ANALYSIS ON FINANCIAL PERFORMANCE OF NEPAL INVESTMENT BANK LIMITED

By:
GITU CHHETRI
Campus Roll No: 749/063
T.U Registration No: 7-1-38-1633-2001
Shanker Dev Campus

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RECOMMENDATION

This is to certify that the thesis

Submitted by:
GITU CHHETRI

Entitled:

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

………………	……………….......	……………………..
Ruchila Pandey	**Prof. Bisheshwor Man Shrestha**	**Prof. Kamal Deep Dhakal**
(Thesis Supervisor)	**(Head Of Research Department)**	**(Campus Chief)**

VIVA-VOCE SHEET

We have conducted the viva –voce examination of the thesis presented by

GITU CHHETRI

Entitled:

ANALYSIS ON FINANCIAL PERFORMANCE OF NEPAL INVESTMENT BANK LIMITED

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment for the Degree of

Master of Business Studies (M.B.S.)

<u>Viva-Voce Committee</u>

Head, Research Department ……………………………

Member (Thesis Supervisor) ……………………………

Member (External Expert) …..………………………..

DECLARATION

I hereby declare that the work reported in this thesis entitled **"Analysis on Financial Performance of Nepal Investment Bank Limited"** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Studies (M.B.S.) under the supervision of Ruchila Pandey of Shanker Dev Campus.

Date**:……………….**

GITU CHHETRI
Researcher
Campus Roll No: 749/063
T.U. Registration No: 7-1-38-1633-2001

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Sincerely,

GITU CHHETRI

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Abbreviation Used

ATM	Automatic Teller Machine
ABBS	Any Where Branch Banking System
ADB	Agriculture Development Bank
BOK	Bank of Kathmandu Limited
CAR	Capital Adequacy Ratio
EPF	Employee Provident Fund
EPS	Earning per share
HBL	Himalayan Bank Limited
HMG/N	His majesty Government Nepal
i.e	That is
Ltd.	Limited
LLP	Loan Loss Provision
M.B.S	Master of Business Studies
NIBL	Nepal Investment Bank limited
NRB	Nepal Rastra Bank
NBL	Nepal Bank Limited
NIDC	Nepal Industrial Development Corporation
NGO	Non- Government Organization
NABIL	Nepal Arab Bank Limited

P/E	Price Earning
RBB	Rastriya Banijya Bank
RBS	Rastriya Beema Sansthan
ROA	Return on Assets
ROE	Return on Equity
SCT	Smart Choice Technology
X	Times

Chapter-1

INTRODUCTION

1.1 Background of the study

Economic development of any country can be active only through a balance growth in the field of trade, commerce, industry and agriculture. It has equally self-evidenced that the development on these fields cannot made possible without achievement of sound banking system in the country. Many countries aspiring for the rapid economic development have developed banking and non- banking.

Therefore for the development of any country finance plays significant role to upgrade the economic condition of the country. In context of our country Nepal development in financing sector is in developing process. Now from every prospect there is gradual increase in significant process. So, from every condition financing sector need to be progress.

Finance, is the art and science of managing money. it affect the lives of every person and every commercial organization. Finance is concerned with the process, institutions, market and instruction involved in the transfer of money among and between individual, business and government. Previously finance was limited for only use of long-term fund.

The traditional concept of finance is changed due to industrialization, technological innovations and tight competition and globalization. Key functions of Finance are investment, financing and dividend decision for organization. Funds are collected from external financial sources and allocated for different uses.

Analysis of Financial performance is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. Quality identification is impossible without effective analysis and evaluation of financial information.

In financial performance analysis, a ratio is used as an index for evaluating the financial position and performance of a firm. Analysis and interpretation of various ratios give an experience and skilled analyst a better understanding of financial condition and performance. So, financial analysis depends to a very large extent on the use of ratio through other equally important tools of such analysis.

Traditional financial ratio analysis is focused in quantitative measurement. The value of this approach is used to measure the strength and weaknesses in the firm's performance. It provides a framework for financial planning and control. After identifying so much scopes and importance of financial analysis, my research work also focus on the financial performance of commercial bank that is Analysis on financial Performance of Nepal investment Bank Limited.

The development of any country can not be imagined without economic and financing activities. The development of the banking system is one of the basic roots of economic development. So, to solve problems relating to economic development, development of banking system is necessary.

1.2 Introduction of banking

Bank is a financial institution created by the law which deals with money and credit transaction. In another word bank is a financial intermediately that accepts deposit and grant loans. Offer the widest menu of services of financial service, especially credit, saving and payment service and perform the widest range of financial function of any business firm in economy.

1.It is called “a factory of credit” because it collects the deposit from people and invests it in the productive field. (1.K.K Dewett,elementryeconomics theory,S .Chand and co.ltd.,ramnagar,new delhi(1997)) .During this process, interest is charged to the borrowers slightly higher than it pays to lenders and it makes profit. Banking is not limited to this process. With the passage of time its functions have been increased manifold.

It renders wide range of services covering different strata of the society. so bank can also be said as an important financial institution which collects and safeguards the public money, disburses the collected money for the productive purpose, transfer funds, guarantees credit worthiness and exchange of money, which are carried by banks like commercial banks, merchant banks, saving banks, finance companies and financial institutions selling financial services.

In view of above, it is important to know the precise meaning of the bank.

2.As per kent , “a Bank is a organization whose principal operations are concerned with the accumulation of the temporary idle money of the general public for the purpose of advancing to other for expenditure (2. Sarita and bhuwan Dhahal, a hand booking to banking times graphic printers(p)ltd,,(2056)). 3. As per US. Law, “any institution offering deposits, subject to withdrawal on demand and making loans of a commercial or business nature is a bank.” (3.Sarita and bhuwan Dhahal, a hand booking to banking times graphic printers(p)ltd,,(2056).) As per Dr.H.L.Hart,” bank is one who, in the ordinary course of this business, receives money which he pays by honoring cheques of persons from whom or whose account receives.” Finally bank is an institution, which deals with money by accepting various types of deposits, disbursing loans and rendering other various financial services.

1.3 Historical Background of Banking:

Banking has come to the present advanced form through various stages. Banking activities have been carried out since time immemorial.

The bank of Venice established in 1157 is supposed to be the most ancient and first modern bank. Many bank established afterwards bank of Barcelona (1401) bank of Geneva (1407) bank of Amsterdam (1609) bank of England (1694) and bank of India (1770). The bank of England became the first central bank in 1884AD although 1800AD in United Kingdom to provide cooperation to members. Such bank it was established in 1684AD as a real joint stock bank.(Source: Handbook of banking and insurance by Hriday Bir Singh, 2062B.S)

Types of Bank

Different types of banks have been developed specializing in a particular kind of business. They can distinguish according to the functions performed by them. They are Exchange Bank, Saving Bank, Merchant Bank, Building Societies, Cooperative bank, Development Bank, Central Bank and Commercial Bank.

Commercial Bank:

Commercial bank plays the most important in the modern economic organization .the oldest type of the bank ever establish in the banking history. it provides all short of services to it’s client such as accepting deposits, advancing loans, credit creation and agency loan to trade and industry. The main objective for the establishment of commercial bank is to help the business sector, industrial sector and agriculture sector .it is a profit-earning bank and earn through interest spreads as per commercial bank act 2031, 4.“a commercial bank means bank which deals in exchanging currency, accepting deposit, giving loans and doing transactions”.

(4.Sarita and bhuwan Dhahal, a hand booking to banking times graphic printers(p)ltd,,(2056).

The main function of commercial bank is as follows:-

- To accept deposit.
- To provide loan against securities, gold and silver and immovable properties.
- Purchase and descanting of bill of exchange.
- General utility function.

1.4 Evolution of Bank in Nepal

The economy of this Himalayan State has remained almost static for generation. Form of money as lending business can be traced to ages back. It has been a decade that banking sector is predominantly flourishing in Nepal.

Banking activities in ancient time can be inferred from reference in the history of Nepal.

Guna Kama Dev did re-building of Kathmandu in 18th century from the borrowings.By the 18 century, Shankhadar, a merchant ,introduced “Nepali Sambhat” by clearing the indebtedness of the public.

All these instances reveal that money lending was prevalent even in the 8th century that the money lending was prevalent even in the 8th century.5.sometimes around the 12th century, Sadasivadev brought out the silver coins that were called dm, later on in the 14th century, king jayasthiti Malla divided the people into 64 castes according with the lending of the money to the public, since the main objective of "TANKADHARI" was to earn profit ,they used to charged people with higher interest rate. (5. Prof. Jagadish Chanra Ojha, Dr. Ram Prasad Raj Bahak, M.Com, banking ad modern currency in Nepal,).

Tejarath Addha was established by then government main purpose of this institution was to provide credit facilities to the general public at the minimum interest rate of 5%. the establishment of this institution marked the beginning of organized financial institution in Nepal(Mero book). as Tejarath was established in the period of king Ranoddip Singh ..this Tejarath was first replaced by the first commercial bank, Nepal bank ltd (NBL) set up under the Nepal bank act 1937 in 1965,a second commercial bank, Rastriya Banijaya bank (RBB), was set up under the commercial bank act 1964.in 2016BS Nepal Rastriya bank (NRB), fully subscribed by his Majesty's government of Nepal (HMG) was established as the central bank of Nepal.

The Banking systems of Nepal function under the overall guidelines of this bank. Nepal Industrial development corporation (NIDC) was established in 2018BS as industrial development bank. Similarly to assist in the agriculture, agriculture development bank (ADB) as established in 2024BS.in 2041BS HMG established 5 rural development banks, one is in eastern, central, western, mid-western and far western development regions. In 2041 BS Nepal adopted liberal economic policy and allowed joint venture bank under the collaboration with different foreign banks hence in 2041BS Nepal Arab Bank, the first foreign joint venture bank, was set up with 50% shares owned by united Arab Emitrates and 20% by financial institution and rest by the general public. In 2042,Nepal Investment Bank was established as the second foreign joint venture bank,50% share being held by the investment bank of France , 15% by national insurance corporation and 20% by general public. In 2043 Nepal Grindlays bank came into existence, as the joint venture between ANZ Grindlays and NBL with 50% shares being held by ANZ bank of Australia, 35% by NBL and rest by general public Himalayan Bank Limited was established in 1992 by distinct.

Business personalities of Nepal in partnership with the employee provident fund (EPF) and Habib Bank Limited. Similarly, Nepal SBI bank in joint venture with Siam Bank of Thailand was established in 1994. Nepal Bangladesh Bank established in 1993 and Nepal industrial and commercial bank was established in 1998. Under finance act 2042, the finance companies commenced their operations in early 1990AD.

The EPF was established in 1962 under the employee provident fund act, covering mandatory public sector employees recently non-government organizations (NGOs) have also been engaged in performing saving and credit activities of their members. The NRB has authorized handful of NGOs to carry out limited lending activities for their members under certain guidance, they are required to charges a fixed interest rate on their lending and to play as a facilitators in deposit mobilization.

1.5 Present Banking Scenario:

The financial institutions both the banks and the finance companies are making a god deal of money out of the business. The liquidity in the market has been growing, which has promoted the bank to reduce their interest rate in deposits. The excess liquidity in the market could be verified with the growing number of over subscription the initial public offering of any companies.

The Nepal's old banks, NBL (semi-government) and RBB (government), are in the average of bankruptcy because of their large proportion of non-performing assets in their portfolio. The private banks are also keeping loan loss provisions but due to their professionalism the situation is not too bad for them. The two banks are not able to maintain the requite capital adequate ratio (CAR). The interest rate in the saving accounts has decreased whereas the rate of inflation is higher than the interest rate.

With the passage of time, the exposure of the bank to the loans, advance and provisioning has increased which resulted in the decline in CAR. The lack of transparency in the financial statements of the financial institution has made in tough.

Traditionally, commercial bank used to lend only for short term which constituted major part of the loan portfolio and the past. NIDC was only the financial institutions that provide medium term as well as long term to the industries. With economic liberalization process, the banking system exhibited remarkable growth in the number of bank with the commercial banks having conceptual shift in the product offering. The commercial banks having conceptual shift in their product offering. The commercial bank being to lend for the medium as well as long term dept. demand for the loan in big amount which was not possible for any bank to handle it alone. Consortium finance enables the bank to finance huge investment requirement and at the same time share the risk inherent in any proposal. It offers both banks and borrowings an ideal option to meet the requirements. Conveniently, for the bank be pooling resources to meet the demand for the large size of loans for the borrowings by soliciting deals with the lead bank.

In Nepal industrialization is the need of the hour. Consortium finance will help in borrowing large amount of loan through a single loan withdrawal to the borrower. Not only that, it helps in minimizing the time, the cost to the borrower to reduce risk the lenders and mobilizing financial resources through various financial institution and bank to promote large project in the country.
The competition has evidently growth due to the exist of joint venture banks as well as commercial bank adopting aggressive and innovative marketing strategies.

Now in Recent times the have introduced services such as 24 hours banking service, Automated Teller Machine(ATM) E-Banking and credit cards facilities as well as premium saving accounts. The commercial banks are targeting the urban rather than the rural customers. The NBL and RRB are concentrating in the rural areas. However these two banks are declared insolvent by KPMG reports due to their huge non- performing assets and large number of non- profitable branch offices. The most serious reforms are being called in the firm of calling tenders from international Agencies. However the joint ventures and private sector Banks is doing well enough due to their expertise and competence to provide efficient services to the customer through better portfolio management. Well commercial bank have plays a very significant role in creating banking habits among the people, widening area and business communities in the various countries.

1.6 Profile of Nepal Investment Bank Limited

Nepal Investment bank ltd (NIBL), previously Nepal Indosuez bank was established in 1986 as a joint venture between Nepalese and French Partners. The French partner (holding 50% of the capital on NIBL) was credit Agricole Indosuez, a subsidiary of the largest banking group in the world.

With the decision of credit Agricole Indoseuz to divest, a group of companies comprising of Bankers, Professionals, Industrialists, and Businessman. They acquired the 50% share holding of credit Agricole Indosuez in Nepal Indousez bank ltd.on April 2002.

After, 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 registrar’s office with the following shareholding structure.

1.6.1 Capital Structure:

. A group of companies holding 50%of the capital.

. Rastriya Banijya Bank holding 15% of the capital.

. Rastriya Beema sansthan holdin the same percentage.

. The remaining 20% being held by the general public (this means that NIBL is a company listed in Nepal stock exchange).

1.6.2 The NIBL offers following objectives:

Trade finance, Remittance, Bills purchase, Loans and advance, Export credit, Funds transfer, Deposits, Ezee saving scheme, Lockers services, Clearing and collection, ATM facility, E-Banking.

1.6.3 Strategic objectives of NIBL:

To develop a customer oriented service culture with special emphasis on customer care and convenience. To explore new avenues for growth and profitability. To increase market share by following disciplined growth strategy. To continue to develop product and services that reduces cost of funds.To develop innovative products and services that attract targeted customers and segments.

1.6.4 Core Values and Ethical principles of NIBL

Core values tell that the customers and the communities of NIBL serve, like who really are; what the company is about', the principle by which NIBL pledge to conduct business. in essence, it believe that the success can only be achieved by living company's core values and principles.

Customer focus: At NIBL, the prime focus is to perfect the customer service. Customers are the first priority and driving force. So it always wishes to gain customer confidence and be their trusted partner.

Quality: NIBL always believe a quality service experience is paramount to its customers and we strongly committed in fulfilling this ideal.

Honesty and Integrity: NIBl ensure the highest level of integrity to its customers, creating an ongoing relationship of trust and confidence. it treat its customer with honesty, fairness and respect.

1.6.5 Branch Expansion:

In the fiscal year 2065/66 there is all together 40 branches all over Nepal. still bank has promoting a to find out the suitable sites for the expansion of new branch. So today more attraction towards bank from general public there is fast growing in expansion of branch of NIBL.

1.6.6 Capital Adequacy:

Regulatory capital adequacy ratio at 11.24% and 45,312,264,694 of the total risk weighted assets respectively in core capital and supplementary capital for the fiscal year 2065/2066, the bank has maintained adequate level of the total capital funds as under;

Particular	2065/2066
Core capital	3,879,968,568
Total capital	5,095,353,348

Considering the existing abnormal situation, NRB has fixed the minimum capital fund for the fiscal year 2066/2067 at the same level.

1.7 Statement of Problem:

Nepal Investment Bank Ltd have been improving it's performance from the beginning .The establishment of NIBL has achieved remarkable success in banking sector and provided high status among the public.

NIBL basic objectives is to pushup the economic activities and strengthen welfare of the general public to facilitate loan in different sector and provide the banking services throughout the country. Therefore this study concentrates on it to meet its desired goal.

The study of financial performance is a process, which provides information about the profitability, liquidity position, earning capacity, efficiency in operation, credit worthiness, source and use of capital, financial achievement and status of the bank. The information obtained can be used to measure the efficiency and effectiveness of the bank and also to know the financial resource in the profitable manner.

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

1) Does the overall financial statement analysis and financial position
Indicate any specific strengths and weakness?

2) What are the major factors effecting the financial performance of NIBL?

3) What is the financial position of the firm in the market?

4) What factors need to be considered to improve the overall financial performance?

1.8 Objective of the study:

The main objective of the study is finding of financial stage of NIBL in different years that are from 2060 to 2066. The study is also target to forecast the financial performance undertaking the different financial indicators like profitability, earning per share, investment, current assets and so on. So, basically following points are undertaken to further study-:

1. To analyze the financial performance of NIBL by taking various like deposit, loan, interest, assets and investment.

2. To get the overview of NIBL.

3. To provide suggestion for the better performance based on the finding of the analysis.

1.9 Significance of the study:

In every banking sector, finance plays a crucial role to indicate the financial behavior. It helps to get the core root how funds are generated and utilized. It also helps to get the company's profit, loss, investment portfolio, current assets, current liabilities etc.

This is the main objective of every commercial organization. So, this study is very essential to every profitable organization to get the total overview, how company is showing the financial performance on current market affair

1.10 Limitation of study:

The study has the following limitation:

- The study is mainly based on secondary data provided by the bank so the study is concerned on that extent.
- This study is based on the data of six year period that is from FY2060/2061 to FY 2065/2066 B.S.
- This study is focused on asset, interest, investment, loan and deposit of company.
- Source of data are mostly dependent on published annual report.
- Annual programmed and budget of the bank thus; it is based on the secondary data.

1.11 Organization of the study.

The study has been organized in five chapters:

1. **Introduction:** In the beginning of the chapter i.e. 1, I have included the background of the study, along with the introduction of banking its evolution and the introduction of NIBL. Moreover I have also presented the statement of problems, objectives, limitation of the study.

2. **Review of literature:** This is the second chapter of my study, in this chapter I have included the framework, journals and articles along with the review of previous thesis which make my research efficient.

3. **Research methodology:** This is the third chapter in which basically consider to find out the accuracy, validity and suitability of the study. In addition it will help to find out the conclusion that in what position the firm is able to maintain.

4. **Presentation and analysis of data:** This is the fourth chapter which projects the interpretation of research methodology in tabulated and pictorial form.

5. **Summary, recommendation and conclusion:** This is the final chapter which includes the summary, conclusion and recommending of this thesis. So finally this thesis work is categorize on first chapter, second chapter, third chapter, four chapter, finally fifth chapter and bibliography, other annex used in statically result have been attached at the end of study.

CHAPTER-2

REVIEW OF LITERATURE

Introduction:

Scientific research on any topic must be based on a past experiences knowledge. The previous studies cannot be ignored because they provide the basic root for foundation to the present research. Therefore the purpose of literature review is thus to find out what research studies have been conducted in one's chosen field of study and what remain to be done according to (Wolff and Pant; 2005 : 30).

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that the past studies, their conclusions and deficiencies may be known and further research can conducted. This chapter highlights available literature related to this research, which makes base of knowledge for the study. Review of literature is the basic platforms of available literature are one's field of research. It includes the conceptual review of related studies and research.

2.1 Conceptual Framework of the study:

"Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statement. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The analyst is attempting to measure the firm's liquidity, profitability and other indications that business is conducted in a rational and orderly way. If a firm doesn't achieve financial norms for its industry or relationships among data that seen reasonable, the analysts note the deviations. The burden of explaining the apparent problems may then be placed upon management" (Hampton; 2006: 98).

"Financial statement analysis includes the study of relationship within a set of financial statement at a point in time and with trends in these relationships over the time" (Foster; 2002: 58).

"Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account"(Pandey ; 1999 : 108).

"Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions and as the relationship between two or more things". In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of a firm"(Pandey ; 1999 : 109).

"Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between two variable and figures. This relationship can be express as percent (cost of goods sold as a percentage of sales) or as a quotient (current assets as a certain number of times the current liabilities)" (Kuchhal ; 1976 : 21).

Each of these types has a special use for the financial analyst. These ratios are also helpful for managerial control and for providing a better understanding of what outside suppliers of capital expect in the way of financial condition and performance. The usefulness of the ratio depends upon the ingenuity and experience of the financial analyst who employs them. By themselves, financial ratios are fairly meaningless they must be analyzed on a comparative basis"."A comparison of ratio of same firm over is important in evaluating changes and

trends in the firm's financial condition and profitability. This comparison may be historical; it may also include an analysis of the future based upon projected financial statements.
Ratios may also be judged in comparison with those of similar firms in the same line of business and when appropriate, with an industry average. Much can be gleaned from a through analysis of financial ratios with empirical testing of the predictive power of ratios financial ratio analysis is likely to become for more scientific and objective than formerly" (Van Horne ; 1979 : 689).

"The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain economic confluence of various segments and extends credit to people" (Ronald; 1991: 87).
"Commercial bank is a corporation, which accepts demand deposits, subject to check and makes short-term loans to business enterprises, regardless of the scope of its other service' (American Institution of Banking ; 1972 : 345).

"Ordinary banking business consists of changing cash for bank deposits and bank deposits for cash, transferring and bank deposits from one person or corporation (one depositor) to another, giving bank deposits in exchange for bills of exchange government bonds, the secured or unsecured promises of business to repay, etc"(Sayer ; 1976 : 22).
"In most public corporations, top management's compensation is tied to the performance of the company's stock, this aligns their interests with shareholder; but compensation tied to stock return is not a complete solution. Stock return responds to events outside management's returns respond to events outside reflect

investor’s expectation of manager’s future performance”(Brealey and Myers ; 2003 : 820).

“The objective of financial analysis is to capsulate how efficiently a company employs its assets and how it has chosen to finance the acquisition and carrying cost of those assets.

This is accomplished by analyzing the relationships between an enterprise’s operating result (income statement) and its financial structure (balance sheet)” (Altman ; 1981 : 24.12).

“Ratio analysis is a widely used tool of financial analysis .it is defined as systematic use of ratio interprets the financial statement so that the strengths and weakness of a firm as well as its historical performance and current condition can be determined” (Khan and Jain; 1996 : 60).

“Ratio analysis satisfies the interests of investor creditors, government, institutions and other to form their opinions for enabling them to have guideline towards effective decision making” (Shrestha ; 1980 : 255).

“Ratio analysis is one of the most commonly used techniques in the analysis of financial statement and evaluation of managerial performance. The analysis points out the problems. If there are any areas of business operation and provides a basis to recommend corrective actions. There are many parties who often refer to financial ratio in order to keep track of their investment performance or for some other reasons of their interest”(Pradhan ; 1992 : 35).

“Financial analysis involves the use of various financial statement the first is the balance sheet, which represents a snapshot of firms financial position at a moment in time and next is the income statement that depicts a summary of the firms profitability over time” (Van Horne and Wachowiez ; 1997 : 120).

"Ratio analysis which relates balance sheet and income statement items to one another permits the charting of the firm's history and the evaluation of its present position. It also allows the financial manager to anticipate relations of investors and creditor and thus to gain insight into how attempts to acquire fund are likely to be received" (Weston and Brigham ; 1980 : 160).

2.2 Review of Journal and Article:

The opinions or views expressed regarding commercial banks and their activities on journal, book and booklets, and magazines, etc. are focused as follows:

Krishnan, Ritchken and Thomson (2005), in *"Monitoring and Controlling Bank Risk:*
Does Risky Debt Help" concluded that whether risky debt issued by banks and bank holding companies (BHCs) enhances risk monitoring and helps control risk taking : In theory if investors accurately understand changes in a firm's risk condition and incorporate their assessment promptly into the prices of risky debt issued by a firm, then changes in credit spreads should provides useful information on how firm-specific risks have changed. In this way, risky debt may be less likely to adopt risk strategies in first place, because if they take excessive risks, debt prices may reflect the risk taken by the firm and make borrowing costlier for the

firm. This is the preventative influence benefit of risk debt that serves to control risk taking.

Boyd and Nicolo (2005), in *"The Theory of Bank Risk Taking and Competition Revisited"* explained that when confronted with increasing competition moral hazard is exacerbated and bank intentionally take on more risk , shown that a positive relationship between the number of bank competitors and risk seeking is fragile. In particular it makes an enormous difference when one allows for the existence of loan markets and requires that there be the same number of banks competing for both deposits and for loan.

They assumed that borrowers entirely determine project risk conditional on the loan rate set by banks. In effects bank a raised portfolio problem and transform it into a contracting problem with moral hazard. Without structure, banks use increasing market power to raised loan rates and when confronted with increased funding cost, borrowers optimally choose higher risk projects.

Pant (2006), in *"Nepal Membership in WTO and Financial Service Sector"* explain that Globalization and Liberalization have flounced across the world no longer it is choice but reality. A financial service is the key sector that underpins global economic growth and plays a major role in the development of infrastructure for trade in goods and services.

Liberalization of trade in goods and services, when undertaken in conjunction with transparent and strong regulatory regimes, benefits countries in many ways, with this said, there is mammoth proportion to gain for Nepal from the liberalization of the financial sector. But insurgency and the political instability have raised the risk for foreign investors to invest in the country. Risk rating of Nepal is at the highest degree.

Pradhan (2006), in *"Opportunities and Challenges on WTO Accession in Insurance and Banking and Financial Services in Nepal"* explained that Nepal is scheduled to open its banking sector to foreign competition by 2010 A.D. Banking community needs to accepts the challenges and be prepared to enter into global market with proper strategic plan.

In order to grab the opportunities, banking sector need to explore geographical comparative advantage for providing financial services globally. International financial center could be established and explored. Similarly, in order to strengthen them domestic financial institutions and to expand the business, merger, acquisition, management contracts, technical service and management agreement can explored. Regional, Bilateral and multilateral integration have already created foundation for global integration which needs to be continuously strengthened in the future too.

The key of integration today is to accept fair competition and achieve development benefit. Therefore, the banking industry should be prepared to accept the challenges concerned and explore the opportunities contained there in by enhancing capita.

Norris (2007), in *"Be Cautious While Licensing a New Foreign Bank"* studied about the possible impact of foreign banks setting up their branches here said if proper regulations are not made by Nepal Rasta Bank, then the Nepali banks stand to lose a lot.

Banks have been assuming that when foreign banks come in, they will only be interests in wholesale lending. But if the right rules are not set in place, nothing will stop foreign bank, going into the retail sector. They might do going into the

retail sector. They might do it just to kill off competition and monopolies' the Nepali retail sectors which is profitable given the number of bank making profit in retail business currently. The solution suggested is to adopted policies to prohibit foreign banks from entering the retail sector.

2.3. Review of Thesis:

Subi Joshi (2003), conducted her master's thesis on *"A Study of Financial Analysis of Nepal Investment Bank Limited"* had a main objectives to evaluate the overall financial position, Examine liquidity, Profitability and ownership ratio and to study the income and expenditure statement of the Bank.

On the basis of various analyses, the researcher came out with the following conclusion. The current ratio of the bank over the study period is 1.09 times on average. Therefore the liquidity position NIBL is in normal standard. The cash and bank balance proportion with respected to the current asset is moderate since the average ratio is 10.17%. The result of the analysis indicates that the share of fixed deposit is high in the total deposit.

Saving deposits stand mid way between current and fixed deposits. The analysis indicates that the cash reserve as bank is more than required. Hence, in general this liquidity position of the bank is good enough to meet the short- term obligation. The debt equity ratio of bank is high, which means the creditor have invested more in the bank than the owners.

Interest earned in comparison to the assets is inadequate. Net profit earned in comparison to the total deposit is relatively low. The result of the analysis indicates that the net profit earned in comparison to total assets is fluctuating. Profit earning and the shareholder's equity of NIBL are better. In general

the profitability ratios of the bank indicate that the overall performance of the bank is effective in maximizing the wealth. The activity ratio of bank indicates that it had utilized its resources in the best possible way to maximize its wealth. Because the bank has succeed to utilize total deposits in profit generating purpose and the bank had mobilized its total deposit in loans and advance satisfactory.

The EPS of the bank is quite good because through the EPS had fluctuate its average stands 54.16% during the study period. The proportion of earning distributed to the shareholder per share is very low and they are being compensated very slowly. DPR of the bank is decreasing and very low.

Kumar Bhattarai (2005), conducted his master thesis on *"A Comparative Study of Financial Performance of Nepal SBI Bank Limited and Everest Bank Limited"* had a objective to examine and evaluate the performance of two joint venture bank and reached to the conclusion that total deposit, total investment, loan and advance are net worth have been growing in faster pace in NSBIBL. But the growth rate of net profit seems faster in EBL which will made the net profit of EBL exceed than that of NSBIBL after three year if past trend continues, the high growth rate of EPS and MVPS will make MVPS of EBL exceed than that of NSBIBL after three year.

Sunil Maharjan (2006), conducted his master's thesis on *"A Comparative Study of Financial Performance of Commercial Bank (with reference to Himalayan Bank Limited, Nepal Investment Bank Limited and Everest Bank Limited)"* had main objectives to identify the relationship between net profit with respect to deposit, loan and advance and investment and to analyze financial performance of sample banks in terms of liquidity, profitability , growth, leverage and capital adequacy , and reached to the conclusion , the overall performance of sample banks found to be satisfactory.

All sample banks are not strong in all performance. Some are strong in liquidity point of view, EBL found to be comparatively better than sample banks because

HBL and NIBL have aggressive working policy. All the sample banks are comparatively successful in assets and deposits in profitable sectors in form of loan and advance, investment in government securities and shares and debenture.

Rajendra Banskota (2006), conducted his master's thesis on "*Analysis of Financial Performance of Himalayan Bank Limited"* had main objective to examine the financial statement of the bank and analyze them to see the financial; soundness, reached to the conclusion that the bank had utilized their resource in proper order in profit generating sectors. Therefore, there is no doubt that banking has been operating smoothly and succeeds in becoming the pillars of economic system of the country. Banks has direct contribution to the economic field which includes high amount of the corporate tax paid by it, good dividend to the shareholder and employment to the qualified personals in order to make them equipped with all the technical knowledge of banking.

Shreejana Joshi (2007), conducted her master's thesis on *"Financial Performance of Joint Venture Banks in Nepal with reference to Everest Bank Limited"* had objectives to evaluate liquidity, profitability, capital structure, turnover, cost effectiveness and growth position of EBL and she found that the liquidity position of EBL is efficient. It showed that EBL cannot maintain the convenient standard of current ratio of 2:1. Beside it can also conclude that saving deposit of bank increasing trend as compared to fixed deposit.

In addition, EBL has used higher proportion of debt in their capital structure financing assets from capital structure of EBL appears to be levered EBL follows

more risk more profit strategy. Bank is not able to maintain the capital Adequacy ratio as directed by NRB. EBL is maintaining its interest coverage ratio. Beside, bank is utilizing more outsiders' funds in order in order to extend loan and advances to generate profit. But the profitability ratio of the bank is not favorable condition.

Sunita Manandhar (2008), conducted his master thesis on *“A Study of Financial Performance of Selected Commercial Bank in Nepal (Himalayan Bank, NB Bank and Everest Bank)”* had a main objectives to evaluate the trends and growth of loan, investment and total deposit patterns, and he find out that sample banks have gain normal position of different financial ratio.

- Due to lower liquidity position (below than normal standard) and highly leveraged capital structure and lower liquidity position as profitability as long as more risky.
- In case of earning capital and utilization of profit researcher come into the following conclusion.
- Himalayan Bank has performed better in terms net of profit during the study period. All of these three sample banks are able to earn above 1% on total asset and to mobilize deposit properly.
- In case of dividend all sample banks are not able to pay regular dividend to its stockholder. However they are maintaining its EPS above its value.
- Regarding earning per share al of the sample banks is not able to retain its EPS on its previous level. The researcher concluded that during the study period trend line shows the decreasing pattern of net income after tax.

2.4 Research gap:

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make the study meaningful and purposive. There are various researches conducted on financial performance analysis of commercial banks.

Most of the thesis studies are of comparative type and cover only five years and some with six of study period. Comparing of the firms from the same industry makes the sense. But at the same time the individual firm may have its own strategy for business; they have their own pride and principles. In such a case comparative study may mislead the researcher. So, this is the exclusive study of Nepal Investment Bank Ltd for six year financial period.

CHAPTER-3

3.1 Research Methodology:

Research methodology is way of systematically solve the research problem. It helps to find out accuracy, validity and suitability of the study.

Therefore research methodology refers to the various sequential steps be adopted by a researcher in studying a problem with certain objectives in view. It attempts to have insight the financial indicators like ratio analysis, liquidity ratio and profitability ratio.

This study will find out the conclusion that in what position is NIBL able to maintain. So to accomplish the goal the study follow the research methodology is described in this chapter. The study is carried out to know the financial performance of NIBL. The result of this study may be misguided and worthless if the data and information used for the study are false. So almost care had been given while collecting the data.

3.2 Research Design:

Research design is the combination of condition for the collection and analysis of data that aims to combine relevance to the research purpose with economy in procedures. Research Design is the plan, structure and strategy of investigation conceived so as to obtained answer to research process and to control fluctuation.

Some financial and statistical tools has been put to examine the consequence facts and descriptive technique which has been adopted to evaluate financial performance of NIBL.

3.3 Collection of Data

Basically primary data and secondary data are used to prepare the report, which are collected to measure the financial performance of NIBL. So mainly this study is conducted on the basis of almost secondary data. Data are collected for the analysis are directly obtained from, financial summary, balance sheet, profit/loss account of concerned bank, which subsequently given form annual report, supplementary data and information collected from Nepal Rastrya Bank, Nepal Stock Exchange etc.

Some of the realistic verbal information form member of bank are also collected.

In addition, various data are collected from economic journal, periodicals, bulleting, magazines and other published and unpublished report and documents from various sources.

3.4. Population and Sample:

The limitation of time and unavailability of relevant data has forced to take research on the few studies. Among the population of class A licensed financial institution, (commercial bank) NIBL has been undertaken for the study. In this study financial performance of Nepal Investment Bank ltd. is undertaken for further study.

3.5 Research Tools Used:

Simple research tools have been employed to measure the financial performance of Nepal Investment bank. Therefore the tools are:

3.5.1 Financial Tools: Under this following factors are considered;

3.5.1.1 Ratio Analysis:

It is the most powerful tool of the financial analysis used in analyzing the financial information to indicate the operating financial efficiency and growth of the bank. Financial ratio such as liquidity (current ratio) profitability ratio (return on assets), (return on equity),ROE, investment to total ratio, Investment to total deposit ratio, credit deposit ratio, loan loss provision ratio(LIP), and earning per share, market price per share and price earning ratio has been used to measure the strength and weakness of NIBL.

Therefore it is the mathematical relationship between two accounting figures. “Ratio analysis is apart 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 financial and status to that of other firm's or to it's overtime. The qualitative 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 been covered in this study, which are related to the performance of the bank. “Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating result and growth. Financial ratios by themselves do not indicate position of the institution. A

standard or norms is needed against which to judge them.” It is powerful tool of financial analysis. “A ratio is defined as the indicated quotient of two mathematical expressions and as relationship between two or more things.”

3.5.1.2 Liquidity Ratio:

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. From them much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. It is the measurement of speed with a bank's asset can be converted into cash to meet deposit withdrawal and other current obligations. “Liquidity is the ability to meet anticipated and contingent cash needs. they are met by increase in deposit and borrowing, loan repayment, investment maturity and the sale of assets.” Commercial banks need liquidity to meet loan demand and deposit withdraws. Liquidity is needed also for the purpose of meeting cash reserve ratio (CRR) and statutory liquidity ratio requirement prescribed by the Central bank. The following ratios are calculated under the liquidity ratios:

3.5.1.3 Current Ratio:

This ratio shows the bank short-term solvency. It shows the relationship between current assets and current liabilities. Lower current ratios create difficulties in meeting short run commitments as they mature. If the ratio is too high the bank has an excessive investment in current assets or is under utilizing short-term credit. This ratio is calculated using the following basic formula.

Current Ratio = Current Assets/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 business.

Current assets include normally those assets of a firm, which are converted into cash within one year. These assets of a firm include cash, bank balance, and investment in treasury bills, discounts, overdrafts, short-term advance loans, and foreign currency loan, bills for collections, customer acceptance, stock, receivable and prepaid expenses.

Similarly, current liabilities include those liabilities of a firm which are paid within one year, like current payments, cash margin, current deposits, saving deposits, inter bank reconciliation account, bills payable for overdrafts, dividend payable and provision for taxation.

3.5.1.4 Loan loss Provision Ratio:

Bank disburses their loans and advances into various sectors. Bank have to write off the loans in order to recover loan if the loan they do not do so than in case of borrower's bank rupty it has to bear a huge losses not to rise such disaster it has to classify the loans into different categories as per the NRB regulation . Banks are required to maintain a certain percent for each category as loan loss provision. Therefore loan loss provision provides a caution for banks in case of borrower default in payment of loan and ensures the continued solvency of the banks.

Loan loss Provision Ratio= Loan Loss Provision / Credit

This analysis help bank to find out the awareness about disbursement of loan, whether there is over flow of loan with any maintained label. If provision is under undertaken there might be a huge loss therefore every commercial bank need to make a ratio of provision of loss which can be analyze by credit.

3.5.1.5 Investment to Total Assets Ratio:

The relationship between investment and total assets gives clearly about the financial performance of NIBL. Whereas the average ratio maintained over the review period is taken as the basis of measurement of performance, due to lack of the industry standards. Today investment is not only done in one firm with one objective, portfolio concept is under taken so in this study investment of NIBL in the various sector like in government treasury, bond, debenture, infrastructure today mostly in Nepal we can find huge investment in making huge building etc.

Investment to Total Assets Ratio = Investment/Total Assets

This ratio basically focus how much percentage is done in different investment undertaking the total assets of the particular firm.

3.5.1.6 Investment to Total Deposit Ratio:

The relationship between investments to total deposit is focused on how much bank is able to collect the funds form the customer so that to gain interest from that investment. so this ratio helps to know how much of collected fund as deposit is sanctioned toward the investment, high the ratio better performance is seen.

Here the average ratio is taken as the basis of the measurement of their performance.

Investment to Total Deposit Ratio = Investment /Total Deposits

Therefore from this analysis we can traced out how much ratio is gained for the investment which is basic source of fund collected from the customers as a deposit.

3.5.1.7 Analysis of Profitability Ratio:

We all know that the primary objectives of any commercial bank are to maximize profit. Profit is the root for its survival and growth. It is the final destination of the firm. Same time it is the net result of the number of policies and decisions. The final performance of NIBL can be measure on the basis of profitability . well to know what is the financial performance or either it is gaining its profit achieving target ? we can calculate return of assets and return on equity. This ratio helps to find out the net profit of the company like how much level should be retained, how much should be paid to shareholders etc. Following are indicators of profitability ratio.

1)Return on Assets:

This ratio measures the productivity of the assets. It shows the relationship of net profit and total assets and determines how efficiently the total assets have been used by the management. This ratio evaluates the overall return on investment earned by the firm.Net profit refers to the profit after deduction of interest and tax.

Total assets mean the assets which is taken in the balance sheet it measures the efficiency of bank in the overall operation. Higher ratio shows the higher return on the assets which reflect positive result.

Therefore, **Return on Assets = Net Income/ Total Assets**
Where net income is only after tax deducted.

2) Return on equity:

This ratio measure the efficiency of the equity. It reflect the relationship between net income and total shareholder's equity. This ratio calculated the returns in terms of issues of shares. well total equity exist in the balance sheet figure . Higher ratio gives positive performance of the bank.

Return on equity is calculated as:-

Return on Equity = Net Income / Shareholder's Equity

3.5.1.8 Other Indicators:

1) Earning per Share:

Earning per share help in determining the market prices of the shares of the company. The main focus of shareholders lies in the profit after tax, there will be no matter that earning is distributed or retained, higher earning per shares enhance the value of shareholders wealth. higher profitability of the bank results in the higher earning per share. shareholders always prefer to have high EPS because this is completely dedicated to them.

EPS = Earning Available to Common Shareholders/No. of Equity Share Outstanding

2) Market Price per Share:

During this study I have even tried to put in the value of share of NIBL in different financial year. this study help us to find out how the performance of particular organization is gaining more and more in market environment.

3) Price Earning Ratio (P/E ratio):

This ratio measures investor's expectation and the market appraisal of the performance of a firm. P\E ratio is widely used to assess the bank's performance as expected by investors. It represents the investor's expectations measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates higher expectation of the market towards the achievement of the firm.

This ratio is calculated by dividing the market value per share by earning per share as follows.

P\E Ratio = Market Value per Share/Earning Per Share

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. For this following statistical tools are used

3.5.2.1 Trend Analysis:

Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. Straight-line trend implies that irrespective of seasonal, cyclic and irregular fluctuation the trend value increases or decreases by absolute amount per unit of time. The linear trend values form a series in arithmetic progression. so here in this study trend figure is used to forecast the variation of factor in different financial years, which show increase, decrease steady, rise to peak, dramatically fall etc. of the figure.

3.5.2.2 <u>Karl Pearson's Correlation of Coefficient(γ)</u>:

Correlation analysis is a statistical tool can use to describe the degree to which one variable is directly related to each other. The coefficient of correlation measures the degree of relationship between two sets of figures. In its study simple coefficient of correlation is used to determine the relationship of different variable. The components which are taken in this study, for example total assets, total deposit etc. are measured. The value lies between -1 to + 1. Higher the value, risk cannot be easily eliminated .It measures correlation coefficient between two variables. This tool is used for measuring the intensity or the magnitude of linear relationship between two variables X and Y.
denoted by "γ". therefore correlation coefficient between two variables Xand Y,

$$\gamma xy = covxy / \sigma X \sigma Y$$

covxy = co-variance between two components x and y.

γxy = correlation coefficient between two components x and y.

σ X σY= standard deviation of x and y respectively.

3.5.2.3 Probable Error of Correlation Coefficient (γ)

Probable error of correlation coefficient denoted by P.E is the measure of testing the reliability of the calculated value of ‘γ’. If r be the calculated value of ‘γ’ from a sample of ‘n’ pair of observations, then P.E is defined by;

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

It is used in interpretation whether calculated value of ‘γ’ is significant or not.

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

Chapter-4

Presentation and Analysis of Data

4.1 Introduction:

This chapter deals with the study of findings. The analysis of collected data was done using various tools and results are compared with average ratio maintained in the reviewed period. The followings important variable has been analyzed. Therefore this chapter is reflecting the interpretation of research methodology in tabulated and pictorial form. Portfolio analysis and assets quality this is the first analysis in which the ratio of investment against total Asset of firm is calculated.

Likewise, to make an analysis other figure like investment against credit deposit is also calculated and pictured. Similarly, credit to deposit and loan loss is calculated and analyzes to know the firm's Assets quality, so above some figure is used to find out the assets quality of NIBL.

Similarly, to know the liquidity position of NIBL form one part to view how bank is able to maintain current ratio current assets and current liability is figure out. Moreover, to know the profitability of bank Return on Assets and Return on Equity is considered.

In addition, other indicators like earning Per Share, Market Price per Share and Price earning Ratio is considered to know how bank's efficiency. So, above some limited figure is traced out to know the overall financial performance of NIBL.

4.2 Analysis of the Variables

4.2.1 Portfolio Analysis and Assets Quality:

The financial performance and ability can be measured by analyzing the capacity to invest in productive assets. Bank invests the surplus fund in the income generating investment opportunity. It cannot utilized the whole of it's fund raised through deposits and borrowings into loans and advances loan and advances which are taken as the high risky assets as the part of the total assets should be kept as the high volume of liquid assets. Whenever bank needs it, it should immediately convert into cash when necessary. Such assets can be treasury bills, marketable securities, inter-banking lending and so on. part of the resources are invested by bank in form of shares, debentures etc. which earn low rate in comprising of loans and advance certainly sometimes it can earn high return than other cost of fund. So we found that investment is good beneficial to the bank.

The financial position of NIBL can also measure by analyzing the composition of investment .well it has invested certain percentage of its portfolio in assets like in Nepal government Security, remaining part of the portfolio in other company's shares and other investments.

4.2.1.1 Investment to Total Assets Ratio:

Investment to Total Assets Ratio =Investment/Total Assets

The relationship between investment and total assets presented below gives clearly about the financial performance of NIBL.

Whereas the average ratio maintained over the review period is taken as the basis of measurement of performance, due to lack of the industry standards.

Table 4.1

Investment to Total Assets Ratio

FY/Year	Investment (million)	Total assets (Rs.in million)	Investment/total assets
2060/61	3862	13255	29.14%
2061/62	3934	16391	24%
2062/63	5603	21732	25.78%
2063/64	6506	28074	23.17%
2064/65	6874	38873	17.68%
2065/66	7399	53010	13.96%
Total	34178	171335	19.95%
Average	5696.33	28555.83	19.95%

Source: (Annual Financial Report of NIBL)

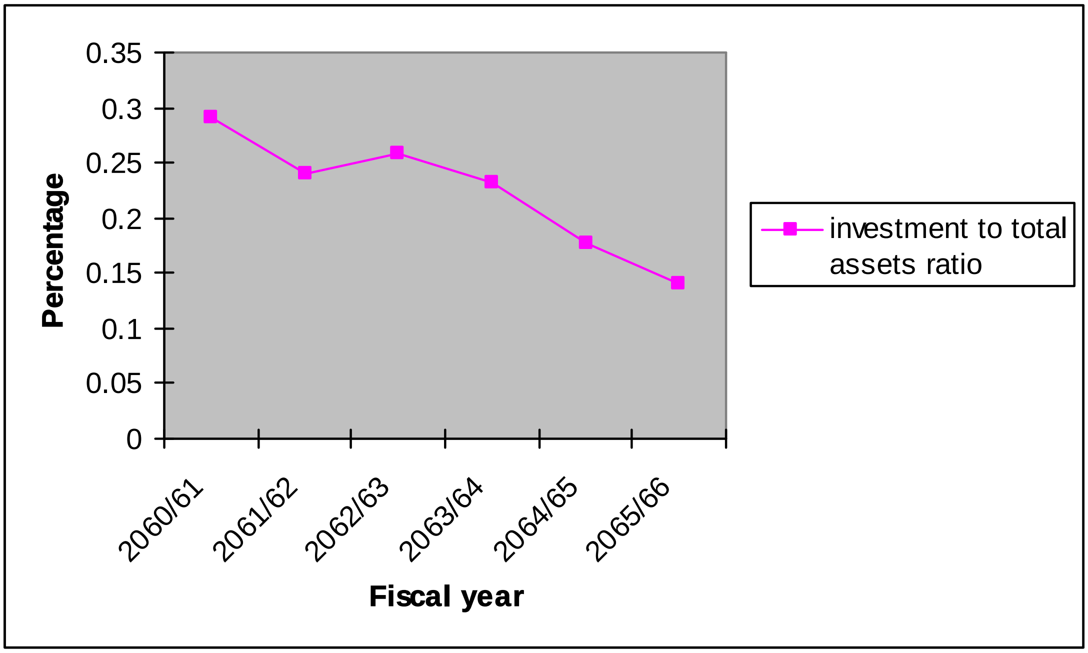
Investment to total assets percent vary from 13.96% in the year 2065/66 to the maximum of 29.14% in the year 2060/61 ,investment was Rs.7399 million and the total assets was Rs. 53010 million so the ratio was only 13.96%.

Well in the year, 2060/61 investment in the government security as well as in other shares of other companies, corporate bonds and debentures has increased as well as total assets has also increased comparing to previous year. This let to increase in investment to total assets ratio. In the year 2061/62 investment increased to Rs.3934 million but assets increased to Rs.16391 million. Again in the year 2063/64 investment increase and total assets increased but decreased in ratio. In the year 2065/66 the minimum ratio through the mentioned period in which investment reached to Rs.7399 million and total assets to 53010 which denotes the highest total assets in considered fiscal period. overall in the period the investment to total assets ration has almost show fluctuation over the period .well NIBL has maintain the average ration in the year 2061/62 and 2062/63 that is 24%to 25%.almost the ration has maintain the average ratio that is 19%

Furthermore, NIBL could improve the investment to total assets by reducing the size of the assets or in other way it can increase the volume of investment.

Figure 4.1

Investment to Total Assets Ratio of NIBL



Investment to total assets ratio of 29%in the year 2060/61is well above the average ratio of 19.95%.in this year only NIBL has optimally invested the assets resulting in the above average ratio for the year 2063/64.in the sense NIBL unable to maintain the average ratio in the year 2064/65 and 2065/66. This means adequate relation to assets has no so far maintained. so from the trend analysis it can be said that NIBL investment to total assets need to be improve in future to overcome the average ratio.

Table 4.2

Correlation coefficient between investments to total asset ratio
(Rs. in million)

year	Investment (x)	Total assets (y)
2060/61	3862	13255
2061/62	3934	16391
2062/63	5603	21732
2063/64	6506	28074
2064/65	6874	38873
2065/66	7399	53010
Correlation coefficient(γ)	0.91	
Probable Error (P.E)	0.04733	

(Calculation: Annex-1)

The correlation coefficient between investment and total assets is 0.91, since it measures the degree of relationship between two factors. Here due to positive correlation some how risk cannot be eliminated we therefore find insignificant relation between two components. Since coefficient is greater than that of probable error so the relationship is significant.

4.2.1.2 Investment to Total Deposit Ratio:

Investment to Total Deposit Ratio= Investment /Total Deposits

The relationship between investments to total deposit is presented below. Here the average ratio is taken as the basis of the measurement of their performance.

Table 4.3

Investment to Total Deposit Ratio

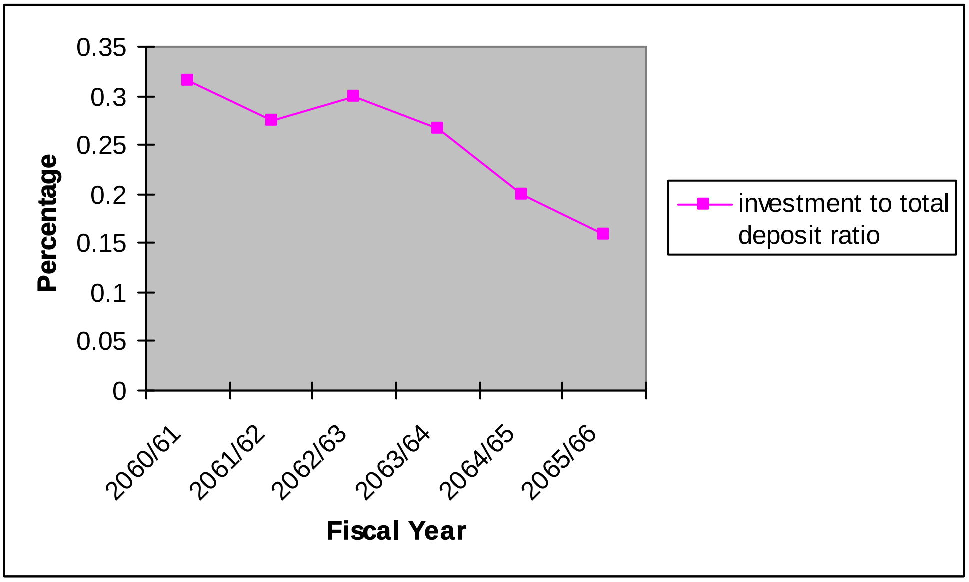
year	Investment(Rs. in million)	Total deposit (Rs in million)	Investment to total deposit ratio
2060/61	3862	11525	33.51%
2061/62	3934	14255	27.56%
2062/63	5603	18927	30%
2063/64	6506	24489	26.56%
2064/65	6874	34452	19.95%
2065/66	7399	46698	15.84%
total	34178	150346	22.73%
Average	5696.33	25057.66	22.73%

Source:(Annual financial report of NIBL)

From above table we can see the relationship between investment and total deposit ratio. The value of the ratio varies from the year 2065/66 that is 15.84% up to the highest ratio 33.51%in the year 2060/61. we can also find out that the average ratio has maintained at 22.73% of the total deposit ratio on which NIBL has decreasing ratio from year 2063/64 to 2065/66. The trend is slightly fluctuated from 2060 to 2063. The second highest ratio found in year 2062/63. But overall the ratio is in decreasing phase. So we can say that increase in deposit is much higher than in investment

Figure 4.2

Investment to Total Deposit Ratio of NIBL



NIBL has not maintained the average ratio in year 2065/66 and in the year 2064/65. This means that the investment in government securities, shares debenture bond and other type of investment is much less in relation to total deposit. This gives that it has a fluctuation above is highly increased in year 2060/61 but from the subsequent year it has decreased and reached up to the level of 15%.analysing the above figure NIBL investment to total deposit may fluctuate with decreasing trend in the future.

Table 4.4

Correlation coefficient between investment and total deposit ratio in (Rs.million)

year	Investment (x)	Total deposit (y)
2060/61	3862	11525
2061/62	3934	14255
2062/63	5603	18927
2063/64	6506	24489
2064/65	6874	34452
2065/66	7399	46698
Correlation coefficient (γ)	0.9	
Probable Error (P.E)	0.0523	

Calculation: Annex -2

we have calculated that the correlation coefficient between investment and total deposit ratio as 0.90 which so that the high positive relationship between two components meaning that risk cannot be easily eliminated. also considering the probable error coefficient is higher than error so the result is significant.

4.2.1.3 Credit Deposit Ratio:

The core banking function is to mobilize the funds from depositors to the borrowers. bank make profit by proper utilizing the deposit funds by charging high interest rate of interest to the borrowers than it pays to the depositors, having high Efficiency can invest the deposit funds into risky assets as in financial terms if one investment in risky assets than it have high chance to grab profit.

Therefore, Credit to Total Deposit Ratio = Credit/Total Deposit

Well this ratio measures this extend to which the bank are successful to mobilize the outsider's funds for the purpose of profit generation. It is therefore very essential to have a good ratio between them because loan cannot be granted without having appropriate deposit.

Deposit is the symbol of successful performance of NIBL. On the basis of deposit it can receive plan and manage to provide loan to reliable clients. Therefore financial performance can be analyzed by examining the ratio of credit to the deposit. So by this we can know very well about the deposit and credit relationship of NIBL.

The analysis regarding how deposit has been mobilized is presented below by calculating the ratio of credit to deposit.

Table 4.5

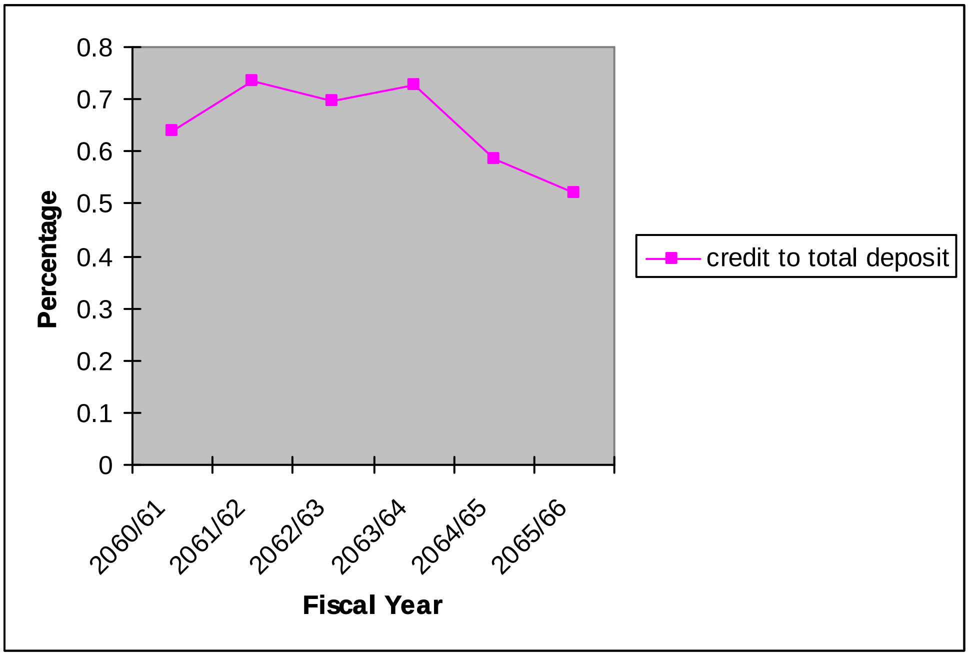
Credit to Deposit Ratio

year	Credit(Rs.in million)	Total deposit(Rs.in million)	Credit to total deposit
2060/61	7388	11525	64.10%
2061/62	10453	14255	73.33%
2062/63	13178	18927	69.63%
2063/64	17769	24489	72.56%
2064/65	20212	34452	58.67%
2065/66	24256	46698	51.94%
total	93256	150346	62%
Average	15542.67	25057.67	62%

Source:(Annual financial report of NIBL)

Figure 4.3

Credit to Total Deposit Ratio of NIBL



Here the analysis is taken for the period covering fiscal year 2060 to 2066. The maximum ratio is 73.33% in the year 2061/62.and we also found that the minimum ratio was in 2065/66.The average ratio is somehow specified in the year 2060/61in which the credit is Rs.7388 million and total deposit isRs.11525 million.

Again in the year 2061/62 the credit is Rs.10453 million and the deposit is Rs.14255 million comparing to the previous both they increased. Similarly again in the year 2062/63 both the component increased but the ratio is decreased to previous year. Again in the year 2063/64 comparatively credit and deposit increased with the ratio of 72.56%. But in the fore coming year it decreased on overall the trend has the fluctuation function's we can analyze the trend might be in same fluctuating situation

Here the trend show the fluctuation trend .average ratio of 62% is overcome in all specified period but in the year final it fail to reached and maintain only around 51% until it cover Rs.24256 million credit and total deposit with Rs.46698 million. So we can even analyze that every year increase and decrease ratio is visualized so viewing the overall trend we can say that up coming ratio be increase.

Table 4.6

Correlation coefficient between credit and total deposit (in Rs.million)

year	Credit (x)	Total deposit (y)
2060/61	7388	11525
2061/62	10453	14255
2062/63	13178	18927
2063/64	17769	24489
2064/65	20212	34452
2065/66	24256	46698
Total	∑x=93256	∑y=150346

Correlation Coefficient(γ)	0.734
Probable Error (P.E)	0.127

Calculation: Annex -3

Here correlation coefficient between credit and total deposits is 0.734 (+) that is positive relationship in which highest degree is not reached which risk cannot be eliminated also meaning that f deposit increase than credit will also increase, probable error is less than coefficient so the relation is significant.

4.2.1.4 Loan Loss Provision Ratio (LLP):

Bank disburses their loans and advances into various sectors. Bank have to write off the loans in order to recover loan if the loan they do not do so than in case of borrower's bank rupty it has to bear a huge losses not to rise such disaster it has to classify the loans into different categories as per the NRB regulation . Banks are required to maintain a certain percent for each category as loan loss provision.

Therefore loan loss provision provides a caution for banks in case of borrower default in payment of loan and ensures the continued solvency of the banks.

Loan loss Provision Ratio= loan loss Provision / Credit

The analysis of LLP is made against the possible loan loss by NIBL. The period of analysis is taken for the six years from fiscal year 2060 to 2066 well average ratios is done for the comparison of following data.

Table 4.7

LLP to Credit

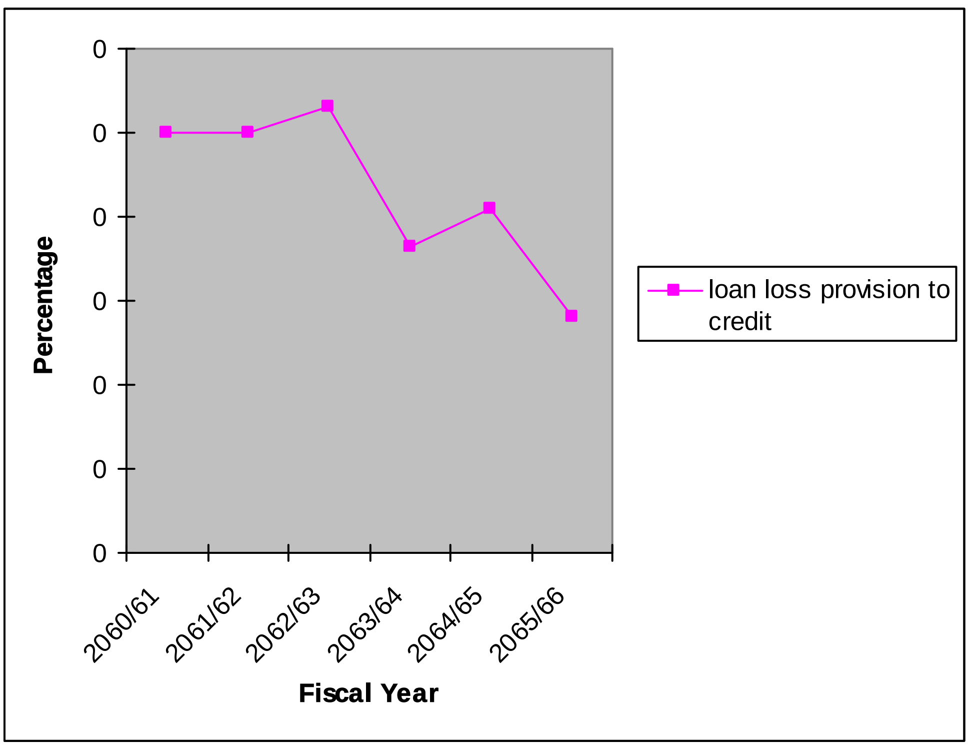
Year	LLP (Rs. in million)	Credit (Rs. in million)	LLP to credit
2060/61	70.83	7388	1%
2061/62	103.81	10453	1%
2062/63	140.41	13178	1.06%
2063/64	129.72	17769	0.73%
2064/65	166.20	20212	0.82%
2065/66	135.99	24256	0.56%
total	746.96	93256	0.80%
Average	124.49	15542.67	0.80%

Source: (Annual financial report of NIBL)

From the above analysis, LLP to credit vary from 0.56% in the year 2065/66 up to the maximum point that is the percent 1.06% maximum in the year 2062/63 and the average ratio is some hoe maintained in the year 2063/64 with the loan loss provision with Rs.129.72 million and credit of Rs.17769 million. Again in the year loan loss provision is Rs. 166.20 million and credit is Rs. 20212 million. Well in the year 2060/61 and 2061/62 LLP to credit ratio is equal with 1%. The ratio is increased in the year with 0.82% comparing to the previous year but it again decreased in final year 2065/66. Again in the year 2065/66 the average ratio has not been maintained .it is below the average ratio.

Figure 4.4

Loan Loss Provision to Credit of NIBL



Above trend analysis the loan loss provision ratio of NIBL. Here we can find that here is increasing ratio in the year 2063/64 and in the fiscal year 2060/61. It has started decreasing in year 2064/65 but it slightly increased in year 2065/66 with the ratio of 0.82%. In the initial year and next to the year it remained constant with 1%. There is no more fluctuation only slightly varying of ratio is forecasted. So, by this we can observe that LLP to credit ratio may remain constant in the future.

4.2.2 Analysis of liquidity:

Well liquidity is used to measure firm's ability to meet short terms obligation. It compare short terms obligation to sort term resources available to meet these obligation. It helps to find out the ability to meet the cash solvency as immediately as possible .Well liquidity should neither be surplus nor deficit. Well lack insufficient liquidity will result is bad credit image and loss of creditor's confidence. Well if there is high liquidity is found than it also gives negative impact that firms will be unable to invest the funds in productive way. So, proper balance should be made between liquidity and profitability.

Liquidity must be maintained in the banking sector because the bank must be in the position to meet the unexpected withdrawals from its deposit. If it fails then result runs in the bank often lending of liquidity. So for protecting depositor's interest NRB has directed all banks to maintained adequate cash reserve ratio.

4.2.2.1 Current Ratio:

Liquidity ratio is explained as showing the relationship between current assets and current liabilities which is presented below for the fiscal year 2060 to 2066 with average ratio is taken for measuring or comparing overall given data.

Current Ratio = Current Assets/ Current Liability

Table 4.8

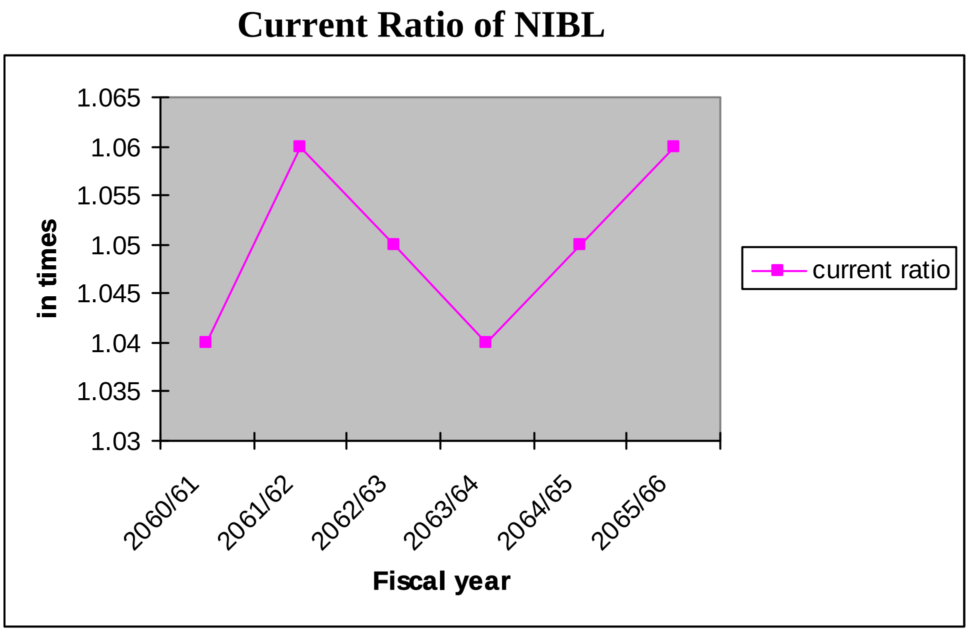
Current Ratio

year	Current assets (Rs. in million)	Current liabilities (Rs. in million)	Current ratio (in times *)
2060/61	13214.15	12734.90	1.04*
2061/62	16070.06	15210.48	1.06*
2062/63	21388.63	20316.64	1.05*
2063/64	27314.061	26195.394	1.04*
2064/65	38435.867	36719.173	1.05*
2065/66	52536.00	49688.91	1.06*
total	168958.768	160865.497	1.05*
Average	28159.79	26810.916	1.05*

Source: (Annual financial report of NIBL)

The above table gives the current ratio from the fiscal year 2060 to 2066. Here in the year 2060/61 current assets is Rs.13214.15 million and the current liabilities are Rs.12734.90 million. Therefore the current ratio for the year is 1.04 times. Similarly, the increment of current assets and current liabilities in the year 2061/62 the current ratio is increased to 1.06 times. But in the next year still there is increment in current assets and current liabilities the current ratio is only 1.05 times. However, the average ratio that is 1.05 times is maintained in year 2062/63 and 2064/65. Likewise in the year 2065/66 the current assets reached toRs.52536 million and the current liabilities is Rs.49688.91 million and ratio is 1.06 times which is the maximum ratio maintained through out the considered year. Similarly, the maximum ratio is maintained in the year 2061/62 and fiscal year 2065/66 and the minimum ratio 1.04 times is maintained in the year 2060/61 and 2063/64.

Figure 4.5



By analyzing the above trend figure current ratio vary from maximum ratio which is verified in year 2061/62 and 2065/66 to minimum ratio is the fiscal year 2060/62 and in the fiscal year 2063/64. gradual increase of ratio is from 2063/64 i.e 1.04 times to 1.06 in final year 2066. there is not so much fluctuation in every trend but in the year 2063/64 trend is in dipped position in overall figure two peak position is maintained .form initial year sharply increased and fell down again it peaked up and slightly fall .so we can analyze that in future current ratio may increase with fluctuating trend.

4.2.3 Analysis of Profitability:

We all know that the primary objectives of any commercial bank are to maximize profit. Profit is the root for its survival and growth. It is the final destination of the firm. Same time it is the net result of the number of policies and decisions. The final performance of NIBL can be measure on the basis of profitability. Well to know what is the financial performance or either it is gaining its profit achieving target ? we can calculate return of assets and return on equity.

4.2.3.1 Return on Assets:

Return on Assets = Net Income/ Total Assets

Table 4.9
Return on Assets

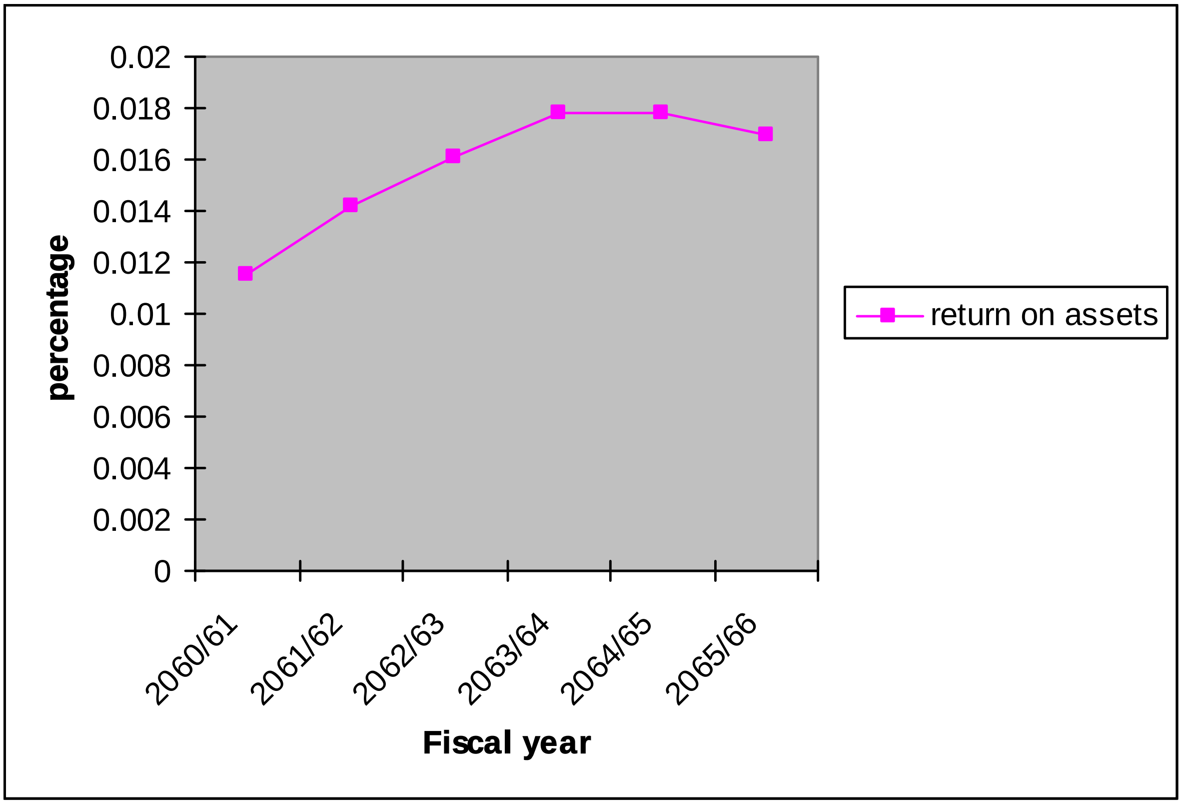
year	Net income (Rs. in million)	Total assets(Rs. in million)	Return on assets
2060/61	153	13255	1.15%
2061/62	232	16391	1.42%
2062/63	350	21732	1.61%
2063/64	501	28074	1.78%
2064/65	693	38873	1.78%
2065/66	901	53010	1.70%
total	2830	171335	1.65%
Average	472	28555.83	1.65%

Source:(Annual financial report of NIBL)

In the above table data are presented from the fiscal year 2060 to the year 2066. in the year 2060/61 net income is Rs. 153 million and total assets is Rs. 13255 million which gives the return of 1.15%. from the fiscal year 2061/62 return has gradually increased but in the year 2063/64 and 2064/65 return remain constant at 1.78% but in final year it decreased to 1.70% with the net income of Rs. 901 million and total assets of Rs. 53010 million. average return is 1.65% which is maintained almost in all considered data except it unable to maintain in year 2060 to 2062.

Figure 4.6

Return on Assets of NIBL



Above trend gives that ROA is vary from the maximum percent that is 1.78% in the year 2063/64 and 2064/65 of which the minimum point is 1.15% in the year 2060/61. form the initial period trend is gradually increasing and remain close constant throughout the period highest range was in the year 2063 to 2065. well average return is 1.65% is not maintained in the year 2060 to 2062 only the return was 1.15% and 1.42% respectively. in overall trend of return is closely constant so from this we can analyse that return of NIBL in future may remain constant.

Table 4.10

Correlation coefficient between net income and total assets: (Rs. in million).

year	Net income (x)	Total assets (y)
2060/61	153	13255
2061/62	232	16391
2062/63	350	21732
2063/64	501	28074
2064/65	693	38873
2065/66	901	53010
Total	2830	∑y=171335
Correlation coefficient(γ)		0.99
Probable Error (P.E)		= 0.005479

Calculation: Annex-4

Correlation coefficient between net income and total assets is highly positively correlated i.e. 0.99 is positively correlated. Here also risk cannot be easily eliminated, also probable error is less than that of coefficient so the relation is significant.

4.2.3.2 Return on Equity:

Financial performance can also be measured by knowing how well it has provided the shareholder with the return on their investment, as they are the ultimate owners of the company. One of the main objectives of any commercial firm which is to maximize the shareholders wealth.

Earning is a adequate return on the shareholders fund to maximize shareholder's wealth, this ratio is important because it judge whether the firm has earned a satisfactory return for its equity holder or not. The higher the ratio more will be favorable to its shareholders, which represented the sound management and efficient mobilization of the owner's equity. Shareholders equity consist of paid up capital, general reserve and profit loss account. So one of the parameter used in measuring the financial performance of the company is ROE. This can be measured by showing the relationship between the net income and total equity as below.

Table 4.11

Return on Equity

year	Net income (Rs. in million)	Total equity (Rs. in million)	Return on equity
2060/61	153	729	20.98%
2061/62	232	1180	19.66%
2062/63	350	1415	24.73%
2063/64	501	1878	26.67%
2064/65	693	2687	25.79%
2065/66	901	3908	23.15%
total	2830	11797	24%
Average	472	1966.17	24%

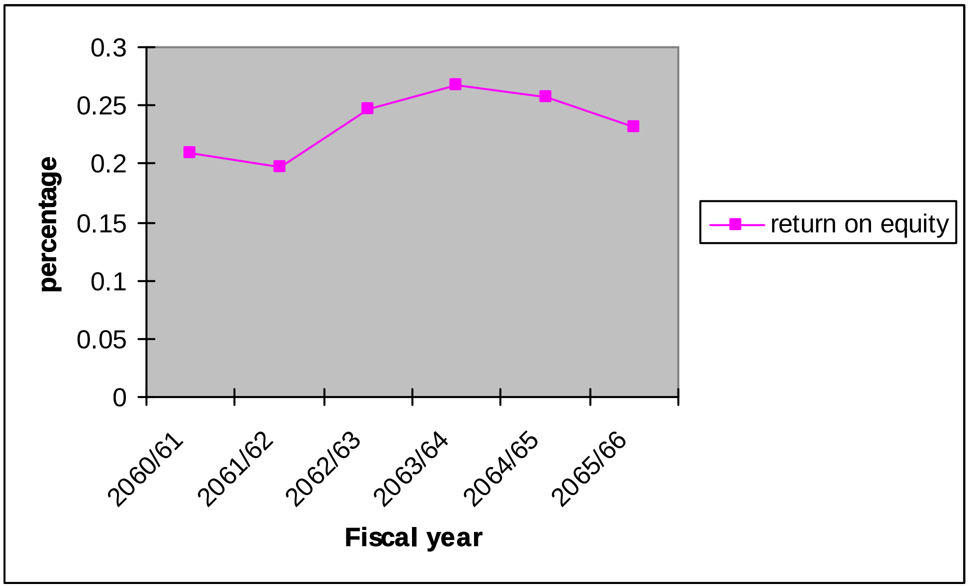
Source: (Annual financial report of NIBL)

Above table gives the return on equity for the six financial years that is fiscal year 2060 to the fiscal year 2066. we can say that the return is seen as in fluctuation stage. in the year 2060/61 when net income was Rs.153 million and equity was Rs.729 million the return was 20.98%. but next year apart both the income and equity increase return on equity slightly decreased. but in the fiscal year 2062/63 return on equity increased to 24.73%. with income of Rs.501 million and equity

Rs. 1878 million in F/Y 2063/64 return on equity increased to 26.67% but in next two years it decreased and remain 23.15% in final considered year.

Figure 4.7

Return on Equity of NIBL



Above trend figure gives the six year trend of return on equity of NIBL. In which it show the financial summary from the F/Y 2060 to F/Y 2066. in the initial year return was 20.98% but it decrease in the year 2061/62 with 19.66%. again in the year 2062/63 it gradually increased up to fiscal year 2064/65. again in the year 2065/66 it decrease and start to increase. so we can forecast that return might be slowly increase in the future.

Table 4.12

Correlation Coefficient between Net Income and Total Equity: (Rs. inmillion)

year	Net income (x)	Total equity (y)
2060/61	153	729
2061/62	232	1180
2062/63	350	1415
2063/64	501	1878
2064/65	693	2687
2065/66	901	3908
Total	2830	∑y =11797

Correlation coefficient (γ)	0.98
Probable Error (P.E)	0.01090

Calculation: Annex - 5

Therefore correlation coefficient between net income and total equity is +0.98 i.e. positively correlated. The relation between net income and equity is positive so if income is increase due to increase in shareholders equity. Risk cannot be easily eliminated. Moreover the correlation is higher than the probable error so the relationship is significant.

4.2.4 Other Indicators:

we can take some other indicators to measure the financial performance like earning per share.

4.2.4.1 Earning Per Share:

Earning per share help in determining the market prices of the shares of the company. The main focus of shareholders lies in the profit after tax, there will be no matter that earning is distributed or retained, higher earning per shares enhance the value of shareholders wealth. higher profitability of the bank results in the higher earning per share.

Earning per Share = Net Income/ Number of Share Outstanding

Table 4.13

Earning Per Share:

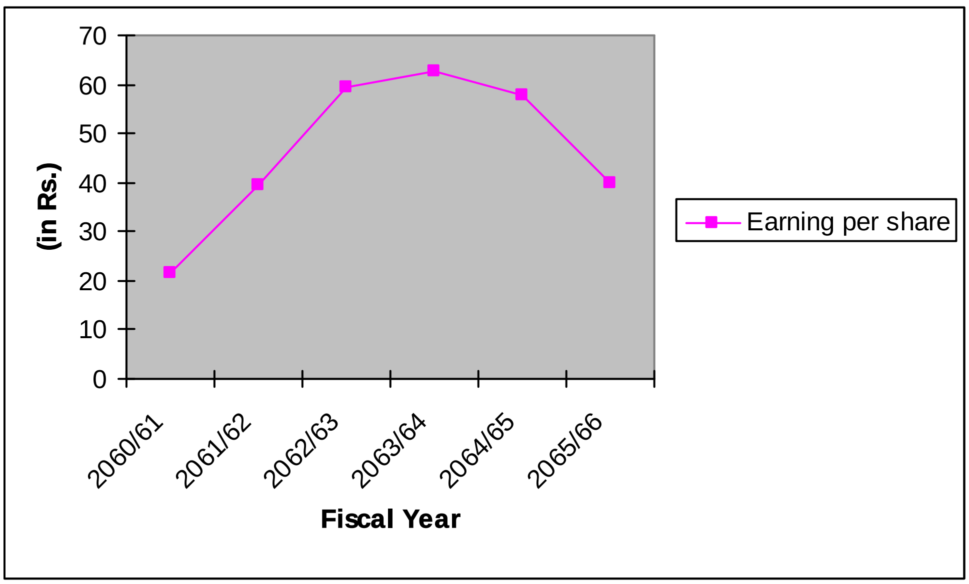
Year	EPS (Rs.)
2060/61	21.7
2061/62	39.5
2062/63	59.35
2063/64	62.57
2064/65	57.87
2065/66	37.97

Source: (Annual financial report of NIBL)

Above table show us about the analysis of earning per share during six year financial data. Overall the EPS show the fluctuated data. the maximum EPS was in the year 2063/ 64 that was Rs. 62.57 per share and the minimum was in the fiscal year 2060/61 which was Rs. 21.7 per share. comparing to the previous year 2064/65 there is decreased in EPS in final year i.e. Rs.37.97 in fiscal year 2065/66.

Figure 4.8

Earning Per Share of NIBL



The given trend show the trend of earning per share of NIBL for the six year financial data .so we can trace out the in the initial year 2060/61 it gradually start increasing and remain at Rs.59.35 in 2062/63. Similarly it slowly increases and fall sharply in the final year with Rs.37.42. We can analyze that in future it will slightly decrease looking towards the overall figure.

4.2.4.2 Market Price Per Share :

Market price per share of NIBL considering the financial figure from the year 2060 to 2066 is given below:

Table 4.14

Market price Per Share

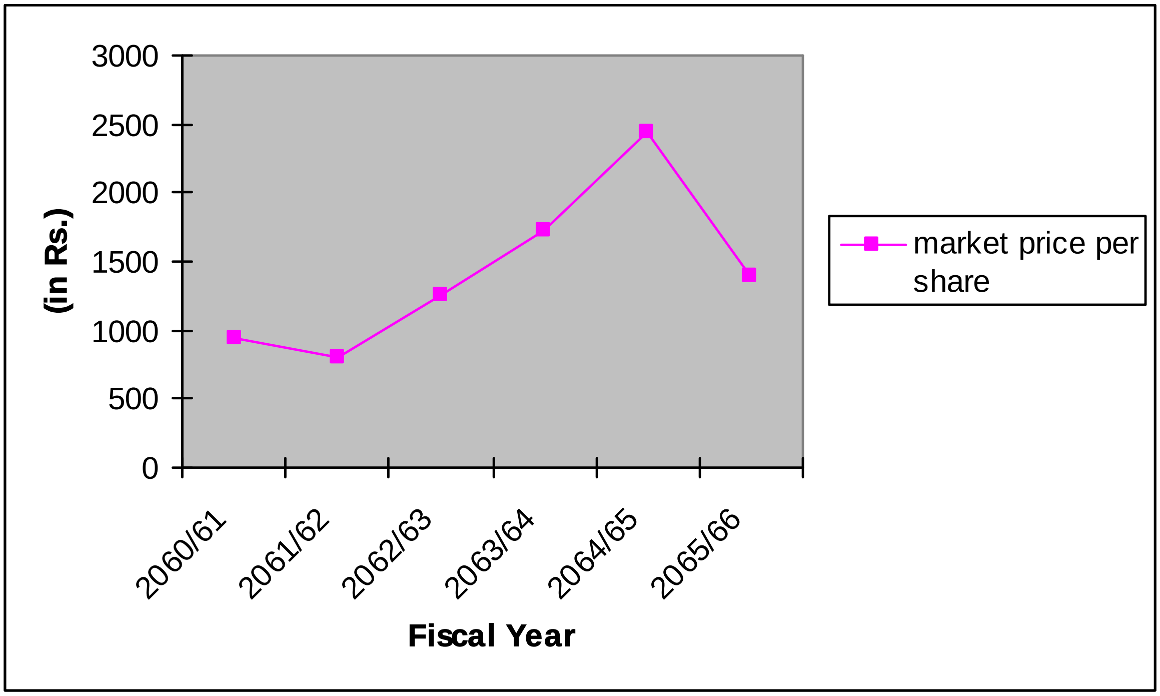
Year	Market price per share(Rs.)
2060/61	940
2061/62	800
2062/63	1260
2063/64	1729
2064/65	2450
2065/66	1388

Source:(Annual financial report of NIBL)

The above table gives the changes of market price per of NIBL form the year 2060 to the year 2066. in overall the table show that the market price per share is gradually increasing but in year 2065/66 it decrease and was Rs.1388. similarly, the maximum market price was Rs. 2450 in F/Y 2064/65 and the minimum price was Rs. 940 in the year 2060/61 we can analyze that overall financial data gives increasing figure of market price per share of NIBL.

Figure 4.9

Market Price per Share of NIBL



The above trends give the financial data related to market price per share of NIBL. In the initial period market price is Rs.940, it start gradual increase in trend and it goes to peaked on the F/Y 2064/65 with Rs.2450. therefore remaining other things constant with taking environmental risk price may goes down in the future.

4.2.4.3 Price Earning Ratio (P/E Ratio):

Price Earning Ratio = Market Price / Earning Per Share

Table 4.15

Price Earning Ratio

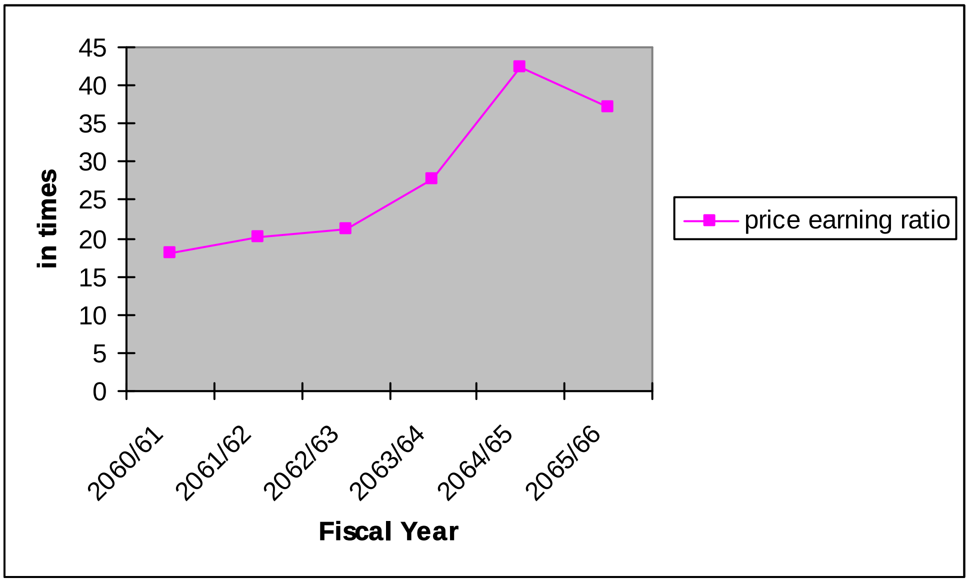
Year	P/E ratio(* in times)
2060/61	18.18
2061/62	20.25
2062/63	21.23
2063/64	27.63
2064/65	42.33
2065/66	37.10

Source: (Annual financial report of NIBL)

The above mentioned figure give the price earning ratio of NIBL. Here six years financial data is selected so the P/E ratio vary from 18.18 times to 42.33 times which is minimum and maximum ratio undertaken respectively. Overall the data has got increasing figure so if other thing are not considered then we can predict that in future there may be decrease in P/E ratio of NIBL.

Figure 4.10

Price Earning Ratio of NIBL



Above trend figure gives price earning ratio of NIBL for the six years financial data. In which in initial period it show 18.18 times. it started increasing and remain 20.25 times in year 2061/62. After that period it start increasing and went to the peak in the year 2064/65 the ratio of 42.33 times and after that it fall down. so from here we can analyze that P/E ratio may again decrease in future.

4.3 Main Findings of the study:

Mainly the study is based to find out the financial performance of NIBL. Almost study is based on the secondary data.

Nepal Investment Bank ltd. is one of the fast growing commercial banking organizations. According to the analysis, knowing about both theoretical and practical study in overall pervious is has come significantly, dramatically improving but in the final period comparing to the other fiscal year it has decreasing simultaneously. Below are some of main findings of NIBL.

- The "investment ratio" of NIBL is analyzing two ratio, investment to total assets ratio and investment to total deposit ratio. Considering two ratio both components are found quite fluctuating almost in the final year 2065/66 ratio is decreased and it is below the average.

- The credit deposit ratios show the fluctuation during the study period . Even the ratio is over 50% so we can say that credit of NIBL is fully depend on the total deposit received. Although the overall performance is satisfactory.

- The loan loss provision ratio of NIBL is in decreasing phase. we find the average ratio is 0.8%. but it has unable to meet the ratio in F/Y 2063/64 and 2065/66 it is below the average ratio that indicate there is nor proper disbursement in quality of loan.

- NIBL has also been able to maintain the current assets to meets it current liabilities, almost in every year it has maintained especially in the FY 2062/63 and 2064/65.

- The profitability of NIBL is measure on the basis ROA and ROE. NIBL has successfully maintained ROA in the fiscal year 2063/64 to 2065/66. it has overcome the average ratio of ROA. but in the first three year performance was not so good. it was only quite satisfactory. Overall almost in every year average i.e. 1.65% is achieved. In addition, correlation coefficient is also positive. So its performance is improving. Similarly, ROE of NIBL in total has positive performance almost in each financial year it has able to maintain the average ratio but in the final year its return over equity is low. However the correlation coefficient of net income with equity is highly positive so there is close effect of net income over equity. Hence considered indicator give well maintained ratio by NIBL.

- Considering other indicators like earning per share, market price per share and price earning ratio. Earning per share is simultaneously is it increasing ever year with increasing the reputation of the bank but in the last two year it suddenly fall down but in overall EPS is increasing. Likewise market prices per share show dramatically increase but in the F/Y 2065/66 it dropped down. But also considered year almost in all year improvement is going on. Likewise price earning ratio is also increase in ascending order which show positive trend of performance of NIBL. by hook and crook to provide every facilities to its customer.

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Chapter -5

Summary, Conclusion and Recommendation

5.1 Introduction:

This chapter deals with the findings and the result of the analysis done in the above chapter, presentation and analysis of data. This concluding chapter covers the main findings on the financial performance of NIBL. It also gives suggestion for the better performance of the NIBL. And overall conclusion of the whole study research which is presented below. Here in this closing chapter, whatever done with the analysis on whole theoretical as well as mathematical tools considered during the studies I have tried to trace suitable conclusion and suggestion to support my study. Therefore considering almost true financial data collected from NIBL, I have described the summary, conclusion and recommendation of this Analysis.

5.2 Summary:

Commercial banks in Nepal have playing significant role to develop financial sector since a decade . Since from the beginning of the establishment of Nepal bank limited (NBL) in 1937 A.D. to the present scenario with the emergence of new and growing banks have brought tremendous changes in terms of services, development and customer service. Modern banking has flourishing almost in all bank exist in Nepal . Commercial banks that were traditionally involved only in lending and deposit sector have now modified their traditional business concepts and introduced new services to Nepalese customer like, credit card, debit card, E-banking, SMS banking, remittance ABBS etc. banking sectors has made significant improvement .One of the fast growing industry of Nepal is banking industry, after Nepal adopted liberal economic policy. But competition and lack of sufficient investment opportunities political disturbance have created threat to banks. Therefore future in the banking sector will be more competitive with quality and speedy service. Banks have to provide quality and speedy service and attain objectives along with maintaining social responsibility to sustain in market.

In addition, financial performance is the process of identifying the financial strength and weakness of the firm by properly establishing relationship with the items of balance sheet and profit and loss account. Annual financial summary .Ratio Analysis, assets quality and growth ratio are used to study the financial performance . Almost all together more than 33 commercial banks of Nepal, Nepal Investment Bank ltd is used for the study in which data from F/Y 2060 to F/Y2066 is used.

5.3 CONCLUSION:

For the partial fulfillment of the degree of Master of Business Studies . I choose to do thesis work on the financial performance of Nepal Investment Bank ltd. The introduction of banking and descriptive view about NIBL in mentioned in first chapter. likewise study is relied mostly in secondary data, I reviewed the other reference books, articles, annual report website to get information for complementing my work. The analysis of the data and presentation made in the chapter "Presentation and Analysis of Data", where my direct effort is directly towards showing the real objective of my research i.e. financial performance of NIBL. I have used many variables such as assets, deposits, loan, net income etc, and analyzed them by using financial and statistical tools, and based my finding on them. On the basis of main findings from summary of my thesis work, I think recommendation will be beneficial for the NIBL.

Considering the six years financial year during the study. I have found that NIBL ahs focusing almost toward convenience of customer care as well as for wider service. It has opened almost 40 branches all over Nepal, it has also lunched "Any branch banking service" all over Nepal so that if customer will open account in one branch will get same service to another branch with free service. It ahs extended banking hours for 365 days .

Now ,NIBL has changed old banking software "PUMORI" to new well advance software " FINNACALE". well is well advanced software made in India. New product or facilities like Re 1 minimum balance is one of the main attraction to increase customer which has succeed to overcome it. Account like "Ketaketi Bachat Khata" is new scheme to give service to customer specially for children which encourage to save the money for secured future. NIBL has installed more that 30 ATMs service to make easy for customer. likewise facilities like issuing Debit Card, Visa credit card, traveler's cheque, remittance facilities are launched by NIBL. Therefore NIBL is now one of the bank to get success in few years today it has achieved its own existence. So I should not be hesitate to say that NIBL is that bank in which always work in favor of the customers.

5.4 Recommendation:

There is no abstract to say that NIBL is one of the successful bank among the commercial bank of Nepal. Yet the current competitive market poses many challenges for the economy. The following suggestion has been made:

Increasing Investment:

The investment is less compared to total assets employed and total deposit. The investment in government securities and other type on investment earns some interest and also can meet the liquidity needs of the bank. but in the final year all factors are decreased compare to previous financial year. Since there is positive relationship between investment to total assets and investment to total deposit so it can increase its investment by increasing total assets and total deposits.

Minimizing the Non- Performance Assets:

As already mentioned that overall that loan loss provision of NIBL is increased. This provides indications about increase in non-performance assets. So, loan should provided through proper analysis of financial and business risk to minimize the non- performing assets, otherwise the effect will be adverse.

Deposit Utilization:

Since there is positive correlation between deposit and credit. NIBL depending upon the efficiency and scope for the future business prospects can grant more income generating loans by increasing the deposit.

Ratio improving the Profitability:

NIBL can improve in ROA and ROE by increasing net income after tax also it can maximize its profit after tax by increasing performing loans and advance. Alternatively increasing profitable portfolio investment it can add on more profit.

Increase in Growth Ratio:

It can be recommended that since increase in every prospect NIBL has improved in increasing the growth ratio like EPS, MPS, P/E ratio etc. proper concern to earn net profit after tax provide great help to push up the growth ratio in future.

Control on cost:

The administrative and other cost of NIBL show an increasing trend throughout the reviewed period. The NIBL can maximize the profit to the optimum, only when it can efficiently control the different internal and external cost. It is not wise to recommend any organization just for studying six financial data. but reviewing descriptive and analytical data all these above things be carried on for improvement in future

Over Staffing:

Presently there is excessive number of staff recruited in NIBL.which is pushing through the increasing cost. Likewise opening large number of branch is also carrying over cost so to maintain internal quality and controlling the cost and to make efficiency,NIBL should decrease the excess staff to maintain the efficiency.

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Annex-1

Correlation coefficient between investments to total asset ratio (Rs. in million)

year	Investment (x)	X=x-x^	X2	Total assets (y)	Y=y-y^	Y2	XY
2060/61	3862	(1834.33)	3364766.55	13255	(15301)	234120601	28067083.33
2061/62	3934	(1762.33)	310507.03	16391	(12164.83)	147983088.9	21438444.85
2062/63	5603	(93.93)	8710.49	21732	(6823.83)	46564655.87	636868.05
2063/64	6506	809.67	655565.51	28074	(481.83)	232160.149	(390123.29)
2064/65	6874	1177.67	1386906.63	38873	10317.17	106443996.8	12150221.59
2065/66	7399	1702.67	2899085.129	53010	24454.17	598006430.4	41637381.63
total	∑=34178		∑X2=11420841	∑y=171335		∑y2=1133350933	∑=103539876.1

X^ = ∑x/n =34178/6 = 5696.33

Y^=∑y/n= 171335/6 = 28555.83

σ X= √∑x2/n = √11420841/6 = 1379.66

σY= √∑y2/n= √1133350933/6 =13743.79

covxy=∑xy/ n = 103539876.1/6 = 17256646.01

γxy= covxy/ σ X σY= 17256646.01/189611757.31 =0.91

Where;

$X^\wedge$= mean of X

$Y^\wedge$= mean of Y

σX= standard deviation X

σY = standard deviation Y

cov_{xy} = co-variance between X and Y

γ_{xy} = correlation coefficient between two components X and Y

Calculation of Probable Error:

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

$$= 0.6745 \times \frac{1-(0.91)^2}{\sqrt{6}}$$

$$= 0.04733$$

Annex -2

Correlation coefficient between investment and total deposit ratio in (Rs.million)

year	Investment (x)	X=x-x^	X2	Total deposit (y)	Y=y-y^	Y2	XY
2060/61	3862	(1834.33)	3364766.55	11525	(13532.67)	183133157.3	24823382.56
2061/62	3934	(1762.33)	310507.03	14255	(10802.67)	116697679.1	19037869.42
2062/63	5603	(93.93)	8710.49	18927	(6130.67)	37585114.65	575853.83
2063/64	6506	809.67	655565.51	24489	(568.67)	323385.57	(460435.04)
2064/65	6874	1177.67	1386906.63	34452	9394.33	88253436.15	11063420.61
2065/66	7399	1702.67	2899085.129	46698	21640.33	468038825	36846340.68
total	∑=34178		∑X2=11420841	∑Y=150346		∑=894296655.3	∑XY=91886432.06

X^ = ∑x/n =34178/6 = 5696.33

Y^= ∑y/n =150346/6 = 25057.67

σ X= √∑x2/n = √11420841/6 = 1379.66

σY= √∑y2/n = √894296655.3/6 =12208.58

covxy= ∑xy/ n= 91886432.06/6= 15314405.34

γxy= covxy/ σ X σY= 15314405.34/12208.58*1379.66 =0.9

Calculation of Probable Error:

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

$$= 0.6745 \frac{1-(0.9)^2}{\sqrt{6}}$$

$$= 0.6745 \times \frac{1-0.81}{2.4495}$$

$$= 0.6745 \times 0.07757$$

$$= 0.0523$$

Annex- 3

Correlation coefficient between credit and total deposit (in Rs.million)

year	Credit (x)	X=x-x^	X2	Total deposit (y)	Y=y-y^	Y2	XY
2060/61	7388	(8154.67)	66498642.81	11525	(13532.67)	183133157.3	110354458.1
2061/62	10453	(5089.67)	25904740.71	14255	(10802.67)	116697679.1	54982025.42
2062/63	13178	(2364.67)	5591664.209	18927	(6130.67)	37585114.65	14497011.43
2063/64	17769	2226.33	4956545.269	24489	(568.67)	323385.57	(1266047.081)
2064/65	20212	4669.33	21802642.65	34452	9394.33	88253436.15	43865226.9
2065/66	24256	8713.33	7522119.69	46698	21640.33	46803882.5	188559336.6
total	∑x=93256		∑x2=200676355.1	∑y=150346		∑y2=894296655.3	∑XY=310992011.3

X^=∑x/n =93256/6 = 15542.67

Y^=∑y/n =150346/6 = 25057.6

σ X= √∑x2/n = √200676355.1/6 = 5783.26

σY= √∑y2/n = √894296655.3/6 =12208.58

covxy=∑xy/ n= 310992011.3/6 = 51832001.88

γxy= covxy/ σ X σY= 51832001.88/5783.26* 12208.58

= 51832001.88/70605392.37 = 0.734

Calculation of Probable Error:

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

$$= 0.6745 \times \frac{1-(0.734)^2}{\sqrt{6}}$$

$$= 0.6745 \times \frac{1-0.5388}{2.4495}$$

$$= 0.127$$

Annex – 4

Correlation coefficient between net income and total assets: (Rs. in million).

year	Net income (x)	X=x-x^	X2	Total assets (y)	Y=y-y^	Y2	XY
2060/61	153	(319)	101761	13255	(15301)	234120601	4881019
2061/62	232	(240)	57600	16391	(12164.83)	147983088.9	2919600
2062/63	350	(122)	14884	21732	(6823.83)	46564655.87	832528
2063/64	501	29	841	28074	(481.83)	232160.149	(13973.07)
2064/65	693	221	48841	38873	10317.17	106443996	2280095

						.8	
2065/66	901	429	184041	53010	24454.17	598006430.4	10490839
total	2830		∑x2=407968	∑y=171335		∑y2=1133350933	∑XY=21390108

X^=∑x/n =2830/6 = 472

Y^=∑y/n= 171335/6 = 28555.83

σ X= √∑x2/n = √407968/6 = 260.758

σY= √∑y2/n= √1133350933/6 =13743.79

covxy=∑xy/ n = 21390108/6 = 3565018

γxy= covxy/ σ X σY= 3565018/ 260.758 *13743.79 = 0.99

Calculation of Probable Error:

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

$$= 0.6745 \times \frac{1-(0.99)^2}{\sqrt{6}}$$

$$= 0.6745 \times \frac{1-0.9801}{2.4495}$$

$$= 0.005479$$

Annex- 5

Correlation coefficient between net income and total equity: (Rs. in million)

year	Net income (x)	X=x-x^	X2	Total equity (y)	Y=y-y^	Y2	XY
2060/61	153	(319)	101761	729	(1237.17)	1530589.61	394657.23
2061/62	232	(240)	57600	1180	(786.17)	618063.27	188680.8
2062/63	350	(122)	14884	1415	(551.17)	303788.37	67242.74
2063/64	501	29	841	1878	(88.17)	7773.95	(2556.93)
2064/65	693	221	48841	2687	720.83	519595.89	159303.43
2065/66	901	429	184041	3908	1941.83	3770703.749	833045.07
Total	2830		∑x2= 407968	∑y =11797		∑y2= 6750514.84	∑XY=1640372.34

X^=∑x/n =2830/6 = 472

Y^=∑y/n= 11797/6 = 1966.17

σ X= √∑x2/n = √407968/6 = 260.758

σY= √∑y2/n= √6750514.84/6 = 1060.70

covxy=∑xy/ n = 1640372.34/6 = 273395.39

γxy= covxy/ σ X σY= 273395.39/ 260.758 * 1060.70 = 0.98

Calculation of Probable Error:

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

$$= 0.6745 \times \underline{1-(0.98)^2}$$

$\sqrt{6}$

$$= 0.6745 \times \frac{1-0.9604}{2.4495}$$

$$= 0.01090$$

Annex

(Rs. in million)

Total assets:
cash + bank + money at call + investment + Bill purchase & discount + loan & advances + fixed Assets + other assets + preliminary expenses outstanding + Non banking expense

Year	Total Assets
2060/61	13255
2061/62	16391
2062/63	21732

2063/64	28074
2064/65	38873
2065/66	53010

Current assets:
Cash + bank + money at call + investment + bill purchase & discount + loans & advances + other assets

Year	Current assets
2060/61	13214.15
2061/62	16070.06
2062/63	21388.63
2063/64	27314.061
2064/65	38435.867
2065/66	52536.00

Equity:
paid up capital + general reserve + profit/loss

year	Total equity
2060/61	729
2061/62	1180
2062/63	1415
2063/64	1878
2064/65	2687
2065/66	3908

Investment:
Nepal government securities + company's share + other investment
= total investment

Year	Total investment
2060/61	3862
2061/62	3934
2062/63	5603
2063/64	6506
2064/65	6874
2065/66	7399

Total deposit:

current deposit + saving + fixed deposit + call + other

Year	Total deposit
2060/61	11525
2061/62	14255
2062/63	18927
2063/64	24489
2064/65	34452
2065/66	46698