios have been calculated to test earning capacity of the banks to last earning capacity of the banks.

- Earning per share
- Dividend per share
- Tax per share
- Dividend pay out ratio

(a) Earning Per Share (EPS)

This Ratio is calculated by dividing earning available to common stock holder by number of outstanding shares of common stock.

$$EPS = \frac{Earning\ available\ to\ common\ shareholder}{No\ of\ outs\tan ding\ shares\ of\ common\ stock}$$

High ratio shows the sound profitability position of the bank. It is favorable for the investors too.

(b) Dividend per Share (DPS)

This ratio can be obtained by using following formula:

$$DPS = \frac{Earning\ paid\ to\ shareholders}{No.of\ common\ stock\ outs\tan ding}$$

This ratio shows per rupee earnings actually distributed to common stockholders per share held by them. High ratio is favorable for the shareholders.

(c) Tax per Share (TPS)

This ratio is obtained by dividing tax paid to government by number of common share outstanding.

$$TPS = \frac{Tax\ paid\ to\ government}{No.of\ common\ shares\ outs\tan ding}$$

Tax paid to government after deduction of interest from income. Tax is paid in net profit only. This ratio shows the contribution of shareholders for the economic development of the country. Higher TPS indicates the better profitability position of the banks

(d) Dividend Pay Out Ratio (DPR)

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

Where, DPS = Dividend per share

It determines the portion of per share dividend paid out of per share earning .The higher ratio is better to the shareholders. It builds faithfulness of the banks

Income and Expenditure Analysis

There are so many items in debit and credit side in income and expenditure or profit and loss account. This tool has been used to separate the income and expenditure in to main sub headings. So, this helps to compare between two competitive banks with respect to their nature of income and expenditure. Moreover, different proportion of the income and expenses has been separated according to their homogeneous nature. Under the income analysis there will four sub-headings, i.e., interest incomes, commission and discount, foreign exchange income, others income. In expenses analysis, it is divided

into major four sub-headings, i.e., interest expenses, staff expenses, office operation expenses and bonus facilities.

Statistical Tools

Although various statistical toots are available to analyze the obtained data, the

Research has selected the most suitable and commonly usable tools to support for trustworthy financial decision.

- Arithmetic mean
- Co-efficient of variance
- Least square liner trend
- Karl Parson's co-efficient of correlation
- Co-efficient of correlation and probable error

Arithmetic Mean

Arithmetic mean of a given set of observation is their sum divided by the number of observation. In general, if XI, X2 ……. Xn are the given number of observation, their arithmetic mean can be derived in this way:

$$\overline{X} = \frac{X1 + X2 + ...Xn}{n} = \frac{\sum X}{n}$$

Where, $\overline{X}$ = arithmetic mean

N = number of observation

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

Co-efficient of Variance

The co-efficient of variance is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean express in percent.[3]

Co-efficient of variance denotes by C.V. is given by:

$$C.V = \frac{S.D}{\overline{X}} x100 \approx \frac{\pm}{\overline{X}} x100$$

$$Where S.d(\pm) = S\tan dard\ deviation$$

Co-efficient of variance is also useful in comparing the amount of variation in data groups with different mean. It is the relative measures of dispersion. A distribution with smaller coefficient of variance is said to be more homogeneous or uniform than the other. On the other hand, a series with greater coefficient of variance is said to be more variable of heterogeneous than the other.[4]

Least Square Line Trend

The straight-line trend implies that irrespective of the seasonal and cyclical swings and irregular functions, the trend values increases of decreases by absolute amount per unit of time. The liner trend values from a series in arithmetic progression. ‘[5]

It is computed by following notations:

Y = a+bx

Where, Y = the value of dependent variable

a = intercept of trend line

b = slope of trend line

x = Value of the independent variable i.e., time

When they are put in normal equation, these two equations can be developed.

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

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

$$\sum X = 0$$

$$a = \frac{\sum y}{n} \text{ and } b = \frac{\sum XY}{X^2}$$

The constant 'a' is simply equal to the mean of y value and constant 'b' gives the rate of change.

This is a mathematical method which is widely used in practice. It is applied for finding out a trend line for those series which chance periodically in absolute amount.

Karl Pearson's Co-efficient Correlation

Out of several mathematical method of measuring correlation, the Karl Pearson's popularly known as Pearson's coefficient of correlation, is most widely used to measure the degree of relationship between two variables.[6] So, it is measured by following formula using two variables or series (X and Y).

Where, r = The coefficient of correlation

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

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

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

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

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

The value of this coefficient (r) can never be more than +1 or less than -1. Thus +1 and -1 are limits of this coefficient. Here, r = +1 implies that there is perfect positive correlation between the variables; but r -implies that there is perfect negative correlation between the variables. If it has a zero value (r = 0), it denotes no correlation between the variables.

Therefore, this theorem provides us a check on our calculation. If the obtained value lies outside the limits ±1, this implies that there is same mistake in calculation.

Coefficient of Correlation and Probable Error

Probable error of correlation is an old measure testing the reliably of an observed value of correlation coefficient. It is calculated to find the extend to which correlation coefficient is dependable as it depends upon the condition of random sampling probable error of correlation coefficient denoted by P.E. (r) is obtained as,

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

Where $\frac{1-r^2}{\sqrt{n}} =$ Standard Error Reason for taking 0.6745 is that in a normal 1-r distribution 5% of observation lie in range p. ± 1 0.675 o Where, i and o denote the population mean and standard deviation.

P.E. (r) is used to test if an observed value of sample correlation coefficient is significant of any correlation in population.

If r is less than its P.E. (r < P.E.) it is not all significant.

If r is more than P.E. (r> 6P.E.), there is correlation.

If r is more than 6 times its P.E. and greater than ±0.5, than it is considered coefficient.

Regression analysis

The relationship between a known variable and unknown variable to estimate the unknown one is termed as Regression Analysis. Thus, correlation measures the degree of relationship between variables while regression analysis shows how the variables are related. Regression & correlation analysis thus determines the nature and the strength of relationship between two variables.

Thus, regression is the estimation of unknown values or prediction of one variable from known values of other variables.

Multiple regression analysis is a logical extension of the simple linear regression analysis. In Multiple Regression Analysis, instead of a single independent variable, two or more independent variables are used to estimate the unknown values of a dependent variable.

Thus a multiple regression equation of X1 on X2 & X3 is an equation for estimating a dependent variable X1 from two independent variables X2 & X3.

The multiple regression equation of dependent variables X1 on two independent variables X2 & X3 is given by

$$\sum X1 = na1 + b1\sum X2 + b2\sum X3$$

$$\sum X1X2 = a1\sum X2 + b1\sum X2^2 + b2\sum X2X3$$

$$\sum X1X3 = a1\sum X3 + b1\sum X2X3 + b2\sum X3^2$$

Chapter 4

ANALYSIS AND PRESENTATION OF DATA

In this chapter, the data have been analyzed and interpreted using financial and statistical tools following the research methodology dealt in the third chapter. In the part of analysis, various tables have been prepared and data collected from different sources have been inserted in the required tables according to their homogeneous nature. The out comes of the analysis have been compared with conventional standard with respect to ratio analysis, directives of NRB and other factors. Especially, the financial performance of the sampled banks has been analyzed in cross-sectional manner. Furthermore, many suitable graphs, lines and diagrams have also been used to clarify the actual position and performance of the banks. So this chapter concentrates on the analysis and evaluation of the financial performance on the based of

Ratio Analysis

Correlation Analysis

Least Square Linear Trend

Regression Analysis

RATIO ANALYSIS

With respect to ratio analysis, five categories have been taken into account considering nature of items in the financial statements. These have again been subdivided into various groups. The calculation and interpretation of each have been made respectively.

Liquidity Ratio

This ratio has been used to evaluate the ability as well as the financial position of the banks. This includes current ratio; cash and bank balance to total deposit ratio; cash and bank balance to current and saving ratio; NRB balance to current and saving deposit ratio; NRB balance to fixed deposit ratio and fixed deposit to total deposit ratio.

(a) Current Ratio

$$CurrentRatio = \frac{CurrentAsstes}{CurrentLiabilities}$$

The current ratios for different years are presented in Table 1

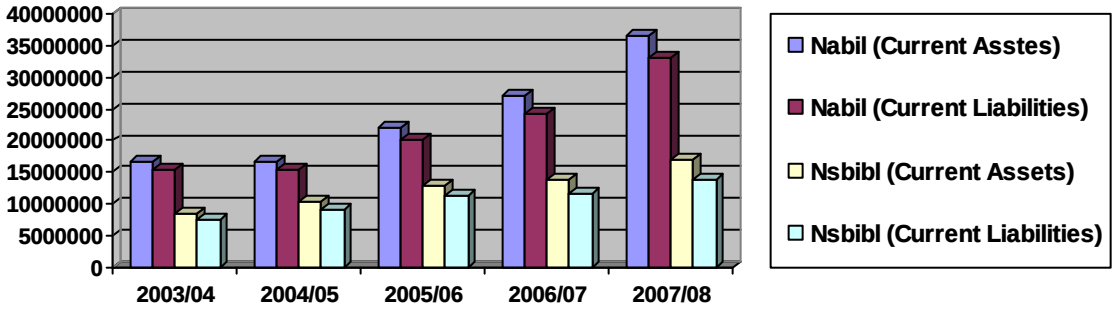
Table -1: Current Ratio

1. Amount in Rs. thousand

BANKS / YEAR	NABIL			NSBIBL		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
2003/04	1,66,38,730.00	1,54,96,142.00	1.07	8378055.00	7696563.00	1.08
2004/05	1,67,02,847.00	15,3,89,379.00	1.08	10278922.00	9186730.00	1.11
2005/06	2,20,10,885.00	2,02,81,772.00	1.08	12969128.00	11241034.00	1.15
2006/07	2,69,66,498.00	2,43,13,968.00	1.10	13803982.00	11722543.00	1.17
2007/08	3,65,34,721.00	3,30,86,557.00	1.10	17067224.00	13945319.00	1.22
Mean			1.09			1.15
S.D.			1.31			4.68
C.V.			1.20			4.61

Table 1 depicts that the current ratios of NABIL remained 1.07, 1.08, 1.08, 1.10 and 1.10 respectively from the year 2003/04 to 2009/08. Mean of the ratios and CV seemed 1.09 and 1.31 respectively. Likewise, the ratios in NSBIBL remained 1.08, 1.11, 1.15, 1.17 and 1.22 in the corresponding years. Mean of the ratios came 115.24% and 4.68%. The ratio of the both banks revealed nominally increasing trend over the study periods. However, both banks' ratio did not fall bellow 1:1.Mean of the in the NABIL is slightly greater than that of NSBIBL which shows that both the banks could not maintain the conventional standard of 2:1

The ratio below the normal standard may seen satisfy, but it denotes that-the banks may suffer from liquidity. So, the banks may loose their creditability because they may not able to pay to the depositors at demand. The banks will have problem in winning the confidence of current depositors as well as short-term lenders. As per CV analysis, both of the banks showed almost same uniformity in ratios.



(b) Cash and Bank Balance to Total Deposit Ratio (CBBTDR)

$$CBBTDR = \frac{Cash\ and\ bank\ balance}{Total\ deposit}$$

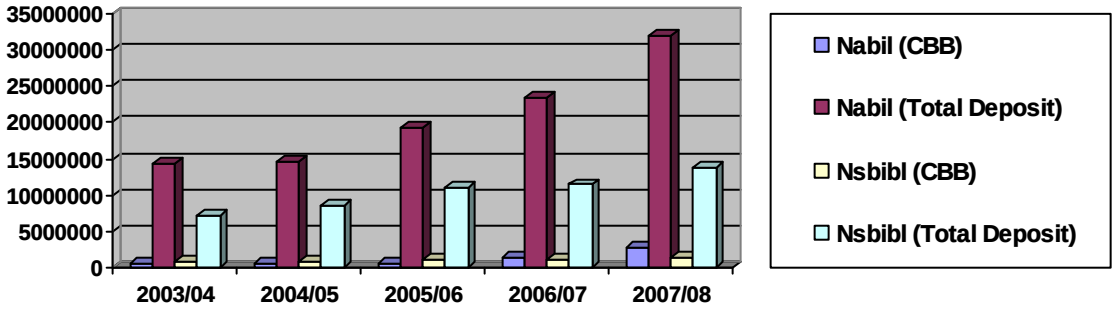
Cash and Bank Balance to Total Deposit Ratio for different sampled years have been presented in Table 2

Table 0-2: Cash and Bank Balance to Total Deposit Ratio

2. Amount in Rs. thousand

BANKS	NABIL			NSBIBL		
YEAR	CBB	Total Deposit	Ratio	CBB	Total Deposit	Ratio
2003/04	5,19,560.00	1,43,87,025.00	0.036	8,64,426.00	71,98,327.00	0.12
2004/05	5,59,380.00	1,45,86,608.00	0.038	7,32,744.00	85,54,774.00	0.085
2005/06	6,30,237.00	1,93,47,399.00	0.033	11,18,157.00	1,10,02,040.00	0.10
2006/07	1,3,99,824.00	2,33,42,285.00	0.06	11,22,689.00	1,14,45,286.00	0.09
2007/08	26,71,139.00	3,19,35,047.00	0.084	13,42,959.00	1,37,15,394.00	0.097
Mean			0.05			0.10
S.D.			0.19			0.14
C.V.			39.00			11.35

Table 2 shows that the cash and bank balance to total deposit ratios were 0.036, 0.038, 0.033, 0.06 and 0.084 NABIL in the respective years of the study period. Mean and CV of the ratios appeared 5.01 and 1.93 respectively. Accordingly, the ratios of NSBIBL remained 0.12, 0.085, 0.10, 0.09 and 0.097 in corresponding years. Mean of the ratio came 10.14 & CV came 11.35



The ratios of NSBISL were in fluctuation throughout the study period. The mean ratio of the NSBIBL is higher than that of NABIL.

Hence, greater average ratio indicates that NSBIBL is more competent in paying deposits and it can keep more liquidity to serve the depositors than NABIL. It can be determined on the basis of CV analysis that the ratios of NABIL varied to a greater extent than that of NSBIBL.

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

$$CBBCSDR = \frac{Cash\ and\ bank\ balance}{Current\ saving\ deposit}$$

Cash and bank balance to current and saving ratios for different periods have been presented in Table 3

Table 0-3: Cash and Bank Balance to Current and Saving Deposit Ratio

3. Amount in Rs. thousand

BANKS	NABIL			NSBIBL		
YEAR	CBB	CSD	Ratio	CBB	CSD	Ratio
2003/04	5,19,560.00	59,94,121.00	0.086	8,64,426.00	24,58,800.00	0.35
2004/05	5,59,380.00	61,14,555.00	0.091	7,32,744.00	20,43,021.00	0.35
2005/06	6,30,237.00	77,56,989.00	0.081	11,18,157.00	28,32,639.00	0.39
2006/07	13,99,824.00	1,01,87,354.00	0.13	11,22,689.00	32,74,690.00	0.34
2007/08	26,71,139.00	1,21,59,966.00	0.21	13,42,959.00	41,71,175.00	0.32
Mean			0.12			0.35
S.D.			0.08			0.02
C.V.			66.88			6.56

The table 3 highlights that the cash and bank balance to current and saving deposit ratios in NABIL remained 0.086, 0.091, 0.081, 0.13 and 0.21 from 2003/04 to .2007/08 respectively. Mean of the ratios appeared 12.32 and CV of the ratios appeared 66.88 In the same way, the ratios of NSBIBL were 0.35,

0.35, 0.39, 0.34 and 0.32 in the respective years of the study period. Mean and CV of the ratios came 35.50 and 6.56.

The calculated ratios with respect to NABIL revealed increasing trend in the first two fiscal years and fluctuating trend in remaining years. It was highest in the second fiscal Year and lowest the second-last year. In the same way, the ratios of NSBIBL seemed in increasing trend over the three fiscal years period then after decreased in one fiscal year and increase in another year. Average of the ratio deemed around four times greater in NSBIBL as computed to that in NABIL. The higher mean shows that NSBIBL is more competent in paying short-term obligation than NABIL. Moreover, CV of the ratios appeared y greater in SBIBL, which indicates the higher fluctuation in ratio
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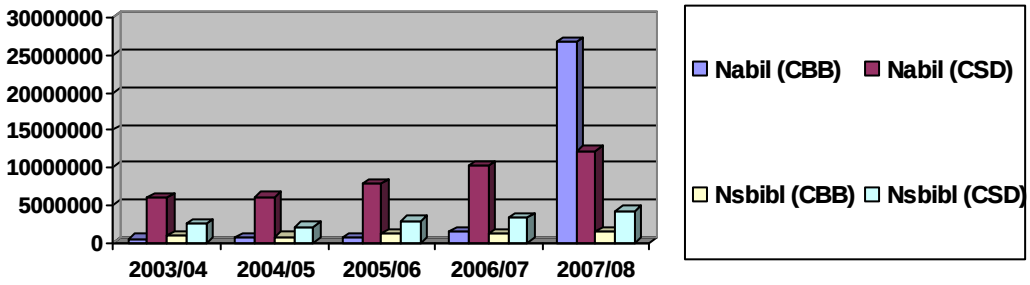


(d) CBB Balance to Fixed Deposits Ratio

This ratio is calculated by dividing CBB balance by fixed deposits. This is stated as:

$$CBB/FD = \frac{CBB\,balance}{Fixed\,deposit}$$

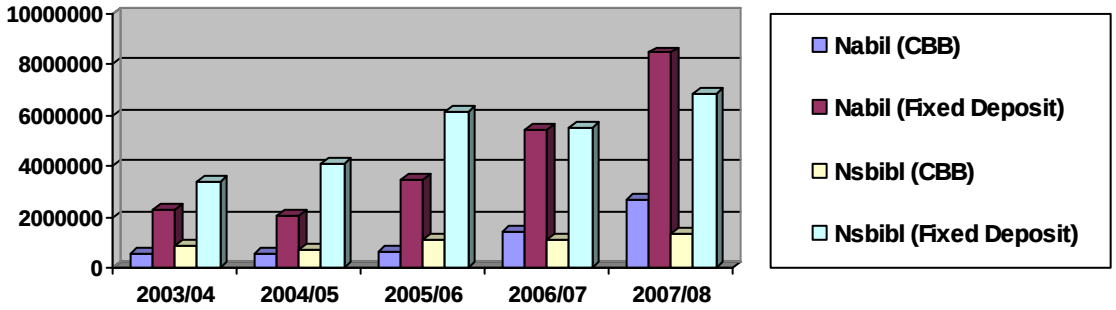
This ratio for different sampled years are presented in Table 4

Table -4: NRB Balance to Fixed Deposits Ratio

4. Amount in Rs. thousand

BANKS	NABIL			NSBIBL		
YEAR	CBB	FIXED DEPOSIT	Ratio	CBB	FIXED DEPOSIT	Ratio
2003/04	5,19,560.00	23,10,571.00	0.22	8,64,426.00	3352270.00	0.25
2004/05	5,59,380.00	20,78,535.00	0.26	7,32,744.00	4086358.00	0.17
2005/06	6,30,237.00	34,49,094.00	0.18	11,18,157.00	6116172.00	0.18
2006/07	13,99,824.00	54,35,189.00	0.25	11,22,689.00	5517466.00	0.20
2007/08	26,71,139.00	84,64,086.00	0.31	13,42,959.00	6854884.00	0.19
Mean			0.18			0.20
S.D.			0.07			0.02
C.V.			41.55			13.88

The table 4 exposed that the ratios were 0.22, 0.36, 0.18, 0.25 and 0.31 in NABIL in the corresponding years of the-study period. Mean of the ratios is in 18.58 whereas CV appeared 41.55. In NSBIBL, the ratios remained 0.25, 0.17, 0.18, 0.20 and 0.19 in the corresponding years. Men and CV of the ratios are 20.38 and 13.88 respectively.



(f) Fixed Deposit to Total Deposit Ratio (FDTDR)

$$FDTDR = \frac{Fixed\ deposit}{Total\ deposit}$$

Fixed deposits to total deposits ratio for different sampled years have been presented table 5

Table -5: Fixed Deposit to Total Deposit Ratio

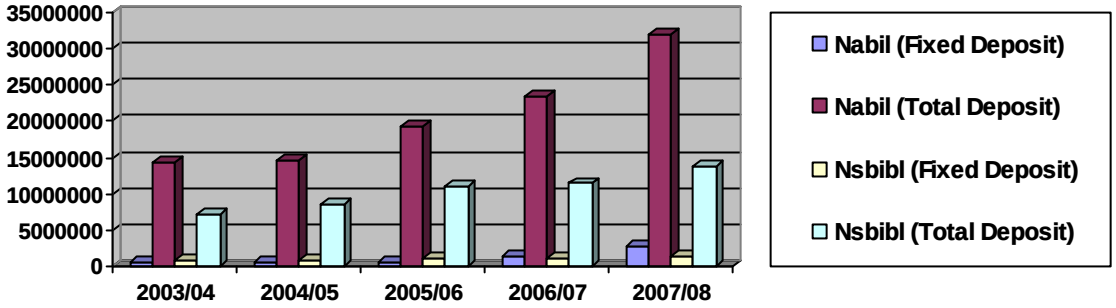
5. Amount in Rs. thousand

BANKS	NABIL			NSBIBL		
YEAR	Fixed Deposit	Total Deposit	Ratio	Fixed Deposit	Total Deposit	Ratio
2003/04	5,19,560.00	1,43,87,025.00	0.16	8,64,426.00	71,98,327.00	0.46
2004/05	5,59,380.00	1,45,86,608.00	0.14	7,32,744.00	85,54,774.00	0.47
2005/06	6,30,237.00	1,93,47,399.00	0.17	11,18,157.00	1,10,02,040.00	0.55
2006/07	13,99,824.00	2,33,42,285.00	0.23	11,22,689.00	1,14,45,286.00	0.48
2007/08	26,71,139.00	3,19,35,047.00	0.26	13,42,959.00	1,37,15,394.00	0.49
Mean			0.19			0.49
S.D.			0.04			0.03
C.V.			23.62			6.54

The table 5 exhibits that the fixed deposit to total deposits ratio of NABIL were 0.16, 0.14, 0.17, 0.23 and 0.26 in the respective year of study period. Mean & CV of the ratios appeared 19.47 and 23.62 respectively. Similarly, the ratios in NSBIBL seemed 0.46, 0.47, 0.55, 0.48 and 0.49 respectively in the

corresponding year. Mean and CV of the ratio came 49.51 and 6.54 in that order.

Comparatively, due to the average ratio, NSBIBL can utilize its fund in sufficient profit generating area like long term loans. It makes its liquidity position. Higher CV of the ratios of NSBIBL reflects less consistency maintaining fixed deposit with respect to deposit



Activity Ratios

Activity ratios were used to evaluate managerial efficiency in proper utilization of assets. This includes investment to total deposit ratio, loans and advances to total deposit ratio, loans and advances to total assets ratio, loan advance to saving deposit ratio and total income generating assets to total deposit ratio.

(a) Investment to Total Deposits Ratio (ITDR)

$$ITDR = \frac{Investment}{Total\ Deposit}$$

Investment to total deposit ratio for different sampled years were presented in table 6

Table -6: Investment to Total Deposit Ratio

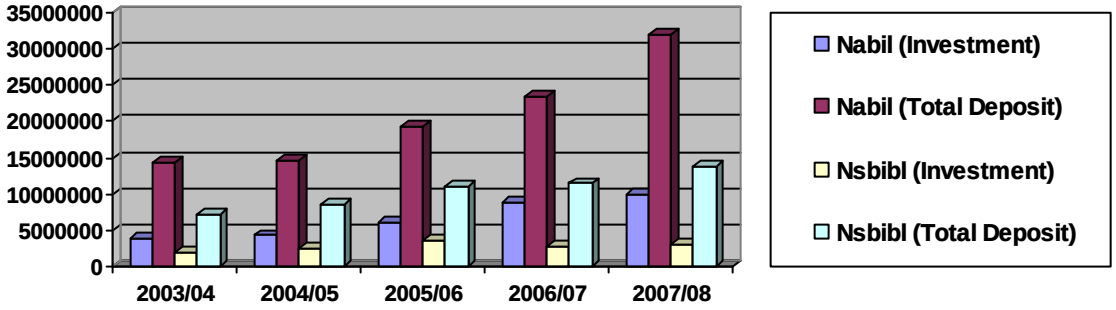
6. Amount in Rs. thousand

BANKS	NABIL			NSBIBL		
YEAR	Investment	Total Deposit	Ratio	Investment	Total Deposit	Ratio
2003/04	38,27,426.00	1,43,87,025.00	0.26	19,07,520.00	71,98,327.00	0.26
2004/05	42,75,528.00	1,45,86,608.00	0.29	26,07,680.00	85,54,774.00	0.30
2005/06	61,78,533.00	1,93,47,399.00	0.31	36,10,775.00	1,10,02,040.00	0.32
2006/07	89,45,310.00	2,33,42,285.00	0.38	26,59,452.00	1,14,45,286.00	0.23
2007/08	99,39,771.00	3,19,35,047.00	0.31	30,88,886.00	1,37,15,394.00	0.23
Mean			0.31			0.27

S.D.	0.03	0.04
C.V.	13.00	15.00

The table 6 depicts that investment to total deposit ratios of NABIL remained 0.26, 0.29, 0.31, 0.38 and 0.31 respectively from the year 2002/03 to 2007/08. Mean of the ratios and CV seems 31.46 and 13 respectively. Likewise, the ratios of NSBIBL remains 0.26, 0.30, 0.32, 0.23 and 0.23 in corresponding year. Mean of the ratios came 27.04 and CV 15.00.

The ratios of NABIL shows fluctuating pattern over five fiscal years. This highest in the fiscal 2006/07 and lowest was in the fiscal 2003/04. Mean ratio of the NABIL is greater than NSBIBL. Higher mean shows that NABIL is more successful in the utilization of deposit than NSBIBL.



(b) Loan and Advance to Total Deposit Ratio (LATDR)

$$LATDR = \frac{Loan\,and\,advance}{Total\,deposit}$$

Loan and advance to total deposit ratio different sampled years were presented in table 7

Table -7: Loan And Advance to Total Deposit Ratio

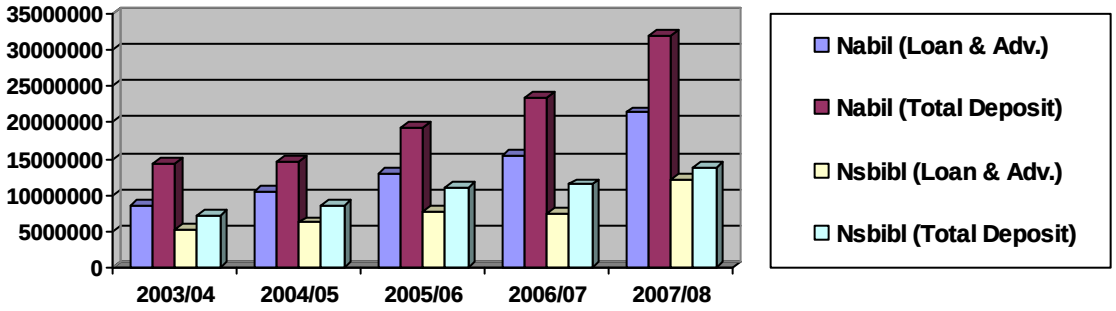
7. Amount in Rs. thousand

BANKS	NABIL			NSBIBL		
YEAR	Loan & Adv.	Total Deposit	Ratio	Loan & Adv.	Total Deposit	Ratio
2003/04	84,37,894.00	1,43,87,025.00	0.58	51,43,662.00	71,98,327.00	0.71
2004/05	1,05,86,170.00	1,45,86,608.00	0.72	62,13,878.00	85,54,774.00	0.72
2005/06	1,29,22,543.00	1,93,47,399.00	0.67	76,26,736.00	1,10,02,040.00	0.69
2006/07	1,55,45,778.00	2,33,42,285.00	0.66	74,60,450.00	1,14,45,286.00	0.83
2007/08	2,13,65,053.00	3,19,35,047.00	0.67	1,21,13,698.00	1,37,15,394.00	0.83
Mean			0.66			0.79
S.D.			0.04			0.07
C.V.			7.00			10.00

The table 7 highlights that the loans and advances to total deposit ratio were 0.58, 0.72, 0.67, 0.66 and 0.67 in the respective year of study period. Mean and CV of the ratios appeared 66.32 and 7.00 respectively. Likewise the ratios of NSBIBL for the sampled years remained 0.71, 0.72, 0.69, 0.83 and 0.83. Mean and CV of the ratios appeared 79.76 and 10.00 respectively.

The ratios of NABIL indicated slight fluctuation where as that of NSBIBL were in flexible trend. The mean and CV of the ratios of NABIL appeared lesser than NSBIBL.

Comparatively, higher average ratios in NSBIBL reveal that it is more efficient to utilize the financial resources in productive sector than NABIL. In addition, the ratios of NABIL seemed more uniformity because of its lesser CV.



(c) Loans and Advances to Total Assets Ratio (LATAR)

$$LATAR = \frac{Loan\,and\,advance}{Total\,assets}$$

Loans and advance to total assets ratio for different years are presented in table 8.

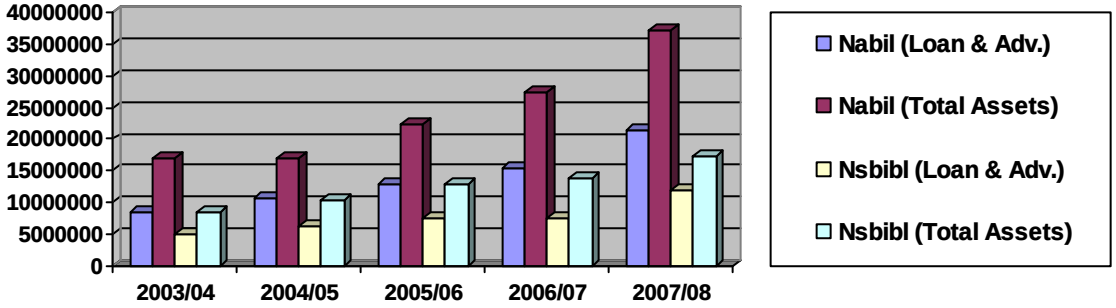
Table -8: Loans and Advances to Total Assets Ratio

8. Amount in Rs. thousand

BANKS	NABIL			NSBIBL		
YEAR	Loan & Adv.	Total Assets	Ratio	Loan & Adv.	Total Assets	Ratio
2003/04	84,37,894.00	1,69,07,896.00	0.49	51,43,662.00	84,40,405.00	0.61
2004/05	1,05,86,170.00	1,70,64,082.00	0.62	62,13,878.00	1,03,45,373.00	0.60
2005/06	1,29,22,543.00	2,23,29,971.00	0.58	76,26,736.00	1,30,35,839.00	0.59
2006/07	1,55,45,778.00	2,72,53,393.00	0.57	74,60,450.00	1,39,01,200.00	0.68
2007/08	2,13,65,053.00	3,71,32,759.00	0.58	1,21,13,698.00	1,71,87,446.00	0.70
Mean			0.56			0.63
S.D.			0.4			0.5
C.V.			7.00			8.00

The table 8 reflects that the loans and advances to total assets ratios were 0.49, 0.62, 0.58, 0.57 and 0.58 in NABIL in the respective year of the study period. Mean & CV of ratios came into 56.88 and 7.00. Accordingly the ratios of NSBIBL remained 0.61, 0.60, 0.59, 0.68 and 0.70 respectively. Mean and CV seems 63.61 and 8.00 respectively.

Hence, higher average ratio indicates that NSBIBL is more competent in utilization of loan and advance. According to CV analysis, it shows be that the ratios of NSBIBL varied to greater extent than that of NABIL.



(d) Loans and advance To Saving Deposit Ratio (LASDR)

$$LASDR = \frac{Loan\ and\ advance}{Saving\ deposit}$$

Loans and advance to saving deposit ratio for different sampled years are presented in table 9

Table -9: Loans and Advance to Saving Deposit Ratio

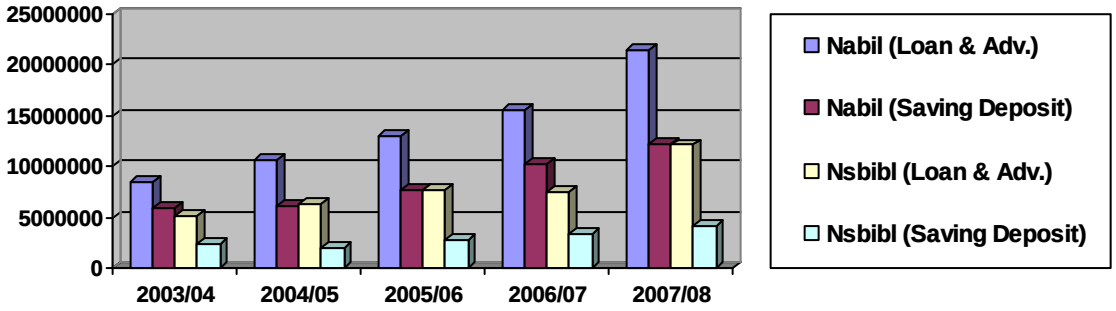
9. Amount in Rs. thousand

BANKS	NABIL			NSBIBL		
YEAR	Loan & Advance	Saving Deposit	Ratio	Loan & Advance	Saving Deposit	Ratio
2003/04	84,37,894.00	59,94,121.00	14.07	51,43,662.00	24,58,800.00	20.91
2004/05	1,05,86,170.00	61,14,555.00	17.31	62,13,878.00	20,43,021.00	30.31
2005/06	1,29,22,543.00	77,56,989.00	16.65	76,26,736.00	28,32,639.00	26.92
2006/07	1,55,45,778.00	1,01,87,354.00	15.52	74,60,450.00	32,74,690.00	28.88
2007/08	2,13,65,053.00	1,21,59,966.00	17.56	1,21,13,698.00	41,71,175.00	29.04
Mean			16.17			27.27
S.D.			13.20			33.54
C.V.			8.16			12.31

The table 9 exposes that the loans and advances to saving deposits of NABIL remained 14.07, 17.31, 16.65, 15.52 and 17.56 respectively over the study period. Mean and CV of the ratios appeared in NABIL were 16.17 and 8.16 respectively.

In the same way, the ratios of NSBIBL were 20.91, 30.31, 26.92, 28.88 and 29.04 and mean & CV were 27.27 and 12.31 respectively.

In the both banks, the ratios revealed fluctuation trend over the study period. The ratios decline up to 15.25. The ratios of NSBIBL ranged from minimum of 20.91 in the year 2003/04 and it is maximum 30.41in second year.



(e) Total Income Generating Assets to Total Assets Ratio (TIGATAR)

$$TIGATAR = \frac{Total\ income\ ganerating\ asstes}{Totalassets}$$

Total income generating assets to total assets ratio for different sampled years have been presented in table 10.

Table 6: Total Income Generating Assets to Total Assets Ratio

10. Amount in Rs. thousand

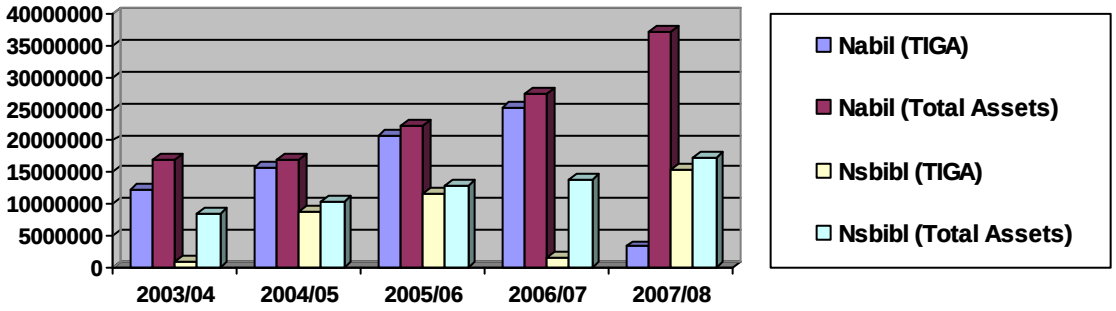
BANKS	NABIL			NSBIBL		
YEAR	TIGA	Total Assets	Ratio	TIGA	Total Assets	Ratio
2003/04	1,23,19,044.00	1,69,07,896.00	0.79	10,51,182.00	84,40,405.00	0.83
2004/05	1,57,30,126.00	1,70,64,082.00	0.92	88,54,670.00	1,03,45,373.00	0.85
2005/06	2,08,35,977.00	2,23,29,971.00	0.93	1,16,00,711.00	1,30,35,839.00	0.89
2006/07	2,50,54,620.00	2,72,53,393.00	0.91	1,4,69,902.00	1,39,01,200.00	0.89
2007/08	33,25,184.00	3,71,32,759.00	0.89	1,55,06,596.00	1,71,87,446.00	0.90
Mean			0.89			0.87
S.D.			4.91			2.58

C.V.	6.00	2.94

The table 10 exhibits that the total income generating assets to total assets of the NABIL remained 0.79, 0.92, 0.93, 0.91 and 0.89 in the respective period of study period. Mean and CV appeared 0.89 and 6.00 in NABIL. Likewise the ratios in NSBIBL revealed 0.83, 0.85, 0.89, 0.89 and 0.90 and mean and CV came 0.87 and 2.94 respectively.

The ratios of NABIL exposed slightly fluctuating trend over the period. It ranged between 0.79 in first fiscal year and 0.89 in last year over the study period. In NSBIBL the ratios increasing trend.

Higher the mean shows that NABIL has more income generating assets then that of NSBIBL and less CV of NSBIBL shows that it has more uniformity then of NABIL.



(f) Total Income Generating Assets To Total Debt Ratio (TIGATDR)

$$TIGATDR = \frac{Income\ generating\ assets}{Totaldebt}$$

Total income generating assets to total deposit ratio for different sampled years have been presented in table 11.

Table -71: Total Income Generating Assets to Total Debt Ratio

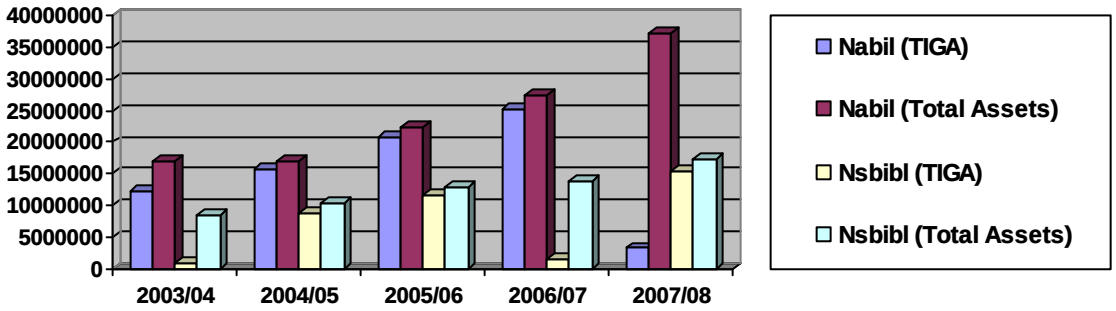
11. Amount in Rs. thousand

BANKS	NABIL			NSBIBL		
YEAR	TIGA	Total Debt	Ratio	TIGA	Total Debt	Ratio
2003/04	1,23,19,044.00	1,31,85,571.00	0.93	10,51,182.00	43,44,293.00	1.62
2004/05	1,57,30,126.00	1,33,10,844.00	1.18	88,54,670.00	51,00,372.00	1.73
2005/06	2,08,35,977.00	1,68,32,678.00	1.23	1,16,00,711.00	51,24,862.00	2.26
2006/07	2,50,54,620.00	1,88,78,579.00	1.32	1,24,69,902.00	62,05,077.00	2.00
2007/08	33,25,184.00	2,80,70,635.00	1.14	1,55,06,596.00	70,90,434.00	2.18
Mean			1.16			1.96

S.D.	13.06	24.89
C.V.	11.20	12.67

The table 11 exposes that the total income generating assets to total deposit ratios were 0.93, 1.18, 1.23, 1.32 and 1.14 respectively. Mean and CV appeared 1.16 and 11.20 in NABIL. In NSBIBL the ratios remains 1.62, 1.73, 2.26, 2.00 and 2.18 and mean And CV were 1.96 and 12.67.

In NABIL higher ratio is 1.32 in 2006/09 and lowest is 0.93 in 2003/04. In NSBIBL ratios are in increasing trend. Mean of the NABIL is lesser than NSBIBL..



Capital Adequacy Ratio

Capital adequacy ratio was used to measure especially the financial strength and weakness as well as solvency position of the banks. The net worth to total assets ratio, net worth to total deposit ratio, borrowing to shareholders equity ratio were used.

(a) Net Worth To Total Assets Ratio (NWTAR)

$$NWTAR = \frac{Net\,Worth}{Total\ assets}$$

Net worth to total assets ratio for different sampled years are presented in table 12.

Table -82: Net Worth to Total Assets Ratio

12. Amount in Rs. thousand

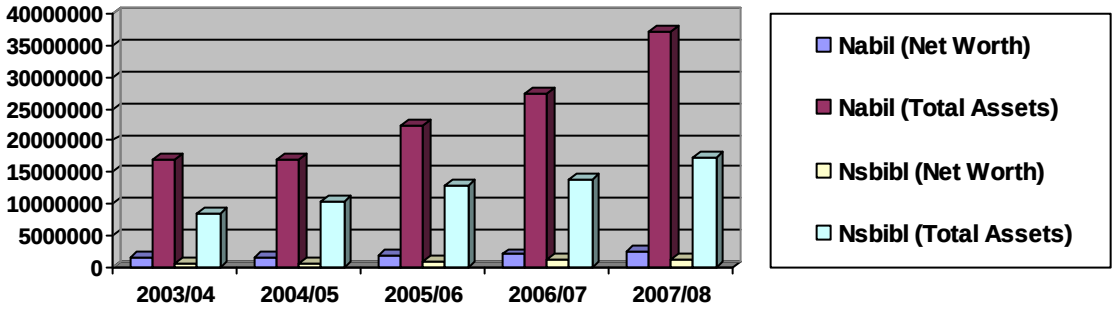
BANKS / YEAR	NABIL			NSBIBL		
	Net Worth	Total Assets	Ratio	Net Worth	Total Assets	Ratio
2003/04	15,87,269.00	1,69,07,896.00	0.093	6,26,635.00	84,40,405.00	0.074
2004/05	16,57,367.00	1,70,64,082.00	0.097	6,89,012.00	1,03,45,373.00	0.066
2005/06	18,74,994.00	22,32,9971.00	0.084	9,82,373.00	1,30,35,839.00	0.075
2006/07	20,57,049.00	2,72,53,393.00	0.075	11,63,290.00	1,39,01,200.00	0.083

2007/08	24,37,198.00	3,71,32,759.00	0.065	14,14,643.00	1,71,87,446.00	0.082
Mean			0.083			0.076
S.D.			1.17			0.62
C.V.			18.00			9.00

The table 12 depicts that net worth to total assets ratios were 0.093, 0.097, 0.084, 0.075 and 0.065in NABIL in the respectively year of the study period. Mean and CV of the ratios are 0.083 and 18.00 respectively. Similarly, the ratios of NSBIBL remain 0.074, 0.066, 0.075, 0.083 and 0.082 respectively and mean and CV came 0.076 and 9.00.

According to analysis, it showed the ratios of NABIL were in decreasing trend and that of NSBIBL were in fluctuating trend. Mean ratio seemed higher in NABIL but CV seemed higher in NABIL.

Hence, greater average ratio indicates that NABIL has greater contribution to investors fund and strong capital adequacy position than NSBIBL. Moreover, CV of the ratios of NABIL is higher than NSBIBL, which shows that the ratios of NABIL were less consistent**.**



(b) Net Worth to Total Deposit Ratio (NWTDR)

$$NWTDR = \frac{Net\ worth}{Total\ deposit}$$

Net worth to total deposit ratio for different sampled years have been presented in table 13.

Table -93: Net Worth to Total Deposit Ratio

13. Amount in Rs. thousand

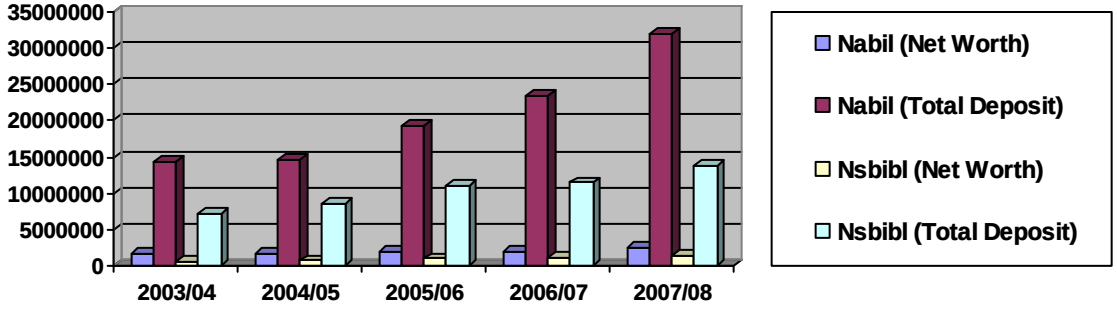
BANKS / YEAR	NABIL			NSBIBL		
	Net Worth	Total Deposit	Ratio	Net Worth	Total Deposit	Ratio
2003/04	15,87,269.00	1,43,87,025.00	0.11	62,66,35.00	71,98,327.00	0.08

2004/05	16,57,367.00	1,45,86,608.00	0.11	6,89,012.00	85,54,774.00	0.08
2005/06	18,74,994.00	1,93,47,399.00	0.09	9,82,373.00	1,10,02,040.00	0.09
2006/07	20,57,049.00	2,33,42,285.00	0.08	11,63,290.00	1,14,45,286.00	0.10
2007/08	24,37,198.00	3,19,35,047.00	0.07	14,14,643.00	1,37,15,394.00	0.10
Mean		.	0.09			0.09
S.D.			1.39			0.89
C.V.			15.00			10.00

The table 13 displays that the net worth to total deposit ratios of NABIL remained 0.11, 0.11, 0.09, 0.08 and 0.07 in the respective year of the study period. Mean and CV of the ratios seemed 0.09 and 15.00 respectively. In the same way, the ratios of NSBIBL appeared 0.08, 0.08, 0.09, 0.10 and 0.10 respectively. Mean and CV of the ratios came 0.09 and 10.00.

The ratio of NABIL showed in decreasing trend. Ratios decrease from 0.11 to 0.07 in 2007/08. In NSBIBL the ratios are also in fluctuating trend then NABIL. But CV of the ratio appeared more than one and half times.

Comparatively, NABIL is superior than NSBIBL because of its better capital adequacy ratio was found in NABIL.



(c) Borrowing to shareholders fund ratio (BSFR)

$$BSFR = \frac{Borrowing}{Shareholders\ fund}$$

Borrowing to shareholders' fund ratio for different sampled years have been presenter in table 15.

Table -104: Borrowing to Shareholders Fund Ratio

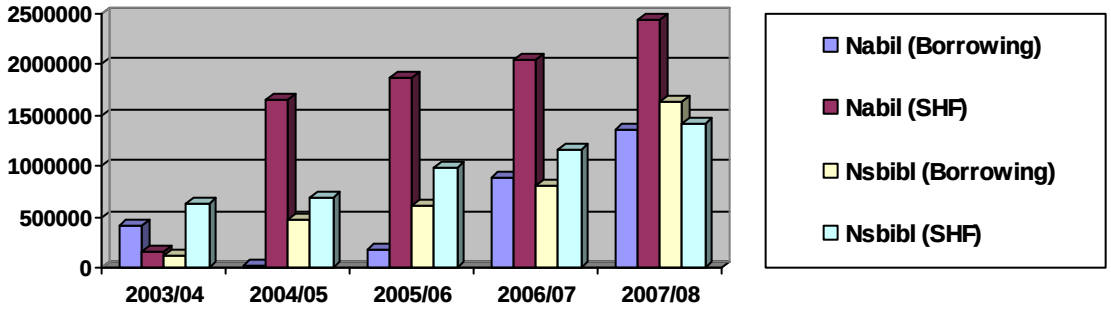
14. Amount in Rs. thousand

BANKS / YEAR	NABIL			NSBIBL		
	Borrowing	SHF	Ratio	Borrowing	SHF	Ratio
2003/04	4,17,298.00	1,58,269.00	0.26	1,17,177.00	6,26,635.00	0.18
2004/05	17,062.00	16,57,367.00	0.01	4,69,628.00	6,89,012.00	0.68

2005/06	1,73,201.00	18,74,994.00	0.09	6,12,428.00	9,82,373.00	0.62
2006/07	8,82,572.00	20,57,049.00	0.42	8,15,365.00	11,63,290.00	0.70
2007/08	13,60,000.00	24,37,198.00	0.55	16,27,480.00	14,14,634.00	1.15
Mean			0.27			0.66
S.D.			20.29			30.57
C.V.			74.89			45.72

The table 14 shows that the borrowing to shareholders fund ratio in NABIL 0.26, 0.01, 0.09, 0.42 and 0.55 respectively. Mean and CV of the ratio seemed 0.27 and 74.89 respectively. In the same way the ratios were 0.18, 0.68, 0.62, 0.70 and 1.15 respectively. Mean and CV of the ratios came 0.66 and 45.72.

The ratio in NABIL seemed in increasing trend. Similarly NSBIBL also have increasing trend borrowing. CV came significantly high in NABIL.



Leverage (Capital Structure) Ratio

Capital structure ratios were used concluded to know the long term solvency of the sampled banks. This included debt to equity ratio, debt to total capital ratio, debt to total assets ratio, and interest ratio.

(a) Debt to Equity Ratio (DER)

$$DER = \frac{Total\ debt}{Shareholders'\ equity}$$

Table -115: Debt to Equity Ratio

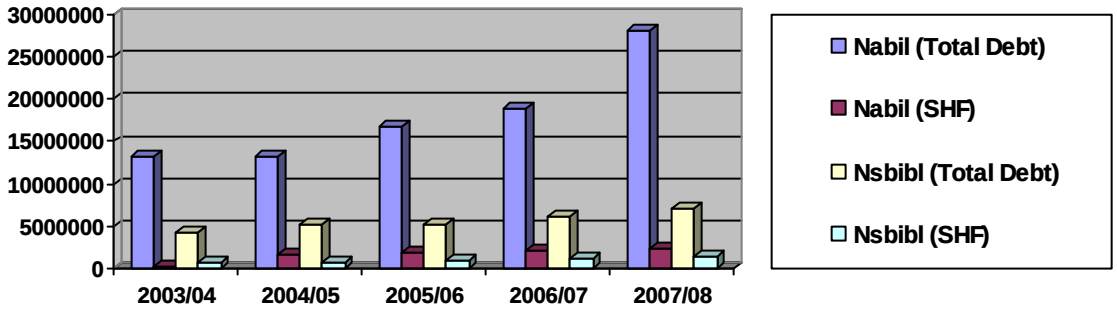
15. Amount in Rs. thousand

BANKS	NABIL	NSBIBL

YEAR	Total Debt	SHE	Ratio	Total Debt	SHE	Ratio
2003/04	13,18,5571.00	1,58,269.00	83.31	43,44,293.00	6,26,635.00	69.33
2004/05	1,33,10,844.00	16,57,367.00	80.31	51,00,372.00	6,89,012.00	74.02
2005/06	1,68,32,678.00	18,74,994.00	89.77	51,24,862.00	9,82,373.00	52.16
2006/07	1,88,78,579.00	20,57,049.00	91.77	62,05,077.00	11,63,290.00	53.34
2007/08	2,80,70,635.00	24,37,198.00	115.17	70,90,434.00	14,14,634.00	50.12
Mean			92.06			59.79
S.D.			44.31			98.66
C.V.			4.81			16.49

The table 15 reveals that the debt to equity ratio of NABIL was 83.33, 80.31, 89.77, 91.77 and 115.17 respectively. The mean and CV of the ratios were 92.06 and 4.81 respectively. In the same way, the ratios of NSBIBL were 69.33, 74.02, 52.16, 53.34 and 50.12 respectively in the study period. Mean and ratios seemed 59.79 and 16.49 respectively.

The ratios of NABIL were in increasing trend throughout the study period. Mean seems higher in NABIL than NSBIBL. Although both of the banks are livered. It means, NSBIBL is riskier and may fail to satisfy the creditors.



(b) Debt to total Capital Ratio (DTCR)

$$DTCR = \frac{Total\ debt}{Total\ capital}$$

Debt to total capital ratio for different sampled years have been presented in table 16.

Table -126: Debt to Total Capital Ratio

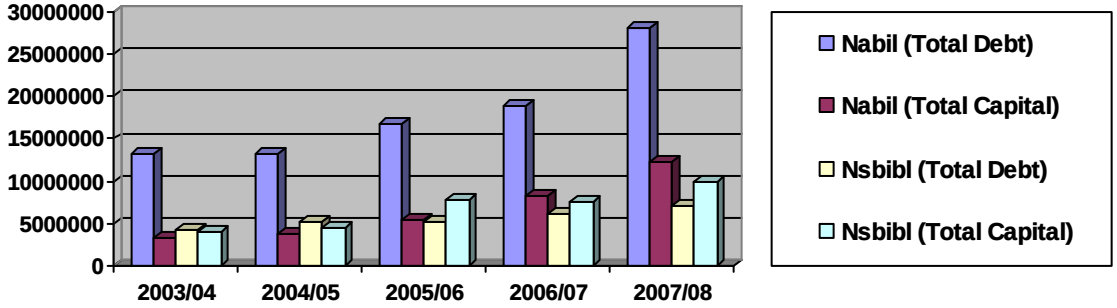
16. Amount in Rs. thousand

BANKS / YEAR	NABIL			NSBIBL		
	Total Debt	Total Capital	Ratio	Total Debt	Total Capital	Ratio
2003/04	13,18,5571.00	33,73,417.00	39.08	43,44,293.00	40,96,382.00	10.60
2004/05	1,33,10,844.00	37,53,234.00	35.46	51,00,372.00	45,10,910.00	11.30
2005/06	1,68,32,678.00	54,97,289.00	30.61	51,24,862.00	77,10,973.00	0.66
2006/07	1,88,78,579.00	83,73,810.00	22.54	62,05,077.00	74,96,121.00	0.82

2007/08	2,80,70,635.00	1,22,61,284.00	22.89	70,90,434.00	98,97,007.00	0.71
Mean			30.12			0.87
S.D.			66.15			19.74
C.V.			21.96			22.43

The table 16 depicts that debt to total capital ratios of NABIL were 39.08, 35.46, 30.61, 22.54 and 22.89 respectively in the study period. Mean and CV of the ratios were 30.12 and 21.96 respectively. Likewise, the ratios in NSBIBL remained 10.60, 11.30, 0.66, 0.82 and 0.71 respectively. The mean and CV of the ratios of NSBIBL were 0.87 and 22.43 respectively.

The ratios in NABIL showed in decreasing pattern In NSBIBL the ratios seemed in fluctuating trend of the study period. Mean were seemed higher in NABIL than NSBIBL but CV seemed higher in NSBIBL.



(c) Total Debt to Total assets Ratio (TDTAR)

$$TDTAR = \frac{Total\ debt}{TotakAssets}$$

Total debt to total assets for different sampled years has been presented in table 17.

Table -17: Total Debt to Total Assets Ratio

17. Amount in Rs. thousand

BANKS / YEAR	NABIL			NSBIBL		
	Total Debt	Total Assets	Ratio	Total Debt	Total Assets	Ratio
2003/04	1,31,85,571.00	1,69,07,896.00	0.77	43,44,293.00	84,40,405.00	0.51
2004/05	1,33,10,844.00	1,70,64,082.00	0.78	51,00,372.00	1,03,45,373.00	0.49
2005/06	1,68,32,678.00	2,23,29,971.00	0.75	51,24,862.00	1,30,35,839.00	0.39
2006/07	1,88,78,579.00	2,72,53,393.00	0.69	62,05,077.00	1,39,01,200.00	0.45
2007/08	2,80,70,635.00	3,71,32,759.00	0.75	70,90,434.00	1,71,87,446.00	0.41
Mean			0.75			0.45

S.D.	3.19	6.14
C.V.	4.23	13.58

The table 20 exhibits that the total debt to total assets ratio in NABIL remained 0.77, 0.78, 0.75, 0.69 and 0.75 respectively. Mean and CV of the ratios came 0.75 and 4.23 respectively. Similarly the ratios of NSBIBL in the corresponding years were 0.51, 0.49, 0.39, 0.45 and 0.41 respectively. Mean and CV of the ratios were 0.45 and 13.58 respectively. In NABIL, the ratios

Average ratios were slightly greater in NABIL than NSBIBL. Where as CV appeared greater in NSBIBL than NABIL.

Profitability Ratio

Profitability ratio has been calculated and analyzed to measure the earning performance and operational efficiency of the sampled banks. These include return on total assets ratio, return on net worth ratio, staff expenses to total income ratio, total interest expenses to total income ratio, return on total deposit ratio, office operation expenses to total income ratio.

(a) Return on Total Assets Ratio (RTAR)

$$RTAR = \frac{NPAT}{Total\ assets}$$

Return on total assets ratio for different sampled years have been presented in table 18.

Table -18: Return on Total Assets Ratio

18. Amount in Rs. thousand

BANKS / YEAR	NABIL			NSBIBL		
	NPAT	Total Assets	Ratio	NPAT	Total Assets	Ratio
2003/04	2,71,639.00	1,69,07,896.00	0.016	60,851.00	84,40,405.00	0.007
2004/05	2,31,949.00	1,70,64,082.00	0.014	57,386.00	1,03,45,373.00	0.005
2005/06	2,62,562.00	2,23,29,971.00	0.012	66,120.00	1,30,35,839.00	0.005
2006/07	3,14,526.00	2,72,53,393.00	0.011	86,704.00	1,39,01,200.00	0.006
2007/08	3,42,468.00	3,71,32,759.00	0.009	1,05,745.00	17,87,446.00	0.006
Mean			0.012			0.006
S.D.			0.22			0.074
C.V.			27.28			12.33

The table no 18 show that the return on total assets of NABIL remained 0.016, 0.014, 0.012, 0.011 and 0.009 in the respective years of the study period. Mean and CV of the ratios came 0.012 and 27.28 respectively. Likewise, the

ratios in NSBIBL were 0.007, 0.005, 0.005, 0.006 and 0.006 respectively. Mean of the ratios was 0.06 and CV was 12.33.

The ratios of NABIL seemed in slight decreasing trend. But the ratios in NSBIBL was fluctuating trend.

Mean ratio seemed higher in NABIL and CV of NABIL is higher NSBIBL.

According to outcomes, NABIL seems efficient to earn profit. NSBIBL seems suffering from poor profitability position. Comparatively, NABIL is superior to manage their overall operation successfully. SO the profitability p position is better than NSBIBL.

(b) Return on Net Worth Ratio (RONWR)

$$RONWR = \frac{NPAT}{Net\ worth}$$

Return on net worth ratio for different sampled years have been presented in table 19.

Table -19: Net Worth to Total Assets Ratio

19. Amount in Rs. thousand

BANKS / YEAR	NABIL			NSBIBL		
	NPAT	Net Worth	Ratio	NPAT	Net Worth	Ratio
2003/04	2,71,639.00	15,87,269.00	0.17	60,851.00	6,26,635.00	0.09
2004/05	2,31,949.00	16,57,367.00	0.14	57,386.00	6,89,012.00	0.08
2005/06	2,62,562.00	18,74,994.00	0.14	66,120.00	9,82,373.00	0.07
2006/07	3,14,526.00	20,57,049.00	0.15	86,704.00	11,63,290.00	0.07
2007/08	3,42,468.00	24,37,198.00	0.14	1,05,745.00	14,14,643.00	0.07
Mean			0.14			0.08
S.D.			1.19			1.02
C.V.			7.74			12.86

The table 23 reveals that the return on net worth ratios in NABIL was 0.17, 0.14, 0.14, 0.15 and 0.14 in the respective year of the study. Mean and CV of the ratios came 0.14 and 7.74 respectively. Accordingly the ratios in NSBIBL remained 0.09, 0.08, 0.07, 0.07 and 0.07 in the corresponding years. Mean of the ratios seemed 0.08 and CV seemed 12.86%.

Above data declare that NABIL has higher overall efficiency. Contrary to it, NABIL was capable to earn more profit with respect to shareholders' fund than NSBIBL. Anyway, NSBIBL was also trying to earn more profit by increasing way. From CV analysis, it clarifies that the ratios of NSBIBL were less consistent.

Higher Mean of NABIL shows that it has more contribution of dept in total capital than that of NSBIBL and less CV of NABIL shows it has uniformity than of NSBIBL.

(d) Total interest expenses to total interest income ratio (TIETIIR)

$$\text{TIETIIR} = \frac{\text{Total interest expenses}}{\text{Total interest income}}$$

Total interest expenses to total interest income ratio for different years have been presented in table 20.

Table -13: Total Interest Expenses to Total Interest Income Ratio

20. Amount in Rs. thousand

BANKS / YEAR	NABIL			NSBIBL		
	Total Int. Exp.	Total Int. Inc.	Ratio	Total Int. Exp.	Total Int. Inc.	Ratio
2003/04	2,82,947.00	10,01,616.00	0.28	2,55,919.00	4,93,598.00	0.52
2004/05	2,43,544.00	1,00,68,746.00	0.22	2,58,430.00	5,78,372.00	0.45
2005/06	3,57,161.00	13,09,998.00	0.27	3,34,770.00	7,08,718.00	0.47
2006/07	5,55,710.00	15,87,758.00	0.35	4,12,261.00	8,31,111.00	0.50
2007/08	7,58,436.00	1,97,88,696.00	0.38	4,54,917.00	9,70,512.00	0.47
Mean			0.30			0.48
S.D.			0.06			0.3
C.V.			18.43			5.09

The table 24 depicts that the total interest expenses to total interest income ratios were 0.28, 0.22, 0.27, 0.35 and 0.38 in NABIL in corresponding year of study period. Mean and CV of the ratios seemed 0.30 and 18.43 respectively. Likewise, the ratios of NSBIBL remained 0.52, 0.45, 0.47, 0.50 and 0.47 respectively. Mean and CV of NSBIBL 0.48 and 5.09. The ratios of NABIL and NSBIBL bank were in fluctuating trend. Furthermore, mean of the ratios seemed higher in NSBIBL but CV seemed greater in NABIL than that in NSBIBL.

Higher Mean of NABIL shows that it has utilize more debt in total assets than NSBIBL and less CV in NABIL represent uniformity.

(e) Return on Total Deposit Ratio

$$RSFR = \frac{NPAT}{Shareholder'sEquity}$$

Return on total deposit ratio for different sampled years have been presented in table 21.

Table -14: Return on Total Deposit Ratio

21. Amount in Rs. thousand

BANKS / YEAR	NABIL			NSBIBL		
	NPAT	Total Deposit	Ratio	NPAT	Total Deposit	Ratio
2003/04	2,71,639.00	143,87,025.00	1.88	60,851.00	71,98,327.00	0.66
2004/05	2,31,949.00	1,45,86,608.00	1.63	57,386.00	86,54,774.00	0.66
2005/06	2,62,562.00	1,93,47,399.00	1.35	66,120.00	1,10,02,040.00	0.60
2006/07	3,14,526.00	2,33,42,285.00	1.34	86,704.00	1,14,45,286.00	0.76
2007/08	3,42,468.00	39,15,047.00	1.07	1,05,745.00	137,15,394.00	0.77
Mean			1.45			0.69
S.D.			0.32			0.63
C.V.			0.22			9.1

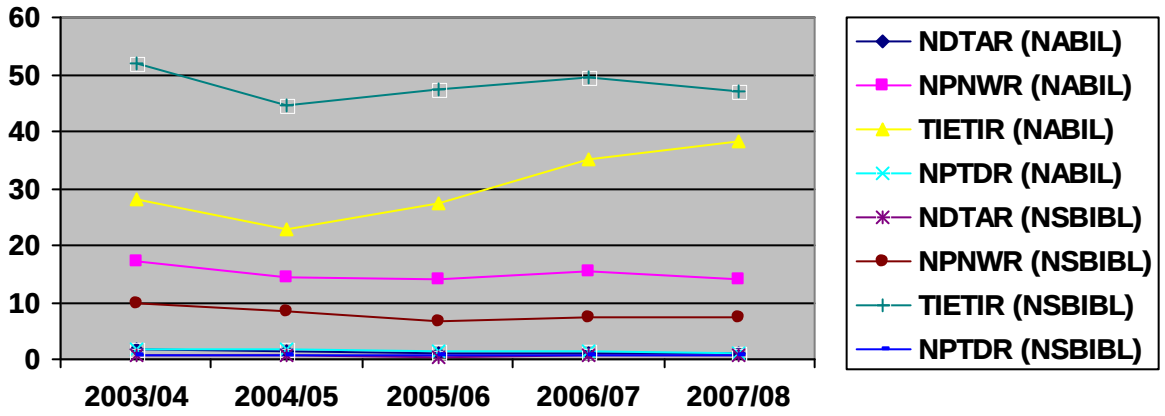
Table 21 highlights that the return on total deposit ratios in NABIL remained 1.88, 1.63, 1.35, 1.34,and 1.07 respectively. Mean and CV appeared 1.45 and 0.22 respectively. Similarly, the ratios of NSBIBL were 0.66, 0.66, 0.60, 0.76 and 0.77 respectively. Mean and CV of the ratios came 0.69 and 9.1 respectively.

In NABIL the ratios appeared in decreasing trend. Ratios seemed higher in NABIL than NSBIBL. NSBIBL seemed ratios were in decreasing trend over first three years then increase in forth and fifth year. Mean of the ratios are higher in NABIL than NSBIBL but CV found sharply less than NSBIBL in NABIL.

Therefore it can be express that NABIL was more successful to earn almost constant profit over the study period. Between two banks NABIL seems, to be significantly better position. From CV analysis, the consistency of the ratios appeared much higher in NABIL than NSBIBL.

Table -15: Comparative Table of Profitability Ratio

YEAR	NABIL				NSBIBL			
	RTAR	RONWR	TIETIIR	RTDR	RTAR	RONWR	TIETIIR	RTDR
2003/04	1.60	17.11	28.24	1.88	0.72	9.71	51.84	0.66
2004/05	1.40	14.42	22.78	1.63	0.55	8.32	44.68	0.66
2005/06	1.17	14.00	27.26	1.35	0.50	6.73	47.23	0.60
2006/07	1.15	15.29	34.99	1.34	0.62	7.45	49.60	0.76
2007/08	0.92	14.05	38.33	1.07	0.64	7.47	46.87	0.77
MEAN	**1.24**	**14.97**	**30.32**	**1.45**	**0.6**	**7.93**	**48.04**	**0.69**
S.D	**0.22**	**1.19**	**5.59**	**0.32**	**0.074**	**1.02**	**2.45**	**0.63**
C.V	**27.28**	**7.94**	**18.43**	**22.00**	**12.33**	**12.86**	**5.09**	**9.1**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NDTAR (NABIL)
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Invisibility Ratios

With respect invisibility ratios, various ratios have been calculated to test earning capacity of the sampled banks. Therefore, earning per share, dividend per share, price earning ratio, tax per share, dividend pay out ratio have been analyzed and interpreted.

(a) Earning per share (EPS)

$$EPS = \frac{Earning\ available\ to\ common\ shareholders}{No.outs\tan ding\ shares\ of\ common\ stock}$$

Earning per share for different sampled years have been presented in table 23.

Table -16: Earning Per Share

22. Amount in Rs. thousand

BANKS / YEAR	NABIL			NSBIBL		
	EAC	No. of Ord. Share	Ratio	EAC	No. of Ord. Share	Ratio
2003/04	2,71,639.00	4,916.54	55.25	60,851.00	4,268.75	14.25
2004/05	2,31,949.00	4,916.54	48.64	57,386.00	4,318.65	13.28
2005/06	2,62,562.00	4,916.54	53.30	66,120.00	6,402.36	10.32
2006/07	3,14,526.00	4,916.54	63.97	86,704.00	6,477.98	13.38
2007/08	3,42,468.00	6,892.16	49.68	1,05,745.00	8,745.27	12.09
Mean			54.18			12.70
S.D.			5.45			1.42
C.V.			10.05			11.18

The table 23 shows that the ratios of earning per share in bail remained 55.25, 48.64, 53.30, 63.97 and 49.68. Mean and CV of the ratios came 54.18 and 10.05 respectively. In the same way, the ratios of NSBIBL were 14.25, 13.28, 10.32, 13.38 and 12.09 respectively. Mean and CV were 12.70 and 11.18 respectively.

The ratios in NABIL seemed highly fluctuating trend. It ranges from 55.25 in the year 2003/04 to 49.68 in the year 2007/08. in NSBIBL the ratios were also in fluctuating trend. CV seemed higher in NSBIBL than NABIL. Where as mean of the ratios appeared more than four times greater than NSBIBL in NABIL.

Hence, NABIL shows sound profitability position than NSBIBL. Moreover, NABIL also issued bonus shares to the shareholders. In other word, it is success to create more favorable situation for the investors. However, NSBIBL has been also tried to increase during the study period. From the CV analysis, uniformity of the ratios remained sharply high in NSBIBL than that of NABIL.

(b) Dividend Per Share (DPS)

$$DPS = \frac{Earning\ paid\ to\ shareholders}{No.of\ common\ shares\ outsatnding}$$

Dividend per share for different sampled years have been presented in table 24.

Table -17: Dividend per Share

23. Amount in Rs. thousand

BANKS	NABIL			NSBIBL		
YEAR	Earning Paid to Shareholders.	No. of Ordinary Share	Ratio	Earning Paid to Shareholders	No. of Ordinary Share	Ratio
2003/04	2,44,268.00	4,916.54	50.00	0	4,268.75	0
2004/05	3,44,158.00	4,916.54	70.00	32,011.00	4,318.65	8.00
2005/06	4,17,906.00	4,916.54	85.00	3,08,283.00	6,402.36	50.00
2006/07	6,88,315.00	4,916.54	140.00	4,26,882.00	6,477.98	65.00
2007/08	6,89,215.00	6,892.16	100.00	4,08,968.00	8,745.27	45.00
Mean			90.00			34.00
S.D.			30.41			20.06
C.V.			33.78			59.00

The table 24 reveals that of dividend pay out ratio of NABIL remained nil in first years. Then after 50.00, 70.00, 85.00, 140.00 and 100.00 respectively in the remaining year mean and CV of the ratios appeared 90.00 and 33.78 respectively.

Likewise the ratios of NSBIBL were 0, 8.00, 50.00, 65.00 and 45.00 respectively. Mean and CV were 34.00 and 59.00 respectively in NSBIBL.

In NABIL ratios seemed increasing trend. In first year the ratio seems nil and then after it seemed increasing.

(c) Tax per Share (TPS)

$$TPS = \frac{Tax\ paid\ to\ government}{No.of\ common\ shares\ outs\tan ding}$$

Tax per share for different sampled years have been presented in table 25.

Table -18: Tax per Share

24. Amount in Rs. thousand

BANKS / YEAR	NABIL			NSBIBL		
	Tax paid To Govt	No. of C.sh. O	Ratio	Tax paid To Govt	No. of C.sh. O	Ratio
2003/04	2,10,662.00	4,916.54	42.84	48,679.00	4,268.75	11.40
2004/05	2,37,671.00	4,916.54	48.34	67,806.00	4,318.65	15.70
2005/06	2,62,741.00	4,916.54	53.44	82,762.00	6,402.36	12.93
2006/07	3,14,526.00	4,916.54	63.97	86,704.00	6,477.98	13.38
2007/08	3,42,468.00	6,892.16	49.68	1,00,262.00	8,745.27	11.46
Mean			51.65			12.97
S.D.			7.04			1.56
C.V.			13.64			12.02

Table 25 displays that the ratios of tax per share remains 42.84, 48.34, 53.34, 63.97 and 49.68 respectively. Mean and CV of the ratios came 51.65 and 13.64 respectively. Similarly, the ratios in NSBIBL was 11.40, 15.70, 12.93, 13.38 and 11.46 respectively in the corresponding years. Mean and CV appeared 12.97 and 11.46.

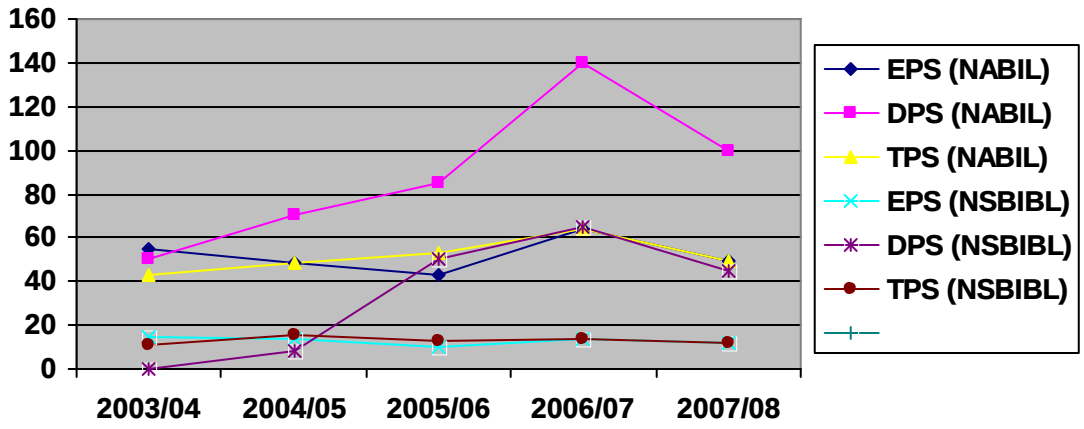
The ratios of NABIL were in fluctuating trend over the study period. It was high in the 2006/07 year. In NSBIBL also ratios seemed in fluctuating trend. Mean of the ratios seemed higher in NABIL where as CV appeared higher than NABIL in NSBIBL.

According to above analysis, it is clearly seemed that NABIL has better profitability position. Moreover, it paid higher tax amount to the government than NSBIBL. From the CV analysis, NABIL was also successful to contribute tax to the country more uniformity.

Table -19: Comparative Table of Invisibility ratio

YEAR	NABIL			NSBIBL		
	EPS	DPS	TPS	EPS	DPS	TPS
2003/04	55.25	50.00	42.84	14.25	0	11.40
2004/05	48.64	71.00	48.34	13.28	8.00	15.70
2005/06	53.40	85.00	53.44	10.32	50.00	12.93
2006/07	63.97	140.00	63.97	13.38	65.00	13.38
2007/08	49.68	100.00	49.68	12.09	45.00	11.46
MEAN	**54.18**	**90.00**	**51.65**	**12.70**	**34.00**	**12.97**
S.D	**5.45**	**30.41**	**7.04**	**1.42**	**20.06**	**1.56**
C.V	**10.05**	**33.78**	**13.64**	**11.18**	**59.00**	**12.02**

Figure -1: Comparative Line Chart of Invisibility Ratio



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