

Chapter I

Introduction

1.1 Background of the study

The economic development is the function of investment that leads to the establishment of various business and non-business organizations. For the purpose of contributing in the economic development of the country both monetary and non-monetary sectors should be established. Banks are the monetary unit of national economy. Even before the establishment of banking system in Nepal, financing transactions were in practice which was undertaken by some lenders like Sahumahajans and Jamindars. The transactions that held during those days were not in organized manner. Such unorganized way of financial affairs could not direct the nation towards economic development. Hence, to fulfill the growing need of economy, Nepal Bank Ltd. came into existence in 1994 B.S. as a pioneer commercial bank of Nepal. Even Nepal Rastra Bank the central bank of the country was established after the establishment of Nepal Bank Ltd. Banking institutions are inevitable for the economic development of the country. It is resource for economic development; it maintains economic confidence of various segments and extends credits to people.

Nepal Bank Ltd. was established with Rs. 8,00,000 paid up capital to consolidate scattered capital and to mobilize the capital towards the productive sectors. It developed the systematic traditions and culture of modern banking system in Nepal. Nepal Rastra Bank has been established in the year 2013 Baishakh 14, under Nepal Rastra Bank Act 2012. Nepal Rastra Bank is a central bank of Nepal and also the banker's bank of the country. Keeping monetary stability, management of national currency, distributions and stabilize the exchange rate are the key functions of NRB. Rastriya Banijya Bank is the second commercial bank of the country established on the year 2024.

Financial status means financial position of the firm. Financial status and financial performance can be defined as the heart of financial decision. The achievement and development of firm is fully affected by the financial status and performance. A quantitative judgment of the financial performance and financial position of the firm should be made from view point of the firm's investment. Thus, financial analysis is the main quantitative judgment process of identifying the financial strengths and weakness of the firm by properly established the relationship between the items of balance sheet and profit and loss accounts. Financial analysis is an evaluation of both a firm's past financial performance and its prospects for the future.

Balance sheets, profit and loss account and the accompanying notes are the most widely aspects of financial statements of the banks. The bank's balance sheet includes financial claims as liabilities in the form of deposit and as assets in the form of loans.

Fixed assets appear in small portion out of the total assets. Financial innovation, which are generally contingent in nature are considered as off balance sheet items. Interest received on loans, advance and investment and paid in deposit liabilities are major components of profit and loss account. The other sources of income are fee, commissions and discounts, foreign exchange income, dividends on investment, other service charges etc.

1.1.1 Introduction of Bank

Bank is a type of financial institutions where financial services like exchange of money, acceptance of deposit, transfer of money etc are broadly offered. So, bank can be said as “Financial Supermarket” providing all kinds of monetary service which is necessary for the industrializations and economic development of a country. There are different types of bank. They are as follows;

1. Central Bank
2. Commercial Bank
3. Development Bank
4. Saving Bank
5. Exchange Bank
6. Rural Development Bank
7. Co-Operative Bank
8. Miscellaneous Bank

1.1.2 Commercial Banks in Nepal

Commercial banks are those banks established to accept deposits and grants loans to the industries, individuals and traders with a view to earn profit. As per Commercial Bank Act 2031, “A Commercial Bank is that which exchange money, accepts deposits, grants loans and performs banking functions”. Nepal Bank Ltd., the first commercial bank was established on 1937 AD as one of the semi government organization. In 1956 AD, Nepal Rastra Bank came into existence as the Central Bank of Nepal. Due to the growing banking services in the country yet another commercial bank, Rastriya Banijya Bank was established in 23 rd July, 1966 AD.

Now with commencement of the Banks and Financial Institutions Act 2006, the banks will have to obtain a new license from Nepal Rastra Bank within two years from the date of commencement of the ordinance and conduct their transactions. The new Act does not exactly classify the banks as commercial banks, development banks or finance companies. It classifies institutions into four classes: Class A, Class B, Class C, and Class D on the basis of the minimum paid up capital for a license to be issued.

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. Commercial banks are so popular now a day that the word “Bank” has been synonymously used with the commercial banks and its functions. The functions of commercial banks all over the world are the same. Their basic functions are various types of deposit facilities, lending, remittance service, locker facility, letter of credit, guarantee, serving as an agent of client, foreign exchange transactions, ATM cards, debit cards, credit cards and so forth.

Commercial banks are the important type of financial institution for the nation in terms of aggregate assets. The business of banking is very broad in modern business age. The business of banking is very broad in modern business age. The number and variety of services provided by commercial bank will probably expand. The major functions of commercial banks are explained in brief below:

1. One of the major functions of the commercial bank that separate it from other financial institutions is its ability to create money and to destroy money, which is accomplished by the lending and investing activities.
2. Providing for a payment mechanism or the transfer of the funds is one of the important functions performed by commercial banks.
3. Commercial banks perform vital services to all of the economy by providing facilities for the pooling of national saving and making them available for economically and socially desirable purpose.
4. The major function of commercial banks is the extension of credit to worthy borrowers.
5. The other primary function of commercial banks is making arrangement for the amount of foreign exchange needed by business organization to pay in foreign country.
6. Increased incomes have made possible the accumulation of wealth, which in turn has contributed to the growth of the trust services of commercial banks. Trust department serve as trustees in connection with bond issues and as transfer agents and register for corporation.
7. The safekeeping of valuable is one of the oldest services provided by commercial banks.

1.1.3 Brief Introduction of Sample Banks

Nabil Bank Limited

Nabil Bank is one of the leading commercial bank of Nepal. The bank, founded in 1984 has branches all across the nation with its head – office in Kathmandu. Nabil bank is the first joint venture bank of Nepal commenced with Rs.28 million capitals and around 50 staffs. Dubai Bank Limited, Dubai was the foreign joint venture partner who extended Nabil a technical service agreement in the initial periods. Nabil

was incorporated with the objectives of extending international standard modern banking service to various sectors of the society. Nabil bank provides a full range of commercial banking services through its 19 points of representation across the country and over 170 reputed correspondent banks across the globe.

Nepal Investment Bank Limited

Previously Nepal Indosuez Bank Ltd was established in 1986 as a joint venture between Nepalese and French partner. The French partner holding 50% of the capital of NIBL was credit Agricole Indosuez, a subsidiary of one of the largest banking group in the world. With the decision of credit Agricole Indosuez to divest a group of companies of bankers, professional industrialists and businessmen has acquired on April 2002, the 50% shareholding of credit Agricole Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd upon approval of bank's Annual general meeting, Nepal Rastra Bank and Company Register office.

1.1.4 Concept of Financial Status and Performance

Financial Status refers to the financial position of bank. Simply, financial position means availability and using of its resources or strength of its resources. Financial analysis is an evaluation of both a firm's past financial performance and its prospectus for the future. Financial statement analysis involves the calculation of various ratios. In mathematics a ratio is the relationship between two quantitative figures. The ratio analysis is the financial tools by which the financial strength and weakness are measured by relating two accounting data. In financial analysis a ratio is used as an index or yardstick for evaluation the financial status and performance of a firm.

Financial performance can be defined as the heart of financial decision. The achievement and development of a firm is fully affected by the financial status and financial performance. Financial performance of enterprises is correct when the true figures and data are input. A quantitative judgment of the financial performance and financial position of the firm should be made from viewpoint of the firm's investment. Thus, financial analysis is the main qualitative judgment process of identifying the financial strengths and weakness of the firm by the properly established the relationship between the items of balance sheet and profit and loss accounts.

Traditionally, banks act as financial intermediaries to channel funds from surplus units to deficits units. Banks produce loans and financial innovations to facilitate trade transactions. Because a special role they play in the economy, concerned authorities heavily regulate them. Analysis of banks financial statement is different from threat of other companies due to the special nature of assets and liabilities.

Balance sheets, profit and loss account and the accompanying notes are the most widely aspects of financial statements of the banks. The bank's balance sheet includes financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets appear in small portion out of the total assets. Financial innovation, which are generally contingent in nature are consider as off balance sheet items.

1.2 Statement of the Problem

As we know that Nepal is a developing country and its economy is much depends on the agriculture. Most of the industries are based on the agriculture, which provide employment opportunities and assist in improving national economy. Poverty has been a main problem in the country. Therefore, public enterprises are established but most of the public enterprises are not able to run in profit. Even though the government has given the subsidy to run public enterprises, they are not able to contribute to society at desirable rate.

Emphasizing the rate of commercial bank, India Dani says, "The major problems in almost all underdevelopment countries and Nepal is no exception, is that of capital formations and proper utilizations. In such countries the commercial banks have to shoulder more responsibilities and act as development banks, due to the lack of other specialized institutions. "To avoid problems and thereby contribute to the national economy, various commercial banks have played vital role by accepting deposits and providing various types of loans. Loans affect overall development of the country. The development of the country is directly related to the volume of loans, which is also obtained from commercial banks. The problems of lending have become very serious for developing countries like Nepal. This is due to lack of sound policy of commercial banks. Establishment of private joint venture banks have been continued in response to the economic liberalization policies of the governments. The tendency to concentrate these banks only in urban areas has raised certain questions. This state of affairs can not contribute much to the socio-economic development of the country where 80% of the population lives in rural areas and more than 70% of that population depends upon agriculture. These joint venture banks are reluctant to extend their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of NRB. They do not have clear view towards investment policy. Furthermore, the implementation of policy is not an effective way.

Commercial banks are found to be making loans on short term basis against movable merchandise. There is a hesitation to investment on long – terms projects as they are much more safety minded. So they follow conservative loans policy, which is based on string security. They do not consider the profit potential of the projects. There is raised criticism that commercial banks have served only richer community no the poor. This has directly had negative impact on economic growth. They are found to be more interested in investment in less risky and highly liquid sectors. They keep high

liquid positions and flow funds to the productive sectors; this results in lower profitability to commercial banks and ignorance to the national economies growth process. This is the main reasons of crisis in the commercial banks and in the whole national economy as well.

At present, as the outstanding loans an amount is increasing, these institutions need to give special attentions towards loans recovery. It is also necessary to put sound regulatory and supervision system or be put in place for timely recovery of outstanding loans. In order to help realize the goal of poverty alleviation, access to increased flow of credit benefit to the maximum number of low income people through micro and medium size loans needs serious attentions in day to come. It is also necessary to identify the activities that ensure quick return of investment.

Mushrooming of banking and finance companies and about a dozen of rural banks and co-operative societies scenario, and has posted a challenge to the banks like Nabil Bank Ltd. and Nepal Investment Bank Ltd., which are making attractive profits.

As every business is established with a view to maximize earning/profits. In the present competitive environment in banking and every section it is very difficult to obtain expected earning/profits. Every commercial bank has to follow by the regulation and provision made by Nepal Rastra Bank. They have to maintain specific capital structure, Infrastructure, cash reserve ration, credit creation limitation, liquidity ration etc. The major problems in Nepalese banking sectors are as follows:-

- To what extents the banks are able to raise and maintain their profitability?
- What is the financial risk position of sample banks?
- How efficiently these banks are managing their liquidity, assets, capital structure?
- How are the commercial banks managing their financial needs?
- What is the relationship between EPS and DPS of sample banks?

1.3 Objectives of the study

Commercial banks are established with intention of earning profit, so that the wealth of their shareholders is maximized and earning depends upon efficient resource mobilizations. Financial analysis is tools for measuring the success of any business performance. All the details financial information of bank is shown by the financial analysis. Therefore the main objective of this study is to analysis, examine and interpret the financial positions of Nabil Bank and Nepal Investment Bank with the help of ratio analysis and other portfolios.

The objectives of the study are as follows:

- To examine the liquidity, assets management, profitability, leverage and positions of sample banks.
- To analyze the financial position (status) of Nepalese Commercial Banks.
- To examine the growth rate of bank in terms of deposit, loan and advances, investment and profitability of the banks.
- To examine the relationship between the two variables in terms of total deposit to total investment, total deposit to total net profit of Nabil Bank and Nepal Investment Bank Ltd.
- To analyze the relationship between DPS and EPS of Nabil Bank and Nepal Investment Bank Ltd.

1.4 Scope of the study

The scope of this study lies mainly in feeling a research gap on the study of investment policy and financial performance of commercial banks. This study is basically confined to reviewing the investment policy of commercial banks in five years from 2006/2007 to 2010/2011. This study is expected to definitely provide a useful feedback to policy makers of commercial banks of Nepal, and also to the government and the central bank (NRB) in formulating appropriate strategies for the improvements in the performance of commercial banks.

1.5 Importance of the study

The banking sector is one of the major sectors of the country. It helps to emerge new business in industry by providing different facilities to businessmen. It provides different facility so that businessmen can run their business smoothly. The study has multidimensional significance:

- The study enlightens the shareholders about the financial status and performance of their respective banks. This allows them to have a comparative retrospect whether their fund was better utilized or not.
- The study also compels the management of respective banks for self assessment of what they have done in the past and guides them in their future plans and programs.
- The financial agencies, stock exchange and stock traders are also interested to know about the financial status and performance of the banks as well as the customer's depositors and debtors, who can objectively identify the better bank to deal with in terms of profitability, safety and liquidity.
- Policy makers at the macro level that is Government and Nepal Rastra Bank will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.6 Limitations of Study

This study is simply for partial fulfillment of the requirement of Master in Business Studies (MBS). However there are some limitations, which narrowed the generalizations. For instant inadequate coverage of industries, time periods taken reliability of statistical tools used and other variations. The study is completely based on the data collected from the banks. The following are the some limitations of the study:

- The study will cover only five fiscal year historical data of Nabil Bank Ltd. and Nepal Investment Bank Ltd.
- The study will be based on the secondary data.
- The study will depend upon the true response and the data provided by the management of the banks.
- Time and resources lack are the main limitation to the study.
- This study would only concern with fulfilling in partial requirement in Master of Business Studies (MBS).
- This study does not present the sample banks data of 2010/2011 because the data are unaudited.

1.7 Chapter Scheme

The whole study has been divided into five chapters. Each chapter is developed to some aspects of the study.

Chapter I deals with introduction, which includes general background, statement of the problem, objective of the study, scope of the study, importance of the study, limitations of the study and chapter plan (scheme).

Chapter II deals with the review of available literature. It includes review of books, journals, review of legislation related to commercial banks, review of other relevant books, review of bulletins and annual reports published by the bank, review of related articles and review of previous thesis.

Chapter III explains the research methodology used in the study, which includes research design, nature and sources of data, population and samples methods of data analysis (various tools i.e. financial and statistical tool)

Chapter IV deals with presentation and analysis of data through define course of research methodology. The main working of this chapter is to analysis different financial performance and fund mobilization of Nabil Bank with comparison of Nepal Investment Bank Ltd.

Ultimately, chapter V discusses summary, recommendations and suggestions for further improvement. Beside these, bibliography and appendices are also included.

Chapter II

REVIEW OF LITERATURE

This chapter highlights upon the existing literature and research related to the present study with a view of finding out what had already been explained and how the present research add to the dimension. A literature review is a body of text that aims to review the critical points of current knowledge on a particular topic.

We can compare and make better the topic by furthermore research and find major findings. The financial performance analysis has been done but comparison study is done very few. So the study will be helpful to know the Nabil bank and Nepal Investment bank's financial position and their major differences.

Review of literature is the study of previous research or articles or books in related field or topics for finding the past studies conclusion and deficiencies that may be known for further research. This chapter will help to check the chances of duplications in the present study. The purpose of the literature review is as follows;

- To place the study in an historical perspective.
- To avoid unnecessary duplication.
- To evaluate promising research methods.
- To relate the finding to previous knowledge and suggest further research.

2.1 Conceptual Framework

2.1.1 Concept of Banking

A bank is an institution, which deals with money and credit. It accepts deposits from the public and mobilizes the fund to productive sectors. It also provides remittance facility to transfer money from one place to another. Generally, bank accepts deposits from business institutions and individuals, which is mobilized into productive sectors mainly business and consumer lending. Bank is therefore, known as a dealer of money. At present context, bank is not only confined to accepting deposits and disbursing loan. In addition to this, a bank may be engaged in different types of functions such as remittance, exchange currency, joint venture, underwriting, bank guarantee, discounting bills etc.

Bank is a financial institution which plays a significant role in the development of the country. It facilitates the growth of trade and industries and other sectors of the national economy. It is resource for economic development, which maintains the self-confidence of segments of the society and extends credit to the people.

Banks are among the most important sources of short-term working capital for business. They have become increasingly active in recent years in making long term

business loans for new plant and equipment. When businesses and consumers must make payments for purchase of goods and services, more often they use bank provided cheques, credit or debit cards or electronics accounts connected to a computer network. It is a the banker to whom they turn most frequently for advice and counsel, when they need financial information and financial planning.

The business if banking is one of collecting funds from the community and extending credit (making loans) to people for useful purpose. Banks have played pivotal roles in moving money from lenders to borrowers. Banking is a profit seeking business not a community charity. As a profit seeker, it is expected to pay dividends and otherwise add to the wealth of its shareholders.

In the Nepalese context, the new Act does exactly classify the bank as commercial banks, development banks and finance companies. It classified institutions into four class i.e. class A, class B, class C and class D on the basis of the minimum paid up capital needed for a license to be issued.

2.1.2 NRB Directives Affecting Financial Performance / Achievement

To mobilize bank's deposit in different sectors of the different parts of the nation and to prevent them from the financial problems, Nepal Rastra Bank (NRB) can established a legal framework by formulating various rules and regulation. These directives must have direct or indirect impact while making decisions to discuss those rules and regulations which are formulated by NRB in terms of investment and credit to priority sectors, deprived sectors, other institution, single borrower limit, cash reserve requirement (CRR), loan loss provision, capital adequacy ratio, interest spread, and productive sector investment. The main provisions established by NRB in the form of prudential norms in the above relevant area are briefly discussed here under:

a. Provision for investment in the deprived sectors

Some rules, which are formulated by NRB , affect areas of credit and investment extension to the deprived sector by the commercial bank. According to the new provision, with effect from 3rd quarter of FY 1995/96, investment in share of the rural development bank by commercial banks, which used the deprived sectors lending?

b. Provision for credit to the priority sectors

NRB requires commercial banks to extend loan and advance, amounting to at least 12 percent of their total outstanding credit to the priority sectors. Commercial bank's credit to the deprived sectors is also a part of priority sector credit. Under priority sectors, credit to agriculture, credit to cottage and small industries and credit to service are counted commercial bank's loan to the co-operative licensed by the NRB is also to be computed as the priority sectors credit from FY 1995/96 onwards.

c. Provision for the investment in productive sectors

Nepal being a developing country needs to develop infrastructure and primary productive sectors like agriculture, industry etc. For this, NRB has directed commercial banks to extend at least 40 percent of their total credit to the productive sectors. Loans to priority sectors, agriculture sectors and industrial sectors have to be included in productive sectors investment.

d. Provision for the single borrower credit limit

With the objective of lowering the risk of over concentration of bank loans a few big borrowers and also to increase the access of small and middle size borrower to the bank loans, NRB directed commercial banks to set an upper limit of loan financed to an individual, firm, company or group of companies.

e. Directives to raise capital funds (CAR)

The commercial banks under operation and having low capital base directed to raise their capital funds at a minimum level of Rs. 500 million with 5 years of period i.e. by the end of FY 2000/01. Moreover, the commercial banks are allowed to include paid up capital and reserve for meeting the minimum capital requirement but they have to deducted the net loss from such if they are in loss. Beside this, NRB has directed commercial banks to least 8 percent capital adequacy ratio (CAR) of their risk weighted assets (RWA) and off balance sheet transaction i.e. letter of credit, letter of acceptance, bonds, guarantee etc.

f. Cash reserve requirement (CRR)

To ensure adequate liquidity in the commercial banks, to meet the depositors demand for cash at anytime and to inject the confidence in depositors regarding the safety of their deposited funds, commercial banks are required to deposit minimum 8 percent of current and 6 percent of fixed deposits in the NRB as primary cash reserve. The commercial banks are further required to have 3 percent cash of total deposit in their own bank as secondary reserve.

g. Loan classification and loss provision

With a view to improving the quality of assets of commercial banks NRB has directed commercial banks to classify their outstanding loan and advance, investment and other assets into six categories. The classification is done in two ways. The loan of more than 1 lakh is to be classified as debt service charge ratio, repayment situation and financial condition of borrower, management efficiency, quality of collateral. The loans of less than 1 lakh have to be classified as per maturity period.

h. Directives regarding interest rate spread

The interest rate spread, the difference between interest charged on loan and advance and the interest paid to the depositors, has widened significantly in the aftermath of

deregulation in interest rates which has caused lower financial intermediation. Therefore, NRB has required commercial banks to limit interest spread between deposit and lending rates to a maximum extend of 5 percent. NRB has also provided commercial banks with new calculation method of interest rate spread for a certain period recently.

2.1.3 Present Scenario of Saving- Interest Income Spread

Interest income spread is the differences between the average lending rate and the average borrowing rate for a bank or other financial institutions. It is; $(\text{Interest Income} / \text{Interest Earning Assets}) - (\text{Interest Expenses} / \text{Interest Bearing Liabilities})$

This is very similar to interest margin. If a bank's lending was exactly equal to its borrowing (i.e. deposits plus other borrowing) the two numbers would be identical. In reality, the bank also has its shareholder's fund available to lend, but at the same time its lending is constrained by reserve requirement. Changes in the spread are indicators of profitability as the spread is where a bank makes its money.

Interest income spread of both the sample banks are in increased slightly. Banks have so far managed to increase profitability by maintaining relatively high spreads between deposit and lending rates but the recent proliferation of financial institutions, and thus increased competition, appear to have contributed to a narrowing of the spread. Liquidity management is also likely to be a growing challenge. The share of illiquid loans in bank assets is increasing throughout the system, and the average credit-to-deposit (CD) ratio for the banking system has increased from 60 percent over 2000 – 2006 to 78 percent by end -2007. Nearly 25 percent of banking assets and 17 percent of GDP are now held by small private banks with CD ratios exceeding 90 percent – very high by international standards.

The interest rate spread of the commercial banks increased slightly in June despite the central bank's dogging persuasion to lower it, at least below 5 percent. The weighted averages spread between lending and deposits rates in the banking sectors rose to 5.27 percent as on June 30, 2010 from 5.20 percent in March last, according to the Bangladesh Bank statistics. The Central banks wants that the bank reduce the interest rate spread with improvement of their efficiency.

2.1.4 Concept of Off Balance Sheet (OBS) Operation

A balance sheet is a statement of those assets and liabilities of a business enterprise that can be given a value in terms of money; it shows both assets and how these assets are financed. The liabilities indicate what money has been available to the enterprises

and from where. The assets show how the enterprises have used the money available to it.

The name off-balance sheet items give the identification that these transaction or operation are not included or are not the part of balance sheet items – assets or liabilities. Therefore, present day balance sheets may not give true picture of financial position. Off-balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations that are not recognized as assets or liabilities on balance sheet.

Off-balance sheets activities arise from contingent commitments of banks in the present time, which can appear as real liabilities in the future. These activities are not recognized as assets and liabilities in balance sheets. These activities are very important, as they are the good source of profit to the bank. Though they have risk. The off-balance sheets items are not included in the balance sheet until they are recognized as real liabilities. Off-balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligation that are not recognized as assets or liabilities in balance sheet. There are various off-balance sheet transaction that a bank can undertake. It depends upon the enterprise and resource available to the bank. Few typical off-balance sheet transactions are as follows:

- I. Letter of Credit
- II. Letter of guarantees
- III. Documents negotiated under reserve
- IV. Commitments
- V. Acceptance
- VI. Bills of collection
- VII. Performance bond
- VIII. Bid bond
- IX. Forward foreign exchange transaction
- X. Currency swap
- XI. Option, etc.

2.1.5 Meaning of Financial Analysis

Financial performance can be defined as the heart of financial decision. The achievement and development of a firm is fully affected by the financial status and financial performance. Financial performance of enterprise is correct when the true figure and data are input.

A quantitative judgment of the financial performance and financial position of the firm should be made from viewpoint of the firm's investment. Thus, financial analysis is the main qualitative judgment process of identifying the financial strengths and

weakness of the firm by the properly established the relationship between the items of balance sheet and profit and loss accounts.

Financial analysis is an evolution of both a firm's past financial performance and its prospectus for the future. Financial statement analysis involves the calculation of various ratios. In mathematics a ratio is the relationship between two quantitative figures. The ratio analysis is the financial tools by which the financial strength and weakness are measured by relating two accounting data. In financial analysis a ratio is used as an index or yardstick for evaluation the financial status and performance of a firm.

Every business organization is established with a view of earning the profit. Bank is also established with the objectives of maximizing the profit. Profit is necessary for long – term existence of any business. Investors always invest in total area where profit can be maximized. Financial statement is the indication of business performance that whether business is profitable or not. Therefore, financial analysis reflects the financial position of a firm, which is the process of determining the operational and financial characteristics of a firm. Different types of financial statement analysis can be used on the basis of this researcher's objectives. Financial statement is helpful to the decision maker for finding out favorable or unfavorable situation of a business concern.

The main function of financial analysis is the pinpointing of the strength and weakness of a business undertaking by regrouping and analysis of figures contained in financial statements, by making comparisons of various components and by examining their contents. Financial managers can use this as the basis to plan future financial requirement by means of forecasting and budgeting procedures.

Financial statement analysis involves comparisons of analysis firm's performance with that of other forms in the same line of business which is often identified by the firm's industry classification. In simply, the analysis is used to identify its current strength and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weakness. (Weston, Basley and Brigham, 1996:98)

Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshot of the firm's financial position analysis moment in time and next income statement that depots analysis summary of the firm's profitability overtime. (Vanhorn and watchowtch, 1997:120)

Thus financial analysis stands for the process of determining and presenting the relationship of items and groups of items in the financial statement. It is a way by which financial stability and health of a concern can be judged.

2.1.6 Importance of Financial Analysis

Significance of analysis lies on the objectives of financial analysis of any firm. The importance of financial analysis is as follows:

a. Useful in financial position analysis

Ratio analysis is an important technique of financial analysis. It also reveal the financial position of the concern firm. This helps the banks, insurance company and other financial institution in leading and making investment decision.

b. Useful in comparison of performance

Through accounting ratio comparison can be made between one departments of a firm with another of the same firm, in order to evaluate the performance of various departments in the firm. Manager is naturally interested in such comparison in order to known the proper and smooth functioning of such department. Ratio also helps to make any change in the organization structure.

c. Useful in forecasting purpose

If accounting ratio is calculated for a number of years then a trend is established. This trend helps in setting up at future plans and forecasting. The ratio calculation of past years works as a guideline for the future.

d. Useful in communication

Ratio analysis provides the information about strength and weakness of concern firm to the internal and external parties.

e. Useful for decision making in classification of ratio

1. Liquidity Ratio

2. Capital Structure Ratio

3. Activity Ratio

4. Profitability Ratio

The parties that are benefited by the results or conclusion draw from the analysis of financial performance can be shown as:

a. Top Management

b. Creditors

c. Shareholders

d. Economist

e. Labor Union

2.1.7 Financial Performance Analysis of Commercial Banks

Traditionally, banks act as financial intermediaries to channel funds from surplus units to deficit units. Banks produce loans and financial innovations to facilitate trade transactions. Because of the special role they play in the economy, concerned authorities heavily regulate them. Analysis of a bank's financial statement is different from that of other companies due to the special nature of assets and liabilities.

Balance sheets, profit and loss account and the accompanying notes are the most widely used aspects of financial statements of the banks. The bank's balance sheet includes financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets appear in a small portion out of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans, advances and investments and paid on deposit liabilities are major components of the profit and loss account. The other sources of income are fees, commissions and discounts, foreign exchange income, dividends on investments, other service charges etc.

The users of financial statements of banks require relevant, reliable and comparative information to evaluate the financial performance and position and hence make economic decisions regarding the banks. According to the Commercial Bank Act 1974, the audited balance sheet and profit and loss account must be published in the leading national newspaper for the information of the general public.

Most of the users of financial statements seek the bank's overall performance. Following factors affect the evaluation of bank overall performance:

- ❖ The structure of balance sheet and profit and loss account.
- ❖ Operating efficiency and internal management system.
- ❖ Managerial decisions taken by the top management regarding interest rate, lending policies, exchange rate etc.
- ❖ Environmental changes such as changes in technology, government, competition and economy etc.

2.2 Review of Studies

The banks are such types of institutions, which deal in money and substitute for money. They deal with credit and credit instruments. Good circulation of credit is very much important for the bank. A commercial bank must mobilize its deposits and

other funds to profitable, secured and marketable sector so, it can earn a handsome profit as well as it should be secured and can be converted into cash whenever needed.

In the words of Gitman and Joehnk (1990), “Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns.”

Emphasizing the importance of investment policy, H.P. Cross puts it in this way, “Lending is the essence of commercial banking and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and managements. Well- conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit.” He further adds, the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing interest rate policy.

Various authors have expressed their views regarding investment policies of commercial banks, then formulation and implementation differently. In the word of S.P. Sing and Sing (1983) “ The investment (credit) policies of banks are conditional, to great extent by national policy framework, every banker has to apply his own judgment for arriving at a credit decision keeping of course his banker’s credit policy also in mind.”

Shrestha (2047), in the journal entitled, “ Commercial Bank’s Comparative performance Evaluation,” which was published in Karmachari Sanchay Kosh Publication, is reviewed as follows, The journal stresses on a proper risk management with appropriate classification loans under performing and non- performing categories. Researcher further classified adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income.” Regarding the risk management of the bank Dr. Shrestha’s other suggestion is as follows:

- ❖ Any provisioning or reservation is required in restricting portfolio related to overdue loans.
- ❖ All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorized as good substandard or doubtful loans.
- ❖ Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

The above journals focus in the various aspects of the bank’s economic environment. Mr. N. Poudel’s work stresses in effective way of evaluating the financial performance and Dr. Shrestha’s suggestions are focused towards proper risk

management whatsoever, aspects of the bank the above journals target, they all have to be combinable assessed and kept in strict consideration for effective and efficient financial status and performance evaluation of the banks in the Nepalese economy.

Poudel (2065), in the journal entitled, “Financial Statement Analysis; An Approach to Evaluate Bank’s Performance” which was published NRB Samachar (An Annual Publication) is reviewed as follows;

According to Mr. Poudel, Balance sheet, profit and loss and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank’s balance sheet and profit and loss account. The bank’s balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations which are generally contingent in nature are considered as off – balance sheet items.

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

According to Mr. Poudel, the principle objectives of analyzing financial statement are to identify liquidity, profitability and solvency. Most of users of the financial statements are interest in assessing the bank’s overall performance which is affected by the following factors:

- ❖ The structure of balance sheet and profit and loss account.
- ❖ Operating efficiency and internal management system.
- ❖ Managerial decision taken by top management regarding interest rate, exchange rate, lending policies etc.
- ❖ Environmental changes (Technology, Government, Competition and Economy).
- ❖ The other factors to be considered in analyzing the financial statement of bank are to assess the capital adequacy ratio and liquidity position. In the line of adequacy of bank is assessed on the basis of risk – weighted assets. It indicates a bank’s strength and solvency.

2.2.1 Review of Articles

In this section effort has been made to examine and review of some related articles in different economic journals. World Bank discussion paper, magazines, newspaper and other related books.

Pradhan (1994), in his research “ Financial Management Practices in Nepal”, has studied about the major feature of financial management practices in Nepal. To address his issue, disturbing a multiple questionnaire, this contained question on various aspects of financial management practices in Nepal carried out a survey of 78 enterprises. He found among the several finances functions the most important finance appeared to be working capital management, while least important one appeared to be maintaining good relation with shareholders. The findings reveals that deposits and retained earning are the two most widely used financing sources. Most enterprises find that banks are flexible in interest rates and covenants. He further found that among the bank loan of 1-5 years are more popular in private sectors. He concluded that the majority of enterprises in trade sectors find that banks interest rate is just right while the majority in non – traded sectors find that the same is on higher side.

Poudel (2053) in the article, “Present Condition of Financial Companies” has presented with compared to the commercial bank, the interest rate is relatively high that is provided and acceptance by finance companies. The financial companies should not be confined only in the valley. They should extended their services to the rural sectors of hill and terai to reduce regional imbalance. The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions, they should introduced novel technology and equipment’s to collect deposits and investments. They should learn from the draw bank’s failure and success of commercial banks to effectively maintain as alternative status.

Poudel(2057) give more emphasis of financial performance of financial companies in the article “ An Overview Financial Companies of Nepal” has had written that at the time 1996, the ratio of capital funds to deposits have been increasing over the time but to of this, it is 10 times of the capital base. Never the less, some of the finance companies have even mobilized the deposits by more than 10 times of their capital base by violating the regulatory norms issued by NRB. The credit deposit ratio has remained quite high leaving the room for doubt about the quality of loan especially in the absence of repayment schedule. The loan diversification has been improved however, during a short span of time. As such, the hire purchase housing and loans are the major sectors, which all together received more than 95% of the total loan and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies the average sources of funds for each company are natural to decline. Since the varying factor, it is too early to evaluate the performance of

financial companies in Nepal but equally important factors is the regulatory and supervisory authority should keep close eyes to monitors their activities.

Pradhan (2062) in the article, “Transaction Analysis of Financial Companies in Nepal” has concluded that the finance companies are centered in the city as like commercial banks. If this trends remains, the central bank is to consider novel strategy. However, financial and banking transaction do not take place in zero, it favors of financial intermediaries. The emergence of closure of financial companies in market economy in common sense. But keeping in mind, the social and economic structure of our country, we should not turn a deaf ear to regional balance.

Shrestha (2064), in the article, “Capital adequacy of Bank in the Nepalese Context” has suggested that the banks deal in highly risky transaction to maintain strong capital base. He concluded that the capital base should neither be too much leading to insufficient allocation of scarce resources nor so weak degree of risk associated with them are subject to change country wish, bank wish and time period wise.

Shrestha (2047), in his article, “Commercial Banks Comparative Performance Evaluation,” concludes that joint venture banks are new, operationally more efficient having superior performance comparison with local banks. Better performance of JVBs is due to their sophisticated technology, modern banking method and skill. Their better performance is also due to the government’s branching policy in rural areas and financing pees. Local banks are efficient in rural sectors. Despite having number of deficiencies local banks have to face growing constraints of socio economic political system on one hand and that of issues and challenges of JVBs commanding significant banking business of other spectrum.

Bista (2048), in his research paper, “ Nepalma Adhunik Banking Byabastha” has made an attempt to highlights some of the important indicators which have contributed to efficiency and performance of JVBs in the fields of CBs. At the end of the paper, he has concluded that the established of JVBs a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation, consortium finance and modern fee based activities into the economy. These are indeed significant milestone in the financial development process to the economy.

Besides this, Bajracharya (2047), in his article, “Monetary Policy and Deposit Mobilization in Nepal” has concluded that mobilization of domestic saving is one of the prime objective of the monetary policy in Nepal and commercial banks and the more active financial intermediaries for generating resources in the form of deposits of private sectors and providing credit to the investors in different sectors of the economy.

2.2.2 Review of Previous Thesis

Before this, various students regarding the various aspects of commercial banks such as financial performance, lending policy, interest rate structure, resources mobilization and capital structure have conducted several thesis works. Some of them are supposed to be relevant for the studies are presented below:

Mandal (1998) in his thesis paper, “Comparative Financial Performance Appraisal of Joint Venture Banks” has studied mainly three banks i.e. Nepal Arab Bank Ltd (NABIL), Nepal Indosuez Bank Ltd. (NIBL), and Nepal Grindlays Ltd. (SCBNL). His main finding is that both SCBNL and NABIL have mobilized the debt funds in proper way for generating more return but NIBL could not do so as NABIL and SCBNL. He has recommended enhancing banking facilities in rural areas by encouraging small entrepreneur’s development programmes, to play merchant banking role to mobilize the deposit funds in productive sectors to grant more priority to the local manpower.

Tuladhar (1999) on his thesis entitled, “A study on Investment policy of Nepal Grindlays Bank Ltd. in comparison to other Joint Venture Banks (NABIL and HBL).” The main objective of the study was to evaluate the liquidity, Assets management, efficiency, profitability and risk position of NGBL in comparison to NABIL and HBL and to examine the fund mobilization and investment policy of NGBL. The study found that NGBL has been successful in maintain in the best way both liquidity position and their consistency among three banks. Income from loan and advance and total investment is the main source of NGBL and it can affect the bank’s net profit. Profitability position of NGBL is better than NABIL and HBL. His study found that the reason behind not providing banking facilities to the rural areas is that these banks are profit oriented only.

Regmi (2001) on his thesis entitled, “A comparative study of financial performance of Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd.”. The main objective of the study is to analyze and to evaluate the financial performance of the selected banks. He conducted a study between HBL and NBBL. Some of the findings of the researcher are that HBL has better profitability position than NBBL. So it is recommended to NBBL to utilize its resources more effectively. He further suggests that both the banks should extend their resources to rural areas to promote development.

Pokhrel (2002) on his thesis entitled, “A comparative study on financial performance of Nepal Bangladesh Bank Ltd and Everest Bank Ltd.” was concluded to analyzes, examine an interpret the financial performance of NBBL and EBL for the study. The study finds out that the average net profit margin remains greater in NBBL. Higher CV in EBL suggests greater fluctuation in the ratio over the period. EBL found to be weaker in utilizing the bank assets for the profit generation. EBL holds greater capacity in paying immediate obligation as revealed by the higher cash and bank balance to current assets ratio. Total deposits, loan and advances, total investment, net

worth, net profit, EPS and MVPS showed the increasing trend over the study period in both banks. Provisions for possible losses to loans and advances ratio in NBBL exceeds than in EBL, which indicate that loan and advances grants by the banks are inferior in contrast to EBL. But NBBL has maintained the consistency in the ratio than that of EBL over the period.

Adhakari (1993) in his study entitled, “Evaluating the financial performance of Nepal Bank Limited” has calculated and analyzed the different ratios by observing figures of balance sheets of Nepal Bank Limited for the period FY 2038/39 to 2049/50. He remarked that the bank is not found to have been able to utilize its fund effectively and efficiently for the development of the economy. He also stated in his report that, the bank has been unable to utilize its resources on high yielding investment portfolio to maximize returns. Operational efficiency of the bank is indicated by the operational loss has been found unsatisfactory. Hence, the bank has been suggested to manage its investment portfolio efficiently. He recommended that the bank should try to mobilize its resources efficiently by creating new business and services ideas which will certainly help for the better utilization of ideal resources and for the economic development of the country. He has focused on utilization and mobilization of funds and resources of Nepal Bank Ltd. His study especially concentrated on the deposit collection of the bank and disbursement of the fund as loan and advances.

2.3 Research Gap

Commercial bank invests its deposits in different portfolio sectors according to the directives and circular of the Nepal Rastra Bank and guidelines and policy of their own bank. Financial analysis statement has to prepare according to direction of NRB. NRB’s policy and guideline are changing according time to time. So, the up to date study over the changes of time frame is major concern for the researcher and concerned organization as well as industry as a whole. The study covers the more recent financial data and analysis is done within the latest guidelines and curriculum of NRB.

Financial analysis is the major function of every commercial bank evaluating the financial performance. Therefore, it is the major concern of stakeholder to know the financial situation of the banks. NABIL and NIBL are the leading joint venture commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Every year the financial performance of changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the depth of the financial performance which is the major concern of the shareholders and stakeholders.

CHAPTER III

RESEARCH METHODOLOGY

When a particular research has been identified, research problem defined, and the related literature in the area have been reviewed; the next step is to construct the research design. Choosing an appropriate research design is crucially important to the success of the research project. A faulty research design may result in misleading findings.

3.1 Research Design

To conduct this research without any difficulties while selecting the study period and enterprises, during the selection of variables, collection of needy information, analyze data to answer the stated research question properly, research design was made. In other words, to direct this research work in right way, research design was made. A research design is logical and systematic planning and direction of a piece of research. It is like blue-print to the researcher. There are different views regarding research design but overall it contains whole report contents. It is the overall plan of proposal study to specific the appropriate research method and procedure for obtaining specific finding valid objectivity accurate and economically as possible.

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the plan structure and strategy on investigations conceived for obtaining answer to research questions and to control variances to achieve the objectives of this study and analytical research designs have been used. It follows descriptive and exploratory research designs.

3.2 Nature and Source of Data

This study is mainly conducted on the basis of secondary data. The data relating to investment, deposit, loan and advances and profit are directly obtained from the balance sheet and profit and loss account of the concerned Bank's annual reports published on web sites of concerned banks. Supplementary data and information are collected from number of institutions and regulating authorities like Nepal Rastra Bank, Website www.nepalstockexchange.com and different related websites.

3.3 Population and Sample

The large group about which the generalization is made is called the population under study or the universe and small portion which the study is made is called the sample of the study. There are all together 26 commercial banks in Nepal. In this study, the

focus will be on the analytical and comparative study of financial performance of Nabil Bank Ltd. and Nepal Investment Bank Ltd. There are so many commercial bank in the market but it is impossible to study all of them so two commercial bank has been selected for the analysis among them on the basis of reputation of the bank and to limit. On organization, so the study is based on the sample not on the population. From the 26 listed commercial banks are considered as population. To calculated industry average the selected sample are as follows:

1. Nabil Bank Ltd

2. Nepal Investment Bank Ltd.

3.4 Data Collection Procedure

The main sources of secondary data are the reports of the banks published in their respective annual general meeting and website i.e www.nepalstockexchange.com and relevant bank's website. In addition to that some of the relevant data are also collected from non-bank financial statistics published by the non-bank regulation department of Nepal Rastra Bank.

3.5 Methods of Analysis

In this study, various financial, accounting and statistical tools have been used to achieve the objective of the study. The analysis of data will be done accounting to the pattern of data available.

3.5.1 Financial Tools

There are various financial tools to measure the performance of an organization. The following financial tools have been used for the analysis.

3.5.1.1 Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures, "Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions". Thus ratio analysis is used to compare a firm's financial status and performance to that of other firm's or to itself overtimes. The quantitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

Even though, there are many ratios, only those have covered in this study, which are related to the performance of the bank.

3.5.1.1.1 Liquidity Ratio

A name denotes the liability refers to the ratio between liquidity assets and liability. The liquidity ratios are used to judge the ability of bank to meet its short term liabilities that are likely to mature in this short period. It reflects the short-term strength of the business. In order to ensure short-term solvency, the company maintain adequacy liquidity. To analyze the ability of banks, the following liquidity ratios are calculated:

1. Current Ratio

Current ratio shows the bank short-term solvency. It shows the relationship between current assets and current liabilities. Lower current ratios creates difficulties in meeting short run commitment as they mature. If the ratio is too high the bank has as excessive investment in current assets or is under utilization short-term credit. The ratio is calculated using the following basic formula:

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

The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio and the nature of the business. Normally, current assets include those assets of a firm which are converted into cash within accounting periods and current liabilities include those liabilities of a firm which are paid within one year.

2. Cash and Bank balance to Total Deposit Ratio.

Cash and bank balance are the most liquid current assets. The ratio measures percentage of most liquid fund with the bank to make immediate payment to the depositors. This ratio is computed by dividing cash and bank balance by total deposits. This can be presented as follows;

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

A high ratio indicates the greater ability to meet their deposits liability and vice-versa. Moreover, too high ratio is unfit as capital will be tide-up and opportunity cost will be higher.

3. Cash and Bank balance to Current Assets.

Since cash and bank balance are the most liquid assets, a financial analyst may examine the ratio of cash and bank balance to current assets. The ratio shows the percentage of readily available fund with in the bank. It is calculated by dividing cash in the bank balance by current assets, which is as follows;

$$\text{Cash and Bank balance to Current Assets} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

A high ratio indicates the sound ability to meet their daily cash requirement of their customer deposit and vice-versa. Both higher and lower ratio is not desirable. The reason is that if a bank maintains higher ratio of cash, it as to pay interest on deposits but could not invest its cash or current assets in a portfolio area so, it may lost opportunity to earn something. In the opposites, if a bank maintain low ratio of cash it may fail to make the payment for presented cheques by its customers. So, sufficient and appropriate cash reserve should be maintained properly.

3.5.1.1.2 Assets Management Ratio (Activity Ratios)

Activity ratio is concerned with measuring the efficiency in assets management. Sometime, these ratios are called efficiency ratios or assets utilization or turnover ratio. It measures how effectively the company employees the resources at its command. Funds are creates by the collection of share as debt from the owner, creditors and outside parties. Those funds are invested in various kinds of assets to generate profits or income. Various activity ratios are used to compute the efficiency of a firm.

1. Loans and Advance to Total Deposit Ratio.

Most of the commercial banks earn more profit by using funds of outsiders deposited in terms of loans and advances. This ratio measures the extend to which the bank are successful to utilizes the outsiders funds (total deposits) for the profit generating purpose on the loans and advances. Generally, a high ratio reflects higher efficiency to the utilization of fund and vice-versa. It can be calculated by dividing the amount of loans and advances by the amount of total deposits, which is given as below;

$$\text{Loans and Advances to Total Deposit Ratio} = \frac{\text{Loans and advances}}{\text{Total Deposits}}$$

2. Loan and Advance to Fixed Deposit Ratio.

This ratio represents how many times the funds are used to in loans and advances against fixed deposits. Fixed deposits are the main sources of deposit to bank and are high interest bearing obligation whereas loans and advances are the major sources of investment to generate income for the commercial banks. This ratio can be computed by dividing loans and advances by fixed deposits.

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

3. Loans and Advance to Total Working Fund Ratio.

Loans and advances is the major components in the total working fund, which indicates the ability of banks are successful in mobilizing their loans and advances on the working fund ratio for the purpose of income generation. This ratio is computed by dividing loan and advance by total working fund. It can be shown below;

$$\text{Loans and Advances to Total Working Fund Ratio} = \frac{\text{Loans and advances}}{\text{Total Working Fund}}$$

A high ratio indicates a better mobilization of fund as loan and advances and vice-versa. Total Working fund includes current assets, net fixed assets, loans for development bonds and other investment in share.

4. Long term Investment to Total Deposit Ratio.

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposits of investment in government securities and share, debenture of the other companies and banks. This ratio measure the extend to which the bank are successful in mobilizing total investment on the total deposits, the amount of deposit should be soundly investment as the bank has to put only provide interest on its deposits but also has declare a handsome dividend to its owners and shareholders. A high ratio indicates that the bank's efficiency is more investing on its deposits and low indicates in ability to put its deposits into the lending activities. This ratio can be calculated by dividing long term investment by total deposit. It can be shown as follows;

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

5. Performing Assets to Total Asset Ratio.

Performing Assets represents those total assets that are invested in the form of loan and advances like: bills purchased and discounted investment and money on the short call. This ratio shows how much the banks are successful in utilizing their assets for profit generating purpose. Generally, higher ratio represents the higher efficiency in utilizing assets and vice-versa.

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

3.5.1.1.3 Profitability Ratios

Profitability ratio is one of the main indicators to analyze the financial performance. Profit is the difference between total revenue and total expenses over a period of time. Profitability ratio measure the degree of success in achieving desired level of the firm. Therefore, the financial manager continuously, evaluates the efficiency of the banks in terms of profits. Higher the profitability ratio betters the financial performance of the bank and vice – versa. Profitability ratio can be calculated by following different ratio:

1. Net Profit to Total Asset/ Return on Total Asset Ratio (ROA).

Net profit refers the profit after interest and taxes. This ratio evaluates the efficiency of company in utilizing and mobilizing of assets and its survival. How efficiently the assets is of a firm able to generate more profit are measured by this ratio provides the foundation necessary foe a company to deliver a good return on equity. Higher return on assets indicates higher efficiency in utilization of total assets and vice- versa.

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

2. Return on Total Deposit Ratio.

Return on total deposits ratio evaluate whether management has been capable to mobilize and utilizes the deposits. It also helps to know the overall performance and generation of profit of bank. This ratio is most important to identified whether the organization well efficient or not in mobilizing its total deposit. Higher ratio indicates better utilization of deposit and vice – versa.

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

3. Return on Net Worth/ Total Equity Ratio (ROE).

Net worth or shareholders equity to the owners claim on the assets of the bank. This ratio measure the profit earned by the commercial banks by utilization of owner's equity and there by generating return to satisfy the owner. This ratio indicates how well the bank have used the resources of the owners. Higher the ratio indicates sound management, efficiency and wealth maximization of the banks, which in turn is the wealth maximization of the banks. It is calculated by dividing net profit by net worth which is express as follows;

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

Note: Total Shareholders equity consists of preference share capital, ordinary shareholders equity consisting of equity share capital, share premium, reserve and surplus less accumulated losses.

4. Interest Earned on Total Assets Ratio.

This ratio indicates how much interest mobilizing the assets in the banks has generated. Interest is the main sources of income of banks. Interest is received from generally loans and advances, overdraft and investment in securities. Higher ratio indicates higher efficiency in mobilization of resources and ability in interest earning and vice – versa. This ratio can be computed as interest dividing by total assets.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

5. Return on Capital Employed Ratio.

It is a ratio which used to measure the profitability of a firm on the basis of investment, term capital employed refers to long – term fund supported by the creditors and owners of the firm. Capital employed basis provides a test of profitability related to the sources of long term funds. It also shows how much the creditors fund and owners funds are utilized to generate profit. The high ratio indicates the more efficiency and the use of the capital employed. This ratio can be calculated as dividing net profit after tax by capital employed.

$$\text{Capital Employed Ratio} = \frac{\text{NPAT}}{\text{Capital Employed}}$$

3.5.1.1.4 Leverage Ratios.

This ratio is also called solvency ratio or capital structure ratio. A firm should have strong short – term as well as long – term financial position. To judge the long term financial position of the firm, these ratios helps to measure the financial status of firm as well as financial contribution of owners and creditors comparatively. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. This ratio highlights the long term financial health, debt servicing capacity and strength and weakness of the firm. There are different ratios which justify the long – term financial solvency of a firm.

1. Debt – Assets Ratio.

This ratio reflects the claims of outsiders and owners on the total assets of the firm. This ratio shows the proportion of outside fund used in financing total assets. It also provides security / financing safety to the outsiders that are potential shareholders, depositors or investors. Higher debt ratio indicates higher financial risk as well as increasing claims of outsiders in total assets and lower ratio indicates lower financial risk as well as decreasing claims of outsiders over the total assets of the firm. This ratio implies a finance company success in exploiting debt to more profitable areas. This ratio represents as follows;

$$\text{Debt – Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

2. Debt – Equity Ratio.

This ratio reflects the relationship between borrowed fund and owner’s capital. It refers to the relative proportion of debt and equity in financing the assets of a firm. The relationship between outsider’s claim and owner’s capital can be shown in different the funds invested by the owners. So, it is test of the financial strength of the company. It can be computed by dividing total debt by total equity.

$$\text{Debt – Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Note: A total debt refers to all deposits, bill payable, borrowing from other banks and other liabilities. Total equity refers to paid up capital, reserve and surplus and undistributed profit.

3. Long Term Debt to Capital Employed Ratio.

This ratio measures the proportion of long – term debts in relation to total capital employed in a firm. Higher ratio indicates the higher risk to creditors and also to shareholders and lower ratio indicates the lower risk to creditors and shareholders to pay their funds.

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

Note: A long term debt includes fixed deposits and borrowing from other banks whereas capital employed refers to the net worth and long term debt.

3.5.1.1.5 Capital Adequacy Ratio.

The capital adequacy ratio is used to measure the strength of the capital adequacy of the available capital. This ratio is important to every business firm so, commercial banks must evaluate these ratios. It is measured by the capital (paid up capital + free reserve) to the total assets explains the strengths of the capital base of commercial banks. Appropriate capital adequacy is needed but it is a controversial matters. According to NRB’s prescription bank has to keep capital adequacy ratio. NRB’s standard of capital adequacy ratio is changing over the time period.

$$\text{Capital Adequacy Ratio} = \frac{\text{Capital Fund}}{\text{Total Deposit}}$$

3.5.1.1.6 Other Ratios.

Market value ratio represents how well the banks are maintaining their economic and financial position. These ratios can be calculated by dividing the last period dividend by the first period dividend, then by referring to computed tables. Alternatively, it is calculated by using the following formulas,

$$FV = PV (1 + r) n$$

Where,

FV = Future Value

r = rate of interest

PV = Present Value

n = Number of years

To examine and analyzed the expansion analysis growth of company, following growth ratios are calculated in this study.

1. Net Profit

Net profit is the main indicator of financial position of any business. Net profit is essential for its survival and growth and maintain capital adequacy through profit retentions. It is also called net profit after tax and interest.

$$NP = OI - (TE + IP + T)$$

Where,

NP = Net profit after tax and interest

OI = Operating Income

TE = Total Expenditure

IP = Interest paid

T = Taxes

2. Earning Per Share

The earning per share exhibits that the owner is theoretical entitles to get from company. EPS is also identifying to measure the profitability of the shareholders investment. It simply, shows that the profitability of bank on a per share basis. This ratio can be calculated by dividing net profit after interest and taxes less preference dividend by the total number of equity shares outstanding of banks. It is calculated by using following formula;

$$EPS = \frac{NPAIT - PD}{N}$$

Where,

EPS = Earning per share

NPAIT = Net profit after interest and taxes

PD = Preference dividend

N = Number of equity share outstanding

3. Dividend Per Share

The term dividend refers to distribute earning to the shareholders of bank in return to their investment. Generally, dividend implies that portion of net profit, which is allocated to shareholders as their return in terms of cash or share. The difference fund between EPS and DPS is retaining in the company as retain earning. It is calculated by dividing dividend by the number of share outstanding.

$$\text{DPS} = \frac{\text{Earning paid to shareholders}}{\text{N}}$$

Where,

DPS = Dividend per share

N = Number of common share issued

4. Dividend Payout Ratio

This ratio measures the relationship between the earning belonging to the ordinary shareholders and the dividend paid to them. This ratio can be calculated by dividing the total dividend paid to the owners by the total profit / earning available to them.

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

Where,

DPS = Dividend Per Share

EPS = Earning Per Share

5. Operating Income Analysis

Operating income refers to the income generated by the use of labors, investment and advances and providing regular services. This income is an important for measuring the financial status and performance of a firm. This income generates from operation of different resources of a firm.

a. Interest Earned

Interest earned by a firm is also one of the major indicators of a good financial performance. Interest earned reflects to the operational efficiency of banks. So, higher ratio indicates higher efficiency and vice – versa. Interest earned covers much portion of income of the commercial banks. Specially, interest earned includes the commercial banks' interest income from loans, advanced, overdraft, investment on government securities, investment on debenture and money at call and inter bank loans.

b. Commission and Discount Earned

Commission and discount earned by a firm is also one of the sources of income. This income of commercial banks' includes; commission and discount received from letter of credit, collection fees, letter of guarantee, remittance fees and other fees and commissions.

c. Other income

It is also one of the income resources of commercial banks. This income refers to those incomes that do not come under the above income discussed.

6. Operating Expenses Analysis

A firm does some expenses to earn income or to minimize profit and lower rate of operating expenses reflects higher efficiency, higher profit of firm. Similarly, commercial banks make expenses on various topics to generate income or to operate its daily operation.

a. Interest and Commission Paid

Interest and commission paid refers to the interest paid on deposits, borrowing fees, loans advances and commission paid. Higher expenses, low will be the profit and vice – versa.

b. Staff Expenses

A staff expenses includes the overall payments of staff's wages and salary, provident fund, pension fund etc.

c. Office Overhead Expenses

Office overhead refers to the overall expenses made in the transaction of office such as : payment of telephone bill, transportation charges, stationery expenses, power and heat charges etc.

d. Other Expenses

This is also one part of expenses for the bank. Under this headings those items can be included which are not overcome in above heads.

3.5.2 Statistical Tools

Various statistical tools related to this study will be drawn out to make the conclusion more reliable according to the available financial data.

3.5.2.1 Arithmetic Mean

The average value is a single value with in the range of the data that is used to represent all of the values in the series. Since an average is somewhere with in the range of the data, it is also called a measure to central value. Since average represents the entire data, its value lies somewhere in between the two averages. Among them we use here the arithmetic mean, which is more popular to denote particular type of average. It is obtained by dividing sum of obtain observations by the number of items which is presented as below;

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

Where,

\bar{X} = Arithmetic Mean

$\sum x$ = summation for total values of the variables / observation

N = Number of items

3.5.2.2 Standard Deviation

The standard deviation is the most important and widely used measure of studying dispersion. It is also known as root mean square deviation for the reason that the square root of the mean of the standard deviation from the arithmetic mean . It is also denoted by the small Greek Letter σ (sigma). A small standard deviation means a high

degree of uniformity of the observation as well as homogeneity of a series and vice – versa.

Symbolically it is presented as follows;

$$\sigma = \sqrt{\frac{\sum d^2}{N}}$$

Where,

σ = Standard Deviation

$\sum d^2$ = Sum of square of the deviation measured from the arithmetic mean

N = Number of observation

3.5.2.3 Coefficient of Variation

Standard deviation is an absolute measure of variability; it is generally not suitable for comparing investment with different expected returns. In these cases the coefficient of variation provides a better measure of risk. The coefficient variation is the corresponding relative measure of dispersion, comparable across distribution, which is defines as the ratio of the standard deviation to the mean expressed in resulting percentage. It is used in such problems where we want to compare the variability of two or more than two series.

Symbolically it is presented as follows;

$$CV = \frac{\sigma}{\bar{X}} * 100$$

Where,

CV = Coefficient of Variation

σ = Standard Deviation

\bar{X} = Arithmetic Mean

3.5.2.4 Correlation Analysis

Correlation Analysis is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. Correlation analysis is the analysis, which reflects that the variables of the two different data are related or we can say that correlation is the analysis of relation between more that one variable. In this analysis we examine that the data are mutually dependent or not. “When the relation is of quantitative nature, the appropriate statistical tools for discovering and measuring the

relationship and expressing it in a brief formula is known as correlation.” (Gupta, 1997/1998)

The relation between the data may be either positive or negative. It can be determined by different ways such as graphical representation, formula method etc. When both variables are moving upwards or downwards in the same proportion, it is said to be the condition of positive correlation and if the condition is vice versa then the condition is said to be negative correlation. The main purpose of this study is to find the correlation between selected ratios with each other. The correlation coefficient is denoted by the symbol ‘r’.

To calculate correlation between variables, we use the following formulas;

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

Where,

r = Coefficient of correlation between variable X and Y

N = Number of pairs in observation

$\sum XY$ = Sum of product of the variables X and Y

$\sum X$ = Sum of the X

$\sum Y$ = Sum of the Y

$\sum X^2$ = Sum of the square of X

$\sum Y^2$ = Sum of the square of Y

3.5.2.5 Regression Analysis

Sometimes, the correlation between two variables may be insufficient to determine reliable estimation equation. Yet, if we add data from more independent variable we may be able to determine an estimating equation that describes the relationship with greater accuracy. In regression analysis we use independent variables utilizing more of the information available to us to estimate the dependent variable.

Regression and correlation analysis are the techniques of studying how the variables in one series are related to the variables in another series. Measurement of the degree of relationship between two or more variables is called correlation analysis and using the relationship between known variables and unknown variables to estimate the known one termed as regression analysis. Thus, correlation measures the degree of

relationship between the variable while regression shows the how the variables are related. Thus, correlation and regression analysis determines the nature and the strength of relationship between variables.

The equation of regression line where the dependent variables Y is determined by the independent variables x is given below;

$$Y = a + bx$$

$$a = Y - \text{intercept}$$

Where,

b = Slope of regression line or regression coefficient of y on x.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter of thesis presents the data, facts figures relating to different aspects of Nabil bank Ltd. and Nepal Investment bank Ltd. These available data are translated, analyzes and interpreted so that financial forecast of banks can be done easily. Hence, the financial ratios have been taken for this. Though there are many ratios but to some sort coming and constraints, only related ratios have been taken for analyzing the strength and weakness of the sample joint venture banks.

4.1 Ratio Analysis

The term ratio refers to the numerical or quantities relationship between two variables. Important ratio can be calculated from the balance sheet and profit and loss account and thus calculated financial ratios can be useful for analyzing and assessing the performance and position of the banks, which reflects the relative strength and weakness of the particular bank over others. The ratio analysis is the most powerful tool of the financial analysis and it is used in analyzing the financial information to indicate the operating and financial efficiency and growth of the bank.

4.1.1 Liquidity Ratios

It is very important for a firm to be able to meet its obligation as they become due. Liquidity ratio measure the ability of the firm to meet its current obligations. A firm should ensure that it does not suffer from the liquidity crunch and also that it is not too much highly liquid. The failure of a company to meet its obligation, due to lack of sufficient liquidity will result in bad credit image and loss of creditor's confidence. A very high degree of liquidity is also bad; idle or non – performing assets earn nothing. The firm's fund will be unnecessarily tied up in the current assets. Therefore, it is necessary to strike proper balance between liquidity and lack of liquidity. To measure the bank's debt paying ability or the profitability that cash will be continuously available to meet its maturing, various liquidity ratios are calculated as below:

4.1.1.1 Current Ratio

Current ratio indicates the ability of the company to meet its current obligation. This is the broad measurement of liquidity position of the banks. In other words, it measures the availability of current assets for meeting current liabilities. This ratio is also known as working capital. Following table shows the comparative current ratio of two sample banks for five years.

Table 1
Current Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Current Assets	Current Liabilities	Ratio (Times)	Current Assets	Current Liabilities	Ratio (Times)
2006/2007	18021.18	24313.75	0.741	20324.58	17396.03	1.169
2007/2008	26297.71	33095.55	0.795	31028.48	35136.52	0.883
2008/2009	32380.01	38755.83	0.835	34729.85	48014.15	0.723
2009/2010	48180.10	47510.76	1.014	56169.16	51030.43	1.100
2010/2011	41222.70	52589.71	0.783	57248.37	52147.06	1.097
Mean			0.8336			0.9944
S.D			0.1059			0.1857
C.V (%)			12.70			18.67

Current Ratio of Nabil bank in the fiscal year 2006/07 was 0.741, in the F.Y 2007/08 was 0.795, in F.Y 2008/09 was 0.835, in F.Y 2009/10 was 1.014 and in F.Y 2010/11 was 0.783. Similarly, current ratio of NIBL was 1.169 in F.Y 2006/07, 0.883 in F.Y 2007/08, 0.723 in F.Y 2008/09, 1.100 in F.Y 2009/10 and 1.097 in F.Y 2010/11. Both the banks have fluctuating current ratios. Comparatively current ratio of NIBL was good and better than Nabil bank Ltd. It means NIBL has been successfully managing of current assets over current liabilities where as Nabil has failed to maintain the current obligation. However, NIBL has less consistency, less uniformity and less homogeneous in its current ratio with C.V 18.67% than that of Nabil with C.V of 12.70% respectively.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to deposits ratio measure the capacity of the banks to meet unexpected demand made by the depositors i.e. current account holders, saving account holders and other margin holders. Higher ratio shows high liquidity position and ability to cover the deposits and vice – versa. This ratio includes all types of deposits. Cash and bank balance includes the total cash in hand and total cash at bank. The following table shows the comparative cash and bank balance to deposits ratio of Nabil and NIBL.

Table 2
Cash and Bank Balance to Total Deposit Ratio

(Amount on Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Cash and Bank Balance	Total Deposit	Ratio (Times)	Cash and Bank Balance	Total Deposit	Ratio (Times)
2006/2007	1399.82	23342.28	0.060	2441.51	24488.86	0.099
2007/2008	2373.91	31915.04	0.074	3754.99	34451.53	0.109
2008/2009	3372.50	37348.25	0.090	3754.99	46698.10	0.169
2009/2010	2436.10	46340.70	0.052	6815.88	50094.72	0.136
2010/2011	2458.55	49608.37	0.049	8140.37	50138.12	0.163
Mean			0.065			0.135
S.D			0.017			0.031
C.V (%)			26.15			22.96

The above table reveals that the ability of NIBL to cover its short term deposits is better than Nabil bank Ltd. During the study of five years period, the ratio of Nabil bank was ranged between 0.060 in 2006/07 to 0.049 in 2010/11, NIBL is ranged between 0.099 in 2006/07 to 0.163 in 2010/11. It shows that NIBL has maintained the highest mean ratio i.e 0.135 than Nabil. This shows that NIBL has successfully maintained the higher cash and bank balance to total deposits ratio. C.V. of Nabil was 26.15% which is highest than the C.V. of NIBL i.e 22.96% which indicates that the NIBL has higher cash balance and low consistency. Holding cash and bank balance can have a negative impact on the goodwill and reputation of the bank balance to fulfill the demand of the profit holders and lower cash balance can have a negative impact on the customer.

4.1.1.3 Cash and Bank Balance to Current Assets

This ratio reflects the portion of cash and bank balance to current assets. Cash and Bank are highly liquid assets than other current assets. It also shows the bank ability to pay its depositors.

Table 3

Cash and Bank Balance to Current Assets Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Cash and Bank Balance	Current Assets	Ratio (Times)	Cash and Bank Balance	Current Assets	Ratio (Times)
2006/2007	1399.82	18021.18	0.078	2441.51	20324.58	0.120
2007/2008	2373.91	26297.71	0.090	3754.99	31028.48	0.121
2008/2009	3372.50	32380.01	0.104	3754.99	34729.85	0.228
2009/2010	2436.10	48180.10	0.050	6815.88	56169.16	0.121
2010/2011	2458.55	41222.70	0.059	8140.37	57248.37	0.142
Mean			0.0762			0.1464
S.D			0.0220			0.0465
C.V (%)			28.87			31.76

The above table shows that the cash and bank balance to current assets ratio of Nabil bank was ranged between 0.078 in F.Y 2006/07 to 0.059 in F.Y 2010/11 with mean ratio of 0.0762, whereas the ratio of Nabil has ranged between 0.120 in F.Y 2006/07 to 0.142 in F.Y 2010/11 with mean ratio of 0.1464 which is highest than that of Nabil bank. But Nabil bank is able to maintain the consistency than NIBL as it has less C.V i.e 28.87% whereas NIBL has 31.67%.

4.1.2 Activity Ratio or Assets Management Ratio

This ratio measures the efficiency of management in utilizing assets in profit generating fields and available assets are utilized. This ratio is called turnover or efficiency or assets utilization ratio. The greater the rate of turnover or conservation the more efficient the utilization of assets. If available assets are not properly utilized the management fails to increase profits, investment will not generate sufficient production and sales can not make a returnable profit. The ratio computed under this heading are shown and interpreted as follows;

4.1.2.2 Loan and Advances to Total Deposit Ratio

This ratio measures whether the banks are successfully utilizing outsider's fund in profit generating purpose by extending for use of loans and advances. Generally, a high ratio reflects higher efficiency to the utilization of outsider's fund and vice – versa. The table exhibits the ratio of loans and advances to total deposits of the banks throughout the study periods.

Table 4

Loan and Advances to Total Deposits Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Loans and Advances	Total Deposit	Ratio (Times)	Loans and Advances	Total Deposit	Ratio (Times)
2006/2007	15545.78	23342.28	0.67	17286.46	24488.86	0.70
2007/2008	21365.05	31915.04	0.67	26996.65	34451.53	0.78
2008/2009	27589.93	37348.25	0.74	36241.20	46698.10	0.78
2009/2010	32268.87	46340.70	0.70	40318.30	50094.72	0.80
2010/2011	38034.09	49608.37	0.76	41095.51	50138.12	0.82
Mean			0.708			0.776
S.D			0.041			0.045
C.V (%)			5.8			5.7

From the above comparative table, Nabil bank has registered the lowest ratio of 0.67 and highest ratio of 0.76 in fiscal year 2006/7 and 2010/11 respectively with mean ratio of 0.708. Similarly, NIBL has registered the lowest ratio of 0.70 and highest ratio of 0.82 in the fiscal year 2006/7 and 2010/11 respectively with mean ratio of 0.776; it is the highest mean ratio comparing with Nabil. The highest ratio of NIBL indicates that the they are successful in mobilizing the loans and advances to profitable sectors with respect to total deposits with comparison of Nabil. As concern with the consistency, Nabil is failed to maintain the consistency in comparison to NIBL because it has higher C.V. i.e. 5.8% whereas NIBL has 5.7%.

4.1.2.2 Loans and Advances to Fixed Deposits Ratio

This ratio measures the effectiveness of mobilizing loan and advances in respect with fixed deposits. Fixed deposits are high interest bearing obligation whereas loan and advances are the major sources of investment to generate income for the commercial

banks. The following table displays the ratio of loans and advances to fixed deposits of Nabil and NIBL.

Table 5
Loan and Advance to Fixed Deposits

(Amount in million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Loans and Advances	Fixed Deposits	Ratio (Times)	Loans and Advances	Fixed Deposits	Ratio (Times)
2006/2007	15545.78	5435.19	2.09	17286.46	7516.69	2.30
2007/2008	21365.05	8464.08	2.57	26996.65	7944.23	2.32
2008/2009	27589.93	8310.70	3.26	36241.20	11633.38	3.11
2009/2010	32268.87	14711.16	2.19	40318.30	16825.14	2.40
2010/2011	38034.09	16840.83	2.25	41095.51	18378.30	2.24
Mean			2.482			2.474
S.D			0.496			0.360
C.V (%)			19.98			14.55

The above table shows that both banks has fluctuation ratio throughout the study period. Nabil has increasing order of ratio from fiscal year 2006/07 to 2008/09 and then decreasing order in the fiscal year 2009/2010 and again in increasing order in fiscal year 2010/11. The highest ratio of Nabil bank was 3.26 in fiscal year 2008/2009 and the lowest ratio is 2.09 in fiscal year 2006/07 with mean ratio of 2.482. Similarly NIBL has also fluctuating ratio ranged between 3.11 and 2.24 in the fiscal year 2008/09 and 2010/11 respectively with mean ratio of 2.474.

The above table clearly indicates that loans and advances are being effectively and properly utilized by Nabil bank than NIBL with respect of fixed deposit which shows the higher mean ratio. In terms of consistency, NIBL is successful in maintaining the stability in investing in loan and advances with respect to fixed deposit, which is indicate by lower C.V. i.e. 14.55%.

4.1.2.3 Loan and Advances to Total Working Fund Ratio

Loans and advances is the major components in the total working fund, which indicates the ability of banks are successful in mobilizing their loan and advances on

the working fund ratio for the purpose of income generation. A high ratio indicates a better mobilization of fund as loan and advances and vice – versa. Total Working fund includes total current assets, net fixed assets and investment.

Table 6

Loan and Advances to Total Working Fund Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Loans and Advances	Total Working Fund	Ratio (Times)	Loans and Advances	Total Working Fund	Ratio (Times)
2006/2007	15545.78	27253.39	0.57	17286.46	27590.84	0.63
2007/2008	21365.05	37132.75	0.58	26996.65	38873.30	0.69
2008/2009	27589.93	43867.39	0.63	36241.20	53010.80	0.68
2009/2010	32268.87	52079.72	0.62	40318.30	57305.41	0.70
2010/2011	38034.09	58099.62	0.65	41095.51	58356.82	0.71
Mean			0.61			0.682
S.D			0.034			0.031
C.V (%)			5.57			4.54

The above table shows that the ratio of Nabil bank was in fluctuating order. The highest ratio was 0.65 in the fiscal year 2010/11 and the lowest ratio was 0.57 in the fiscal year 2006/07 with mean ratio of 0.61. The ratio of NIBL was also fluctuating order, its highest ratio was 0.71 in the fiscal year 2010/11 and the lowest ratio was 0.63 in the fiscal year 2006/07 with mean ratio of 0.682. The mean ratio of NIBL was highest than Nabil i.e. 0.682 which indicates that NIBL has invested larger amount in loan and advances than Nabil. In term of consistency also NIBL has maintained a successful consistency level than that of Nabil because of NIBL ‘s lowest C.V.

4.1.2.4 Long Term Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. The main purpose of this ratio is to measure successfulness in mobilizing the deposit in investment. The long – term investment to total deposits ratio of different banks in the study periods are mentioned in the following table:

Table 7

Long Term Investment to Total Deposits Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Long Term Investment	Total Deposit	Ratio (Times)	Long Term Investment	Total Deposit	Ratio (Times)
2006/2007	8945.31	23342.28	0.38	6505.68	24488.86	0.26
2007/2008	9939.77	31915.04	0.31	6874.02	34451.53	0.20
2008/2009	10826.38	37348.25	0.28	7399.81	46698.10	0.16
2009/2010	13670.92	46340.70	0.29	8635.53	50094.72	0.17
2010/2011	13081.20	49608.37	0.26	7423.10	50138.12	0.14
Mean			0.304			0.186
S.D			0.0461			0.0467
C.V (%)			15.16			25.10

From above table reflects that the ratio on Nabil bank was ranged between 0.26 to 0.38 in fiscal year 2010/11 and 2006/07 respectively with mean ratio of 0.304, NIBL ratio was 0.26 to 0.14 in fiscal year 2006/07 to 2010/11 with mean ratio of 0.186. The Nabil has a higher mean ratio than NIBL which indicates it has successfully invested in long term investment out of total deposit. A large proportion of investment may bring a higher return to the institution. Moreover, Nabil has also successfully maintained to consistency in comparison to NIBL which is lower that is 15.06%.

4.1.2.5 Performing Assets to Total Assets Ratio

In this study performing assets represents the total assets that are invested in loan and advances; bill purchased and discounted investment and money on the short cell. This ratio shows that how far the banks are successful in utilizing their assets in profit generating investment / sectors. A generally, higher ratio reveals higher efficiency of proper utilization of assets and vice – versa. Hence, total assets refers to total assets of

balance sheet. Following table represents the ratio of both the sample banks.

Table 8
Performng Assets to Total Assets Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Performing Assets	Total Assets	Ratio (Times)	Performing Assets	Total assets	Ratio (Times)
2006/2007	19894.97	27253.39	0.73	20324.58	27590.84	0.74
2007/2008	28220.89	37132.75	0.76	29543.71	38873.30	0.76
2008/2009	34216.56	43867.39	0.78	39758.10	53010.80	0.75
2009/2010	35268.87	52150.23	0.67	40318.30	57305.41	0.71
2010/2011	38034.09	58141.43	0.65	41095.51	58356.82	0.71
Mean			0.72			0.732
S.D			0.054			0.026
C.V (%)			7.5			3.55

From the above table, the ratio of Nabil was ranged between 0.73 to 0.65 in fiscal year 2006/07 to 2010/11 with mean ratio of 0.72; NIBL was ranged between 0.74 to 0.71 in fiscal year 2006/07 to 2010/11 with mean ratio of 0.732. NIBL has a higher mean ratio than Nabil i.e. 0.732 which indicates higher investment in performing assets. The C.V. of NIBL was lower than that of Nabil which shows the more consistency.

4.1.3 Profitability Ratio

Profit is the main element for financial institution to survive and grow over the long run. But only earning profit is not the ultimate aim of the institution and it should never be earned at the cost of employees. Customers and society. However, profitability is a measure of efficiency and search for it provides incentives to outsiders' efficiency. This ratio indicates the degree of success in achieving desired profit levels of the working funds. The following are profitability ratios those are relevant in this study.

4.1.3.1 Return on Total Assets Ratio (ROA)

This ratio is a measuring tool of profitability with respect to each financial resources investment of the assets. If bank's total assets is well managed and utilized efficiently, return on such assets will be higher and vice – versa. The following comparative table shows the return on total assets ratio of sample banks recorded over the study period.

Table 9

Return on Total Assets Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Net Profit	Total Assets	Ratio (%)	Net Profit	Total assets	Ratio (%)
2006/2007	673.96	27253.39	2.47	501.40	27590.84	1.82
2007/2008	746.47	37132.75	2.01	696.73	38873.30	1.79
2008/2009	1031.05	43867.39	2.35	900.62	53010.80	1.70
2009/2010	1140.52	52150.23	2.18	1265.95	57305.41	2.20
2010/2011	1344.17	58141.43	2.31	1177.64	58356.82	2.02
Mean			2.264			1.906
S.D			0.175			0.202
C.V (%)			7.73			10.59

From this comparative table, it can be seen that the both bank have fluctuating ratio. The ratio of Nabil was ranged between 2.47 to 2.31 in fiscal year 2006/07 and 2010/11 respectively with mean ratio of 2.264; NIBL ratio has ranged between 1.82 to 2.02 in fiscal year 2006/07 and 2010/11 respectively with mean ratio 1.906. The highest recorded ratio of Nabil was 2.47 and lowest ratio was 2.01 in the year 2006/07 and 2007/08, the highest ratio of NIBL was 2.20 and lowest ratio was 1.70 on the year 2009/10 and 2008/09 respectively. From the above table it can be concluded that the both bank's profit have been increasing in comparison to previous year. Moreover Nabil has a highest mean ratio with 2.264 and lowest C.V. i.e. 7.73% which determines that Nabil is successful in earning the net profit with efficient utilization of total assets and it also success to maintain the consistency profit comparison to NIBL.

4.1.3.2 Net Profit to Total Deposit Ratio

Return on total deposit ratio evaluates whether management has been capable to mobilize and utilizes the deposits. It also helps to know the overall performance and generation of profit of banks. The following table reveals the percentage of net profit to total deposit of the banks.

Table 10

Net Profit to Total Deposit Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Net Profit	Total Deposit	Ratio (%)	Net Profit	Total Deposit	Ratio (%)
2006/2007	673.96	23342.28	2.89	501.40	24488.86	2.04
2007/2008	746.47	31915.04	2.34	696.73	34451.53	2.02
2008/2009	1031.05	37348.25	2.76	900.62	46698.10	1.93
2009/2010	1140.52	46340.70	2.46	1265.95	50094.72	2.52
2010/2011	1344.17	49608.37	2.70	1177.64	50138.12	2.34
Mean			2.63			2.17
S.D			0.22			0.25
C.V (%)			8.36			11.52

The above comparative table reveals that the net profit to total deposit are in fluctuating situation of both banks. The ratio of Nabil has ranged between 2.89 to 2.70 in the fiscal year 2006/07 to 2010/11 with mean ratio of 2.63, NIBL has ranged between 2.04 to 2.34 in the fiscal year 2006/07 to 2010/11 with mean ratio of 2.17 respectively. The above statement indicates that Nabil has better performance in utilizing deposit to earn a higher profit than NIBL as it has higher mean ratio i.e. 2.63. And also Nabil has successful in maintaining consistency in mobilizing total deposit to earn the profit as it has lower C.V of 8.36%.

4.1.3.3 Return on Net Worth Equity Ratio

This ratio measure the profit earned by the commercial banks by utilizing owner's equity there by generating return to safety the owners. The following table presents the net profit to net worth ratio of the banks.

Table 11

Return on Net Worth Equity Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Net Profit	Net Worth	Ratio (%)	Net Profit	Net Worth	Ratio (%)
2006/2007	673.96	2057.04	32.76	501.40	1878.12	26.70
2007/2008	746.47	2437.19	30.63	696.73	2686.78	25.93
2008/2009	1031.05	3130.24	32.94	900.62	3907.84	23.05
2009/2010	1140.52	3834.75	29.74	1265.95	4585.39	27.60
2010/2011	1344.17	4566.51	29.43	1177.64	5159.76	22.82
Mean			31.10			25.22
S.D			1.66			2.17
C.V (%)			5.34			8.60

From the above table Nabil has highest ratio in fiscal year 2008/09 was 32.94 and the smallest or lowest ratio recorded was 29.43 in the fiscal year 2010/11 with the mean ratio of 31.10%; NIBL has highest ratio in fiscal year 2009/10 was 27.60 and lowest ratio in the year 2010/11 was 22.82 with mean ratio of 25.22%. The Nabil bank has the highest mean ratio than that of NIBL which indicates that they got a better achieving on increasing a net profit by mobilizing on resources of shareholder's equity. On the other side, Nabil too has a lower C.V. i.e 5.34% than NIBL which indicates that they have success in maintaining consistency in mobilizing shareholders equity to earn net profit.

4.1.3.4 Return on Capital Employed Ratio

A relation between net profit and capital employed is known as return on capital employed ratio. It shows whether the amount of capital employed has been properly used or not.

Table 12
Return on Capital Employed Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Net Profit	Total Capital	Ratio (Times)	Net Profit	Total Capital	Ratio (Times)
2006/2007	673.96	14040.83	0.0480	501.40	10194.81	0.0492
2007/2008	746.47	16192.41	0.0461	696.73	14250.00	0.0490
2008/2009	1031.05	20538.84	0.0502	900.62	15259.00	0.0590
2009/2010	1140.52	21747.82	0.0524	1265.95	16543.21	0.0765
2010/2011	1344.17	24562.20	0.0547	1177.64	18127.21	0.0649
Mean			0.0503			0.05972
S.D			0.0034			0.0116
C.V (%)			6.75			19.42

The above table reflects that the ratio trends of both banks. The ratio of Nabil was ranged between 0.0480 to 0.0547 in the year 2006/07 to 2010/11 with the mean ratio of 0.0503; NIBL ratio has ranged between 0.0492 in the year 2006/07 and 0.0649 in the year 2010/11 with mean ratio of 0.05972 respectively. The mean ratio of NIBL was higher than Nabil bank which indicates that the efficiency of the firm on the utilization of capital employed. In term of consistency, Nabil has successfully maintained which indicates by its significant lower C.V. of 6.57%.

4.1.3.5 Total Interest Earned to Total Assets Ratio

This ratio shows the earning capacity of a bank on its total assets. This ratio exhibits the extent on which banks are successful in mobilizing their working funds to generate income as much as possible. The following table shows comparative ratios of banks for the different period.

Table 13

Total Interest Earned to Total Assets Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Interest Earned	Total Assets	Ratio (Times)	Interest Earned	Total assets	Ratio (Times)
2006/2007	1587.76	27253.39	0.0583	1584.98	27590.84	0.0574
2007/2008	1978.69	37132.75	0.0533	2194.27	38873.30	0.0564
2008/2009	2798.49	43867.39	0.0638	3267.94	53010.80	0.0616
2009/2010	4047.72	52150.23	0.0776	4653.52	57305.41	0.0812
2010/2011	5254.03	58141.43	0.0903	5803.44	58356.82	0.0994
Mean			0.0686			0.0712
S.D			0.0152			0.0186
C.V (%)			22.15			26.12

From the above table reveals the total interest earned to total assets ratio. The ratio of Nabil Bank was ranged between 0.0583 in year 2006/07 to 0.0903 in the year 2010/11 with the mean ratio of 0.0686; the ratio of NIBL was ranged between 0.0574 in the year 2006/07 to 0.0994 in the year 2010/11 with the mean ratio of 0.0712 respectively. The mean ratio of NIBL is slightly higher than Nabil bank i.e. 0.0712 which indicates that the bank has earned more interest. In term of consistency, Nabil has successful to maintain consistency because of its lower C.V. i.e. 22.15%.

4.1.4 Leverage Ratio

This ratio is calculated to judge the long – term financial position of the firm. This ratio indicates mixture of funds provided by the owners and lenders, as per the general rule. Debt is more risky from firm’s point of view. The firm has a legal obligation to pay interest to debt holders, irrespective of the profit or loss incurred by the firm. As institution should have short term liquidity as well as long term solvency as short –

term creditors is interested to know about the liquidity position and long term creditors are interested to know as the long term financial position of the firm to determine whether the firm can pay regular interest or not.

This ratio of institution highlights the long term financial position, debt servicing capacity and strength and weakness of the firm. The following ratios are examined under these headings.

4.1.4.1 Debt – Equity Ratio

The debt equity ratio implies the debt equity proportion used by the institution. High debt ratio indicates more use of money from creditors' side and vice – versa. Generally, very high debt equity ratio is unfavorable to the business firm because debt gives third parties legal claims over the company which can be for regular payment of interest plus repayment of principal within the agreed time. On the other hand, a very low debt to equity ratio is also unfavorable from the shareholder's point of view. The following table shows the ratio of total debt to total equity ratio.

Table 14
Debt – Equity Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Total Debt	Total Equity	Ratio (Times)	Total Debt	Total Equity	Ratio (Times)
2006/2007	25196.32	2057.04	12.25	25712.72	1878.12	13.69
2007/2008	34695.55	2437.19	14.24	36186.52	2686.78	13.46
2008/2009	40737.13	3130.24	13.01	49102.95	3907.84	12.56
2009/2010	48244.97	3834.75	12.58	52720.02	4585.39	11.49
2010/2011	53533.10	4566.51	11.73	53197.06	5159.76	10.31
Mean			12.762			12.302
S.D			0.95			1.41
C.V (%)			7.44			11.46

The above table shows that the ratio of Nabil bank increases in fiscal year 2007/08 and the ratio decreases thereafter. The highest ratio of Nabil bank was 14.24 in the fiscal year 2007/08 and the lowest ratio was 11.73 in the fiscal year 2010/11 with the mean ratio of 12.762. The ratio of NIBL was in decreasing trend. The highest ratio of

NIBL was 13.69 in the fiscal year 2006/07 and the lowest ratio was 10.31 in the fiscal year 2010/11 with the mean ratio of 12.302. The Nabil has the lower debt ratio cost and higher investment from equity fund as well as it has consistency in debt equity ratio because of its highest mean ratio and lowest C.V. comparing with NIBL.

4.1.4.2 Debt – Assets Ratio

It measures proportion of the creditor's fund used by the institution to acquire the assets. The increased proportion of debt indicates the higher level of risk or burden to the institution. The debt is considering more risky and cheaper sources of financing. The higher level of risk, in the sense that the debt financing needs regular payment of interest in any condition of institutional financing status and economy. The debt – assets ratio of the banks are as follows;

Table 15

Debt – Assets Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Total Debt	Total Assets	Ratio (Times)	Total Debt	Total Assets	Ratio (Times)
2006/2007	25196.32	27253.39	0.925	25712.72	27590.84	0.932
2007/2008	34695.55	37132.75	0.934	36186.52	38873.30	0.931
2008/2009	40737.13	43867.39	0.929	49102.95	53010.80	0.925
2009/2010	48244.97	52150.23	0.925	52720.02	57305.41	0.920
2010/2011	53533.10	58141.43	0.920	53197.06	58356.82	0.911
Mean			0.9266			0.9238
S.D			0.0056			0.0086
C.V (%)			0.6043			0.9309

The above table shows that debts financing of both the sample banks are high. The ratios are not very fluctuation. The highest ratio of Nabil bank was 0.934 in the year 2007/08 and lowest ratio was 0.920 in the year 2010/11 with the mean ratio of 0.9266; the highest ratio of NIBL was 0.931 in the year 2007/08 and the lowest ratio was 0.911 in the year 2010/11 with the mean ratio of 0.9238 respectively. The C.V of Nabil bank and NIBL was 0.6043% and 0.9309% respectively. Above statement conclude that the debt financing of Nabil is higher than NIBL and they are also

successfully maintaining a consistency because of its higher mean ratio and lowest C.V.

4.1.4.3 Long Term Debt to Capital Employed Ratio

The ratio measures the proportion of long term debts in relation to total capital employed in a firm. Higher ratio indicates the higher risk to creditors and also to shareholders and lower ratio indicates the lower risk to creditors and shareholders to pay their funds. The ratio can be shown as following table;

Table 16
Long Term Debt to Capital Employed Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Long Term Debt	Total Capital	Ratio (%)	Long Term Debt	Total Capital	Ratio (%)
2006/2007	240.00	14040.83	1.70	800.00	10194.81	7.84
2007/2008	300.00	16192.41	1.85	1050.00	14250.00	7.36
2008/2009	882.57	20538.84	4.29	1058.80	15259.00	6.93
2009/2010	1604.20	21747.82	7.37	1060.00	16543.21	6.40
2010/2011	2100.30	24562.20	8.54	1088.80	18127.21	6.00
Mean			4.75			6.906
S.D			3.12			0.73
C.V (%)			65.68			10.57

The above table shows that the ratio of Nabil bank is ranged between 1.70% in the year 2006/07 to 8.54% in the year 2010/11 with the mean ratio of 4.75; the ratio of NIBL is in descending manner which is ranged between 7.84 in the year 2006/07 to 6.00 in the year 2010/11 with the mean ratio of 6.906%. NIBL has more consistency with C.V. of 10.57% than Nabil with C.V. of 65.68% which clearly shows that Nabil was using more debt than NIBL in total capital.

4.1.5 Capital Adequacy Ratio

The capital adequacy ratio is used to measure the strength of the capital adequacy of the available capital. This ratio is important to every business firm so, commercial banks must evaluate these ratios. It is measured by the capital (paid up capital + free reserve) to the total assets explains the strengths of the capital base of commercial banks. Appropriate capital adequacy is needed but it is a controversial matters. According to NRB's prescription bank has to keep capital adequacy ratio. NRB's standard of capital adequacy ratio is changing over the time period.

Table 17

Capital Adequacy Ratio

(Amount in Million)

Fiscal Year	Nabil Bank Limited			Nepal Investment Bank Ltd.		
	Total Capital	Total Deposit	Ratio (Times)	Total Capital	Total Deposit	Ratio (Times)
2006/2007	14040.83	23342.28	0.60	10194.81	24488.86	0.42
2007/2008	16192.41	31915.04	0.51	14250.00	34451.53	0.41
2008/2009	20538.84	37348.25	0.55	15259.00	46698.10	0.32
2009/2010	21747.82	46340.70	0.47	16543.21	50094.72	0.33
2010/2011	24562.20	49608.37	0.49	18127.21	50138.12	0.36
Mean			0.52			0.37
S.D			0.052			0.045
C.V (%)			10.00			12.16

In the above table, the highest capital adequacy ratio of Nabil bank was 0.60 times in the year 2006/07 and the lowest ratio was 0.47 times in the year 2009/10 with the mean ratio of 0.52 times; the highest capital adequacy ratio of NIBL was 0.42 times in the year 2006/07 and the lowest ratio was 0.32 times in the year 2008/09 with the mean ratio of 0.37 times. Nabil bank have better strength of the capital adequacy of the available capital than NIBL. Not only that Nabil bank has more consistency with its C.V of 10.00% than NIBL, because C.V. of Nabil bank was lowest than NIBL.

4.1.6 Other Ratio

There are several other widely used ratios relating to the financial aspects of the company. Although various ratios have been calculated and analyses for the sake of completeness some other indicators have also been considered in this section.

4.1.6.1 Earning Per Share (EPS)

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance of share value. It is the profit after tax dividend by the number of common shares outstanding. This ratio measures how much earning does the common shareholders get for every share held. This ratio of banks presented in following;

Table 18
Earning Per Share Ratio

(In Rs)

Banks	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	C.V (%)
Nabil	137.08	108.31	106.76	83.81	70.67	101.326	25.51	25.17
NIBL	62.57	57.87	37.42	52.55	48.84	51.85	9.60	18.51

The above table reveals that these ratios of both banks have wide fluctuation over the study period. The highest EPS ratio of Nabil bank was Rs. 137.08 in the year 2006/07 and the lowest ratio was Rs. 70.67 in the year 2010/11 with the mean ratio of 101.326; like the highest EPS ratio of NIBL was Rs. 62.57 in the year 2006/07 and the lowest ratio was Rs. 37.42 in the year 2008/09 with the mean ratio of 51.85. C.V. of NIBL was lowest than the Nabil bank i.e 18.51% is less than 25.17% which indicates that NIBL has more consistency and it has better signal from investor's point of view. However, EPS does not reveal how much amount out of the earning is paid to the owners as dividend or how much of the earning are retained in the business.

4.1.6.2 Dividend Per Share (DPS)

Dividend implies that portion of net profit, which is allocated to shareholders as their return in terms of cash. DPS is the portion of EAT that cash amount is allocated to shareholders dividend by total numbers of ordinary shares outstanding. The ratio of both of the banks is presented in the following table;

Table 19**Dividend Per Share Ratio****(In Rs.)**

Banks	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	C.V (%)
Nabil	73.47	88.49	103.61	63.46	37.41	73.29	22.51	30.71
NIBL	-	20.59	5.45	7.76	20.17	10.794	8.22	76.15

In the above table it shows that the highest DPS ratio of Nabil bank was Rs. 103.61 in the fioscal year 2008/09with mean ratio of 73.29, but DPS ratio of NIBL was nil in the year 2006/07 which indicates that no profit is allocated to its shareholders in that year. But it was going to be at Rs. 20.59 in the year 2007/08 and it was its highest DPS ratio in our study period of NIBL. Its lowest DPS ratio was Rs. 5.45 in the year2008/09 with mean ratio of 10.794. C.V of Nabil bank was lowest comparing with NIBL i.e. 30.71% which indicates that Nabil bank has to seem the better offering dividend.

4.1.6.3 Earning Power Ratio

The overall profitability is referred to as the earning power of the firm. This ratio may be defined as the overall profitability of the firm. This ratio can be computed by dividing NPAT by total assets of the firms. Earning power ratio of the both banks are presented follows;

Table 20**Earning Power Ratio****(In %)**

Banks	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	C.V (%)
Nabil	2.72	2.32	2.55	2.38	2.43	2.48	0.159	6.41
NIBL	1.82	1.79	1.70	2.20	2.00	1.902	0.199	10.46

In the above table it shows that the earning power ratios of both banks are in fluctuation trend. The highest earning power ratio of Nabil bank was 2.72% in the year 2006/07 and the lowest ratio was 2.32% in the year 2007/08 with the mean ratio of 2.48%. The highest earning power ratio of NIBL was 2.20% in the year 2009/10

and the lowest ratio was 1.70% in the year 2007/08 with the mean ratio of 1.902%. The mean ratio of Nabil bank was highest which indicates that the earning power capacity of it is better than NIBL. And also, Nabil bank has maintained a better consistency than NIBL because of its lowest C.V. i.e 6.41%.

4.1.6.4 Operating Income Analysis

Income refers to the financial return from one's business, labor or invested capital. The basic sources of income of a commercial banks are the interest earned from various heads of investment title i.e. loan and advances, Government securities, foreign exchanges and gain made from foreign exchanges fluctuation and other miscellaneous items.

The firm income usually refers to the money receives by an individual whether earned through work or unearned through dividend, interest "everything then must be assessed in money". Although, the term is complex, varying in meaning, however income is important indicators of financial performances and status of the banks. So, it will be relevant to analyze the sources of income. Bothe banks income is presented in the following table;

Table 21
Operating Income

(In Percentage)

Fiscal Year	Nabil Bank Ltd.				NIBL				Total
	Interest Earned	Commission and Discount Earned	Foreign Exchanges Fluctuation	Other Income	Interest Earned	Commission and Discount Earned	Foreign Exchanges Fluctuation	Other Income	
2006/07	77.99	7.40	10.31	4.30	79.26	8.20	6.77	5.77	100
2007/08	81.47	6.56	8.09	3.88	83.06	8.15	6.28	2.51	100
2008/09	82.94	5.32	7.47	4.27	85.92	6.91	4.87	2.30	100
2009/10	84.61	4.66	6.31	4.42	87.99	4.60	4.23	3.18	100
2010/11	86.89	4.97	4.72	3.42	89.76	4.25	3.59	2.40	100
Mean	82.78	5.78	7.38	4.06	85.20	6.42	5.14	3.23	
S.D	3.35	1.16	2.08	0.41	4.15	1.90	1.34	1.46	
C.V.	4.08	20.07	28.18	10.09	4.04	29.59	26.07	45.20	

In the table operating income of the banks are included only in four heading.

Interest earned of the Nabil Bank was in increasing trend where as NIBL was also in increasing trend. The highest percent of interest earned of Nabil bank was 86.89 in the year 2010/11 and the lowest percent was 77.99 in the year 2006/07 with mean ratio of 82.78%. The highest percent of interest earned of NIBL was 89.86 in the year 2010/11 and the lowest percent was 79.26 in the year 2006/07 with mean ratio of 85.20%. Not only that NIBL C.V. was also lowest than Nabil bank i.e. 4.04% < 4.08%. It refers that NIBL was successful to earn more profit than Nabil bank with maintaining a successful consistency.

Commission and discount earned of both the banks was in decreasing trend. The mean ratio of commission and discount earned of NIBL was comparatively high than Nabil bank. It refers that NIBL earned more income from the head of commission and discount than Nabil bank, But Nabil bank was successful in maintaining consistency because of its lowest C.V. Nabil bank was successful to earn more income from the head of Foreign exchange fluctuation than NIBL because of its high mean ratio of Foreign exchange fluctuation i.e. 7.38% > 5.14%. but in order of consistency, NIBL was successful to maintain a consistency because of its lowest C.V. (26.07% < 28.18%). Nabil bank was successful to earn income from the heading of other income which includes all the items which are not included in above mention heading than NIBL and this bank was also successful to maintain a consistency because of its highest mean ratio and lowest C.V.

4.1.6.5 Operating Expenses

A firm does some expenses to earn income or to minimize profit and lower rate of operating expenses reflects higher efficiency, higher profit of firm. Similarly, commercial banks make expenses on various topics to generate income or to operate its daily operation. The expenses made by banks in different headings are clearly shown in the table below;

Table 22
Operating Expenses

(In Percentage)

Fiscal Year	Nabil Bank Ltd.				NIBL				Total
	Interest Expenses	Staff Expenses	Office Expenses	Other Expenses	Interest Expenses	Staff Expenses	Office Expenses	Other Expenses	
2006/07	40.82	17.64	9.61	31.93	45.75	9.70	16.25	28.30	100
2007/08	44.77	15.52	9.28	30.43	60.21	11.36	13.99	14.44	100
2008/09	49.46	14.58	8.46	27.50	67.21	9.00	12.00	11.79	100
2009/10	63.09	11.78	8.10	17.03	69.49	8.30	8.15	14.06	100
2010/11	69.68	10.40	6.79	13.13	75.41	6.86	6.43	11.30	100
Mean	53.564	13.984	8.448	24.004	63.614	9.044	11.364	15.978	
S.D	12.32	2.90	1.11	8.41	11.37	1.67	4.05	7.02	
C.V.	23.00	20.73	13.13	35.03	17.87	18.46	35.64	43.93	

In the above table mean ratio of interest expenses of NIBL was higher than Nabil bank. It refers that NIBL has to give more % of interest to its deposit holders than Nabil bank. But NIBL was slightly successful to maintain consistency because of its low C.V. i. e. (17.87% > 23.00%). Comparison with NIBL, Nabil bank has a high staff or this bank may pay high salary to its staffs because its mean ratio of staff expenses was higher than NIBL i.e. (13.984% > 9.044%). But Nabil was slightly unsuccessful in maintaining its consistency because of its high C.V. than NIBL i.e (20.73% > 18.46%). NIBL has made more expenses in the head of office expenses than Nabil bank and as well as unsuccessful in maintaining consistency due to its high C.V. Nabil has made more expenses in the head of other expenses as well as successful in maintaining consistency due to its high mean ratio and low C.V percentage than NIBL.

4.2 Statistical Analysis

4.2.1 Correlation Analysis

Correlation analysis is the analysis, which reflects the variables of the two different data are related or we can say that correlation is the analysis of relation between more than two variables. In other words, correlation is a statistical tool measures the relationship between / among the variables and it shows the degree and direction of such relationship. In this analysis we examine that the data are mutually dependent or not. The relation between data may be either positive or negative. It can be determined by different ways such as graphical representation, formula method etc. When both variables are moving upwards or downwards in the same proportion, it is said to be positive correlation and if the condition is vice-versa then the condition is said to be negative correlation. The main purpose of this study is to find out the correlation between selected ratios with each other. The correlation coefficient is denoted by the symbol 'r' and to calculate correlation between variables; we use the following formula;

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

4.2.1.1 Correlation between Total Deposits and Loan and Advances

Deposit is the main tool for developing the banking performance of the banks. Likewise loans and advances are the key part to mobilize the collected deposits. The coefficient of correlation between deposits and loans and advances measures the degree of relationship between these two variables. For this study, deposit is taken as independent variable (x) and loans and advances are dependent variables (y). The purpose of computing 'r' between two variables is to justify whether deposits are significantly used as loans and advances in proper way or not.

Table 23**Correlation between Total Deposits and Loan and Advances****(Amount in Million)**

Fiscal Year	Nabil Bank Ltd.		Nepal Investment Bank Ltd.	
	Total Deposits (x)	Loans and Advances (y)	Total Deposits (x)	Loans and Advances (y)
2006/07	23342.28	15545.78	24488.86	17286.46
2007/08	31915.04	21365.05	34451.53	26996.65
2008/09	37348.25	27589.93	46698.10	36241.20
2009/10	46340.70	32268.87	50094.72	40318.30
2010/11	49608.37	38034.09	50138.12	41095.51
Correlation (r)	+0.99		+ 0.99	
Coeff. of Determination (r ²)	0.9801		0.9801	
P.E. (r)	0.006		0.006	
6 * P.E. (r)	0.0036		0.036	
Level of Significant (5%)	[r > 6 * P.E. (r)]		[r > 6 * P.E. (r)]	

(Refers to Annex 2)

The coefficient of correlation for both banks found to be almost '1' which indicates there is a proportion relationship between the total deposit and loans and advances for the both banks. While testing 6 * P.E. r for both the banks found to be significant as the value of 'r' is greater than 6 * P.E. r which implies that there found to be perfect correlation between the total deposits and loans and advances.

4.2.1.2 Correlation between Total Deposits and Long – Term Investment

Investment is also a measure part of banks to mobilize the collected deposits. By investing in different profitable areas like share and debenture, government securities etc. banks maximizes the profit. Therefore it is important to study the relation between the deposit and investment. For this analysis deposit is taken as independent variable (x) and investment (y) is taken as dependent variables. This analysis

measures the degree of relationship between these two variables. The following table exhibits the coefficient of correlation (r) between deposit and long term investment, coefficient of determination (r^2) and Probable Error (P.E.r).

Table 24
Correlation between Total Deposits and Long – Term Investment
(Amount in Million)

Fiscal Year	Nabil Bank Ltd.		Nepal Investment Bank Ltd.	
	Total Deposits (x)	Long – Term Investment (y)	Total Deposits (x)	Long – Term Investment (y)
2006/07	23342.28	8945.31	24488.86	6505.68
2007/08	31915.04	9939.77	34451.53	6874.02
2008/09	37348.25	10826.38	46698.10	7399.81
2009/10	46340.70	13670.92	50094.72	8635.53
2010/11	49608.37	13081.20	50138.12	7423.10
Correlation (r)	+ 0.96		+0.81	
Coeff. of Determination (r^2)	0.9216		0.6561	
P.E. (r)	0.0230		0.1037	
6 * P.E. (r)	0.1380		0.6222	
Level of Significant (5%)	[r> 6 * P.E. (r)]		[r> 6 * P.E. (r)]	

(Refers to Annex 3)

The coefficient of correlation for both banks found to be almost '1' which indicates there is a proportion relationship between the total deposit and long – term investment for the both banks. While testing 6 * P.E. r for both the banks found to be significant as the value of 'r' is greater than 6 * P.E. r which implies that there found to be perfect correlation between the total deposits and long – term investment.

4.2.1.3 Correlation between Long – Term Investment and Net Profit

Net profit is key to survive the banks. Without profit banks can not sustain in the market. Therefore, it is necessary to measure the degree of relationship between these two variables. For this study, long – term investment (x) is taken as independent variables and net profit (y) is taken as dependent variables.

Table 25

Correlation between Long – Term Investment and Net Profit

(Amount in Million)

Fiscal Year	Nabil Bank Ltd.		Nepal Investment Bank Ltd.	
	Long – Term Investment (x)	Net Profit (y)	Long – Term Investment (x)	Net Profit (y)
2006/07	8945.31	673.96	6505.68	501.40
2007/08	9939.77	746.47	6874.02	696.73
2008/09	10826.38	1031.05	7399.81	900.62
2009/10	13670.92	1140.52	8635.53	1265.95
2010/11	13081.20	1344.17	7423.10	1177.64
Correlation (r)	+0.91		+0.89	
Coeff. of Determination (r ²)	0.8281		0.7921	
P.E. (r)	0.0518		0.0627	
6 * P.E. (r)	0.3108		0.3762	
Level of Significant (5%)	[r> 6 * P.E. (r)]		[r> 6 * P.E. (r)]	

(Refers to Annex 4)

The coefficient correlation of the Nabil bank was found to be 0.91 which was found to be almost '1' which indicates perfectly positive correlation. The coefficient correlation of NIBL was found to be 0.89 which indicates that there was moderate degree of correlation between investment and net profit. While testing 6P.E.r Of both banks, both of them are found to be significant as the value of 'r' was higher than 6P.E.r.

4.2.1.4 Correlation between Loan and Advances and Net Profit

Loan and advances also play a vital role in earning the profit. By mobilizing the deposits in loan and advances banks earn the profit. So, it is necessary to study the relation between these two variables loan and advances and net profit. Following table shows the coefficient of correlation (r), coefficient of determination (r^2) and probable error between loan and advances and net profit of the banks. For this study, loan and advances (x) is taken as independent variable and net profit (y) is taken as dependent variable.

Table 26

Correlation between Loan and Advances and Net Profit

(Amount in Million)

Fiscal Year	Nabil Bank Ltd.		Nepal Investment Bank Ltd.	
	Loans and Advances (x)	Net Profit (y)	Loans and Advances (x)	Net Profit (y)
2006/07	15545.78	673.96	17286.46	501.40
2007/08	21365.05	746.47	26996.65	696.73
2008/09	27589.93	1031.05	36241.20	900.62
2009/10	32268.87	1140.52	40318.30	1265.95
2010/11	38034.09	1344.17	41095.51	1177.64
Correlation (r)	+0.99		+0.96	
Coeff. of Determination (r^2)	0.9801		0.9216	
P.E. (r)	0.006		0.0236	
6 * P.E. (r)	0.036		0.1416	
Level of Significant (5%)	[r > 6 * P.E. (r)]		[r > 6 * P.E. (r)]	

(Refers to Annex 5)

The coefficient of correlation for the both banks found to be almost '1' which indicates there is proportional relationship between the loan and advances and net profit for both banks. While testing 6P.E.r for Nabil Bank and NIBL found to be

significant as the 'r' value for both banks are greater than 6P.E.r which implies that there found to be perfect correlation between the loan and advances and net profit. It shows that both banks successful in earning the profit by mobilizing the loan and advances.

4.2.2 Simple Regression Analysis

Regression analysis is useful tool in statistical analysis which shows how the variables are related. In regression analysis one variable is considered to be unknown and other to be known variable. From the unknown variables we can estimate the value of known variables. So, regression is said to measure of average relationship between two or more variables in terms of the original units of the data. For the study we confined to only two variables and this kind of regression is called simple regression.

4.2.2.1 Regression Analysis between Net Profit and Total Deposit

The focal point of this analysis is to determine the relation between net profit and total deposits. Obviously, it seems that as total deposits increases the net profit of the banks need to increase. So, in this analysis net profit is considered to be dependent variables and total deposits as independent variables. The relation between net profit and total deposit can be present mathematically as below:

$$N.P. = a + b T. D.$$

Where,

N.P. = Net Profit

T.D. = Total Deposit

Table 27

Regression Analysis between Net Profit and Total Deposit

S.N.	Banks	Intercept (a)	Regression Coefficient (b)	Coefficient of Correlation (r)
1.	Nabil Bank	1124.036	37.06	0.96
2.	NIBL	10722.42	33.52	0.94

(Refers to Annex 6)

The above table exhibits the estimation of net profit on the basis of total deposits. The regression coefficient of net profit and total deposits of Nabil bank and NIBL is positive which determine that increase in the total deposit ultimately increase net profit. The coefficient of correlation found to be highest in case of Nabil bank almost '1' which indicates proportionate changes in the net profit as increase or decrease in total deposits for the banks. NIBL has lowest correlation comparison with Nabil Bank but it has also almost '1'.

4.2.2.2 Regression Analysis between Net Profit and Loan and Advances.

The analysis determines the relation between net profit and loan and advances. As loan and advances increases the net profit of the banks need to increase. So, in this analysis net profit is considered to be dependent variables and loan and advances as independent variables. The relation between net profit and loan and advances can present mathematically as below;

$$N.P. = a + b L.A.$$

Table 28

Regression Analysis between Net Profit and Loan and Advances

S.N.	Banks	Intercept (a)	Regression Coefficient (b)	Coefficient of Correlation (r)
1.	Nabil Bank	- 4087.76	31.45	0.99
2.	NIBL	4888.29	30.27	0.96

(Refers to Annex 7)

The above table is a comparative result of regression analysis for both banks. The regression coefficient of net profit and loan and advances of both banks are positive which determine that increase in the loan and advances ultimately increase the net profit. The coefficient of correlation found to be highest in case of Nabil bank almost '1' which indicates proportionate changes in net profit as increase or decrease in loan and advances where NIBL has lower correlation between net profit and loan and advances.

4.2.2.3 Regression Analysis between Net Profit and Long – Term Investment

This analysis determines the relation between net profit and long term investment. In this analysis net profit is considered to be dependent variables and long term

investment as independent variables. The relation between net profit and long term investment can be presented as below;

Table 29

Regression Analysis between Net Profit and Long – Term Investment

S.N.	Banks	Intercept (a)	Regression Coefficient (b)	Coefficient of Correlation (r)
1.	Nabil Bank	4767.09	6.61	0.91
2.	NIBL	5332.66	2.24	0.89

(Refers to Annex 8)

The above comparison table represents the regression analysis between the net profit and long – term investment. The regression coefficient of net profit and long – term investment for both the banks are positive which indicates that increase in investment ultimately increase in the net profit of the banks. The coefficient of correlation found to be highest in case of Nabil bank almost ‘1’ which indicates proportionate change in net profit as increase or decrease in long term investment where NIBL has lower correlation between net profit and long – term investment.

4.2.3 Trend Analysis

4.2.3.1 Trend Analysis of Net Profit

This analysis will shows the picture of trend values of Net profit of banks for the study periods and then forecast for the following five year. The trend values of net profit of the banks are presented in the following table.

Table 30

Trend Analysis of Net Profit

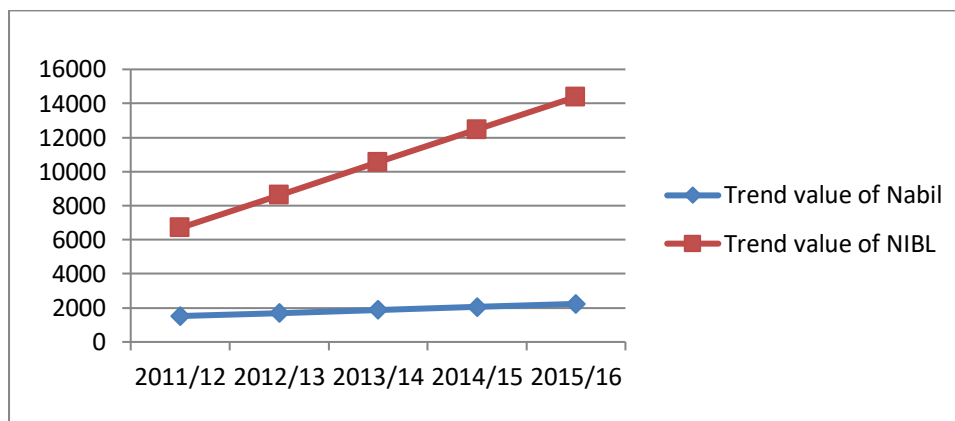
(Amount in Million)

F.Y	Y	Nabil Bank			NIBL Bank		
		a	b	$X = (Y - a)/b$	a	b	$X = (Y - a) / b$
2011/12	6	- 2.536	0.00561	1521	2.52	0.00052	6692
2012/13	7	- 2.536	0.00561	1699	2.52	0.00052	8615
2013/14	8	- 2.536	0.00561	1878	2.52	0.00052	10538
2014/15	9	- 2.536	0.00561	2056	2.52	0.00052	12461
2015/16	10	- 2.536	0.00561	2234	2.52	0.00052	14384

(Refers to Annex 9)

From the above mentioned comparative table of net profit, it is clear that net profit of both banks are in increasing trend, there things are remaining the same. The net profit of Nabil bank will be highest Rs. 2234 million in the fiscal year 2015/16. In case of NIBL, the highest net profit will be Rs 14384 in the fiscal year 2015/16 respectively. It can be shown in the figure below:

Figure 1: Line Diagram of Profit for Next Five Years



The above figure clarifies that the net profit of NIBL is greater due to average profit per year being greater. The trend line of both the banks are increasing line or upward sloping, it indicates that both of the banks have to earn better profit by using its fund. In the future period also they earn more and better profit by using its funds.

4.2.3.2 Trend Analysis of Loan and Advances

This analysis will shows the picture of trend values of loan and advances of banks for the study periods and then forecast for the following five year. The trend values of loan and advances of the banks are presented in the following table.

Table 31

Trend Analysis of Loan and Advances

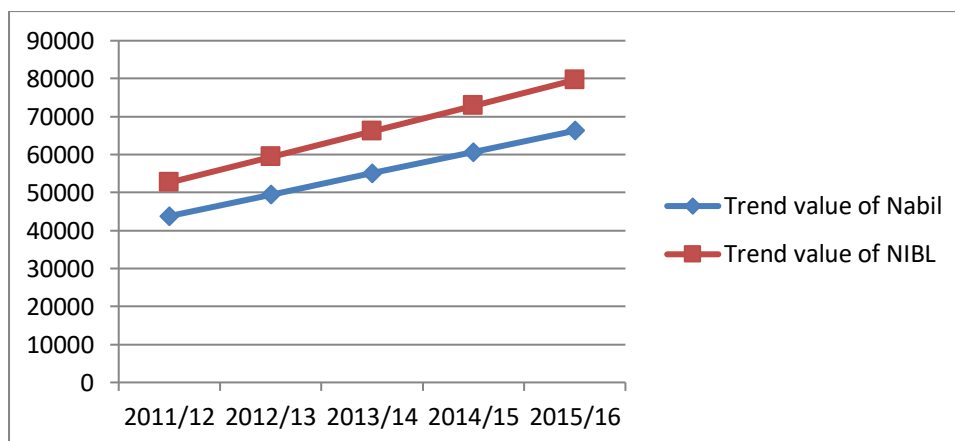
(Amount in Million)

F.Y	Y	Nabil Bank			NIBL Bank		
		a	b	$X = (Y - a)/b$	a	b	$X = (Y - a) / b$
2011/12	6	-1.798	0.000178	43808	-1.79	0.000148	52635
2012/13	7	-1.798	0.000178	49426	-1.79	0.000148	59391
2013/14	8	-1.798	0.000178	55044	-1.79	0.000148	66148
2014/15	9	-1.798	0.000178	60662	-1.79	0.000148	72905
2015/16	10	-1.798	0.000178	66280	-1.79	0.000148	79662

(Refers to Annex 10)

The above comparative table makes clear that the loan and advances of both banks are in increasing trend. The loan and advances of Nabil bank will be Rs. 66280 million in the fiscal year 2015/16 and Rs. 79662 million will be the NIBL 's loan and advance in the fiscal year 2015/16. It can be shown in the figure below:

Figure 2: Line Diagram of Loan and Advances for Next Five Years



From the above figure it is clearly shown that the trend analysis of both the banks are in increasing trend, but comparing with Nabil bank, NIBL has utilized its deposits in term of loans and advances better and efficiently. This proves that NIBL is very aggressive in mobilizing its collected deposits to earn a huge return.

4.2.3.3 Trend Analysis of Total Deposit

This analysis will shows the picture of trend values of total deposit of banks for the study periods and then forecast for the following five year. The trend values of total deposit of the banks are presented in the following table.

Table 32

Trend Analysis of Total Deposit

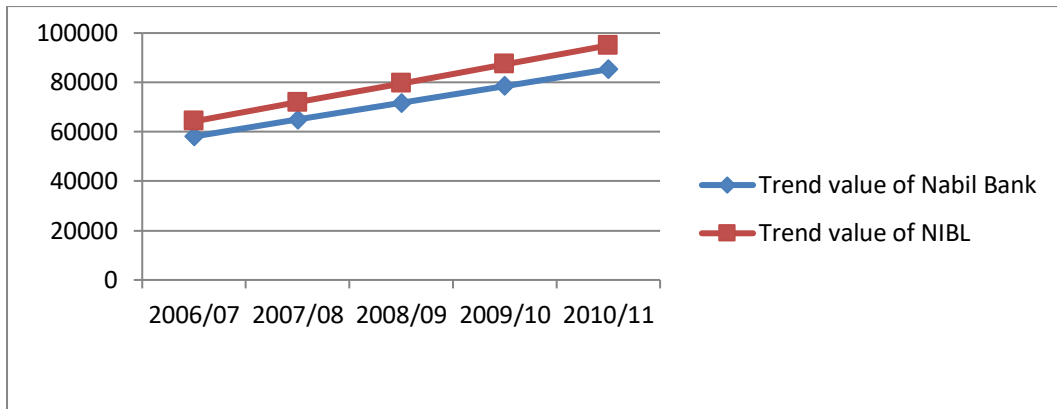
(Amount in Million)

F.Y	Y	Nabil Bank			NIBL Bank		
		a	b	$X = (Y - a)/b$	a	b	$X = (Y - a) / b$
2011/12	6	-2.54	0.000147	58095	-2.35	0.000130	64230
2012/13	7	-2.54	0.000147	64897	-2.35	0.000130	71923
2013/14	8	-2.54	0.000147	71700	-2.35	0.000130	79615
2014/15	9	-2.54	0.000147	78503	-2.35	0.000130	87307
2015/16	10	-2.54	0.000147	85306	-2.35	0.000130	95000

(Refers to Annex 11)

The above comparative table makes clear that the total deposit of both banks is in increasing trend. The total deposit of Nabil bank will be Rs. 85306 million in the fiscal year 2015/16 and Rs. 95000 million will be the NIBL 's total deposit in the fiscal year 2015/16. It can be shown in the figure below:

Figure 3: Line Diagram of Total Deposit for Next Five Years



In the figure trend analysis of both the banks are in increasing trend, which clearly indicate that the banks has to collect its deposits more well manner and efficiently. The trend line of NIBL is lies above the line of the Nabil bank, which represents that the NIBL has to collect its deposits better than the Nabil bank by using more collecting techniques. But as a whole total deposit of both banks are well manner.

4.3 Major Findings of the study

The major findings of the study are carried out on the basis of analysis of financial data of banks which are as follows;

- ❖ The standard mean of current ratio calculated by NRB was 1.07. The mean ratio of NIBL was nearest to the ratio calculated by NRB comparing to Nabil bank. During the five year study period of the banks the current ratio found to be fluctuate trend. Among sample bank the current ratio of NIBL dominates the respective current liability which indicates that NIBL is capable in paying the current obligation. Therefore NIBL has a highest liquidity ratio than Nabil bank. Nabil bank has low current ratio, but it does not mean that it failed to maintain the liquidity position. However average of both banks shows the satisfactory level of current ratio.
- ❖ The standard mean ratio of cash and bank balances to total deposit calculated by NRB was 0.10 times where ratio of NIBL was 0.135 and Nabil bank was only 0.065 which indicates that, NIBL found to be in better position to maintain the cash and bank balances ratio than Nabil bank. But it does not mean that it has mobilized its more funds in profitable sectors. It actually means that it can meet its daily cash requirement to make payments of the customer. Nabil bank has lower mean ratio which means it may invest the more fund in the productive sectors. But both banks have a highly fluctuation ratio during the study period.
- ❖ As we analyzed the loan and advances to total deposit mean ratio of NIBL and Nabil bank was higher than that the ratio given by NRB(i.e. 0.41) but comparing with our two sample banks NIBL has higher mean ratio than that of Nabil bank, which indicates it has given more loan and advance. It indicates that the both the sample banks has successful in the utilization of its current assets by making investment in order to maximize its profit.
- ❖ NIBL is successful to collect larger amount of fixed deposits out of its total deposits comparing with Nabil bank and it was indicated by its highest mean ratio. Nabil bank has lower ratio which indicates the lower fund collection for fixed deposit and will be limited for long – term investment which will ultimately impacts on its profit.
- ❖ The mean ratio of NIBL of loan and advances to fixed deposit and C.V. was better than Nabil bank which indicates that the effective mobilization of loan and advance with respect to fixed deposits and its consistency level also better.
- ❖ The mean value of long – term investment to total deposit of Nabil bank was nearest to the ratio calculated by NRB (i.e. $0.35 > 0.304 > 0.186$).The mean

ratio of nearest bank was higher than NIBL, which indicates that it has mobilized the deposit effectively. Moreover, NIBL was also failed to maintain consistency level in comparison to Nabil Bank. But in overall comparing with the standard ratio of NRB both the sample bank has to mobilize its deposit efficiently and effectively.

- ❖ Comparing with the mean ratio of performing assets to total assets ratio calculated by NRB both the sample banks ratio was good in position (i.e. $0.69 < 0.72 < 0.73$). It refers that both banks are successful in utilizing their assets in profit generating sectors. Performing assets are the assets which are invested for short – term investment. Short – term investment plays vital role for working capital need and short – term needs. As concern of consistency level NIBL has maintained better level than Nabil bank.
- ❖ Net profit to total deposit ratio of Nabil bank was higher than NIBL which indicates by higher mean ratio. As concern of consistency level also Nabil bank has maintained successful level than NIBL which is indicated by lower C.V.
- ❖ Both of the banks are able to earn more profit on total assets. However, the mean ratio of net profit to total assets was higher and C.V. was lower in the Nabil bank comparing with NIBL.
- ❖ The mean ratio of net profit to net worth of Nabil bank was higher than the NIBL which indicates that earning level of Nabil bank is higher, and also was able to maintain consistency level in comparison with NIBL.
- ❖ Even though both banks seems to earn the interest on total assets, NIBL has successful in earning the higher interest comparing with Nabil bank. As concern to consistency Nabil bank maintain consistency level in comparison to NIBL.
- ❖ NIBL has a higher mean value of return on capital employed ratio which indicates that the capital employed has been used properly but Nabil has lower. But, the consistency level has been maintained by Nabil bank which was better than NIBL.
- ❖ The mean ratio of long term debt to capital employed of NIBL was greater than Nabil bank but Nabil bank and successful in maintaining more consistency level than Nabil bank.
- ❖ The capital adequacy ratio of Nabil bank was better than the NIBL because of its highest mean ratio and Nabil bank was also successful to maintain a

consistency level between total deposit and total capital because of its lowest C.V.

- ❖ Earning per share of both the banks was in fluctuation trend. EPS of Nabil bank was greater than NIBL because of its highest mean ratio. Same as dividend per share of Nabil bank was also greater than NIBL. It refers that shareholders of Nabil bank has got more return from their investment than NIBL.
- ❖ The positive correlation between deposit and loan and advances are found of both banks. The correlation between the deposit and loan and advance are perfect as there is significant between them. It means that the both banks provided loans from its deposits.
- ❖ There is the perfect positive correlation between the deposit and investment of both banks. It shows that both banks have effectively mobilized its deposits on investment.
- ❖ There is the perfect positive correlation between the net profit and investment. It means that both the banks are successful in earning the net profit from its investment.
- ❖ The both banks are successful in earning the net profit by mobilizing the loan and advances. The correlation and regression between the loan and advance and net profit are found to be perfectly positive.
- ❖ The trend analysis of total deposit, loan and advance and long term investment was upward sloping in both the banks which indicates that they are successful in collecting more deposits and investing those deposits in long term manner as loan and advances in productive sectors.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

The proceeding chapter has discussed and explores the facts and matters required for the various parts of the study. Analytical part, which is the heart of the study, made a comparative analysis of various aspects of the financial status and performances of commercial banks by using some important financial as well as statistical tool. Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist finding and give recommendation for the further improvement. This would be meaningful to top management of the banks to initiate action and achieve the desired results. The objective of the researcher is not only to point out errors and mistakes but to correct them and give advices and direction for further growth and improvement.

5.1 Summary

Financial analysis is the process of determine the significant operation and financial characteristics of a firm accounting data. It shows the relationship between the various components which can be found in balance sheet and profit and loss account. The analyzed statement contains that information which is useful for management, shareholders, creditors, investors, depositors etc. As in other industries banking industries also need financial analysis, as it is crucial for evaluating and analyzed the performances of the particular company as compare to the other and also from the previous performances of the same company.

Economic activity remain that in absence of banking industries as it plays the role of catalyst for economic development of the country in the developing country where there prevail unorganized transactions. It helps to enhances economic activities of the country by providing capital funds for the smooth operation of business activities, create employment opportunities, investing agriculture, industry. At present there are altogether thirty two commercial banks operating in the country among which Nabil bank and NIBL has occupied wide range of the business due to access to most of the corner of the country. Slowly private banks are also initiating to move towards every corner of the country but due to prevailing crisis they are not being able to meet their objects to reach to every corner of the country. Due to increasing competition banks are forced to innovate new products to their customer and they are also shifting from traditional service procedure to various sophisticated services like ATM card, debit card, credit card, housing loan, educational loans, vehicle financing etc.

Economic development of a country can not be imagined without the development of commerce and industry. No doubt, banking promotes the development of commerce to its extreme, as banking itself is the part of commerce. Though the economic growth was as snail speed in earlier year, it had caught its full sailing with restoration of democracy in the country. These days Nepal has been facing several economic problems due to the unrest condition.

In this study the objective functions, policies and strategies of foreign participated private commercial banks have been emphasized and analyzed of their financial status and financial performance of these two banks has been presented. The financial data, statement of five consecutive years i.e. 2006/07 to 2010/11 has been examined for the purpose of the study. The study is mainly based on the primary and secondary data, which have been processed first and analyzed comparatively. From this analysis of financial performances of both banks the following findings are made.

5.2 Conclusion

The study completely based on secondary data accumulated from websites. The study covers only two banks Nabil bank and Nepal Investment Bank among various banks the sample bank are the leading banks among commercial banks. The study is based on five fiscal year from 2006/07 to 2010/11. Researches methodology followed to achieve the objective of the study and which constitute research design, source of data, population and sample, data collection process and method of analysis. Moreover, financial and statistical tools have been used according to the requirement to achieve the targeted results.

The uncontrollable growth in number of banks within a short span of time has raised reasonable doubts to the common people. Banks, insurances companies and other companies are directly playing parts in the country to establish their banking with fully or partly repatriation facilities. Banks help to mobilize the small saving collectively to the huge capital investment though banking is considered as the platform of money market. Because of qualitative managerial skills at most customers satisfaction, objective to use advance technology, private commercial banks have able to attain their objectives within short span of time.

There is a positive correlation and regression between net profit and total deposit, loan and advances. Long term investment, which indicates that the both banks are successful in collecting deposits and investing them in productive sectors as loan and advances. Not only that, there is the increasing trend of the variables of the financial status and financial performances which indicates that both banks has better financial performances and maintain good financial status in coming years.

5.3 Recommendation

Based on the evidences of the analysis, some recommendations have been given;

- ❖ Bank should maintain the liquidity ratio for daily cash transaction. Bank should not invest all the deposit as loan and advances. According to the policy of NRB some percentage should kept in the banks for fulfilling the demands of the customers. The standard liquidity ratio 2:1. The depositors may demand the money at any time so, banks should be ready at any time. In this research none of banks has the standard ratio due to aggressive working capital policy. Therefore, both banks should modify their working capital policy to maintain the standard ratio.
- ❖ Nabil bank has less mobilization of total deposit to loan and advances than NIBL. The purpose of loan and advances is to generate income for the banks. So, Nabil bank should increase a loan and advance to different productive sectors.
- ❖ Fixed deposits are deposited for long periods and need to pay higher interest. Therefore, fixed deposits can use for long – term investment and generate more income for the banks. Since, mobilization of fixed deposits by Nabil bank is higher than NIBL. They should mobilize its fixed deposit to different productive sectors in for a loan and advances or investment.
- ❖ Profit is a key of success of any business. The bank also cannot survive without the profit. So, they should keep in the mind for profit maximization. But in long – term business bank also should also be concern with the shareholder’s wealth maximizations they are investors of the banks. Over the study periods Nabil bank was successful to earn more profit than NIBL with consistency in profit. So, it is recommended to NIBL that it may cut down its operating expenses or can imply other profit maximization tools.
- ❖ Nabil bank should maintain stability in earning interest since they have greater variation in earning interest. Since, NIBL have low interest earning variation they should increase as interest earning because it will directly effect to the net profit.
- ❖ NIBL paid a higher interest than Nsbil bank which means that they used more creditors’ fund or paid higher interest rate in investment. So, they need to use equity fund rather than debt or should pay a lower interest rate. Although the interest paid by Nabil bank was lower but it is failed to maintain its consistency level.

- ❖ The operating expenses of Nabil bank were lower than NIBL although it could not make profit as made by NIBL so. They should analyze other factors which maximize their profits.
- ❖ Majority of the private commercial banks have been found to be profit oriented, ignoring their social responsibility, which is not a proper strategy to sustain in long run. So, other the banks are suggested to render their services even in the rural areas providing special loans to the deprived and priority sectors, which might further intensify the goodwill of the bank in future.
- ❖ The economic liberalization has made the entire bank to determine the own interest rate. But nowadays, due to unhealthy competition the spread between the deposit and lending interest has being higher than NRB directives. If the depositor's interest rate is very low then depositors may not interest to deposit the saving. Therefore, the spread should be appropriate.
- ❖ Banks should evaluate its investment portfolio every year. Investment portfolio must be balanced in each sector according to the NRB rules and company's self deposit, investment and return of the company.
- ❖ The success rate of banking mainly depends upon the banking awareness by the general public. Unless they find a convincing reason about their saving as well as new approach of investment, it is almost impossible to make live for a bank. Therefore, there should be the awareness program, regularly conducted in terms of seminars or workshop from well experienced personnel such as top executives from banks and concerned regulating authorities. On the basis of this feedback information, regular changes or implementation of new rules and regulations can be easily carried out. NRB should also encourage frequent training to new entrants to provide orientation on the conceptual dimensions and practical aspects of operation of the banks.

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