

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Nepal is one of the least developed countries characterized by high population growth rate, low per capita income, and low rate of capital formation having unlimited resources. Therefore, Nepal like other developing countries has been facing the problem of accelerating the pace of economic development and Nepal is not the exception.

A sound banking system is a precondition for healthy economy and economic policy formulation. An efficient banking system becomes a top priority as country moves toward free market economy which allows private sectors saving to be retained in the country for the promotion of investment needed for the growth.

Capital formation and its proper utilization are two important aspect of economic development of a country. Private investment can be the significant contributor to economic growth and employment generation in the developing country. “Economic development demands transformation of saving into actual investment. And it is the financial institutions that transfer funds from surplus spending units to deficit units” (*NRB; 1996:4*). Economic development is supported by financial infrastructure of the country.

Banks are the principal source of credit for millions of individuals and families and for units of government. Moreover, for small local businesses ranging from grocery stores to automobile dealers, banks are often the major source of credit to stock the shelves with merchandise. Banks grant more installment loans to consumer than any other financial institutions.

In most years, banks are the leading buyers of bonds and notes issued by government to finance public facilities, ranging from hospital and football stadium to airport and

highways. Moreover, bank reserves the principal channel for government economic policy to stabilize the economy. And banks are also the most important sources of short-term working capital needed for the businesses. They have become increasingly active in recent years in making long-term business loans for new plant and equipment. When businesses and consumers must make payments for the purchase of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. It is the banker to whom they turn most frequently for advice and counsel when they need financial information and financial planning.

An investment in any funds is made to have some positive rate of return. Nobody is ready to bear risk without any return but to have returned one must ready to face some risk. To minimize the risk at the given rate of return the concept of portfolio diversification is necessary. Portfolio is simply a collection of securities gathered to achieve certain investment goals. "Investment positions are undertaken with the goal of earning some expected return. Investors seek to minimize inefficient deviations from this expected rate of return. Diversification is essential to the creation of an efficient investment because it can reduce the variability of returns around the expected return" (*Francis; 2003:228*).

The growth of any commercial bank depends upon its financing and investment policy. A sound financing and investment policy attracts both borrowers and lenders, which helps to increase the volume and quality deposits and investment. Both the depositors and creditors are customers of the banks. Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need purchase different types of products offered in the market. Deposit products offered to the customers are categorized into general products and special products. Mobilization of deposit simply by increasing the rate of interest is termed as general products and special products are developed in terms of schemes generally refundable at longer period of time. Customers choose the respective better general products and special products from among the products available in the market. Special products focus on some specific value and needs of the customers. Under this comes the

education scheme for the children, daughter's marriage scheme and retirement pension scheme, among others.

"A systematic investment process should be followed to win the stock market. Investment process describes how an investor should go about making decisions with regard to what marketable to invest in, how extensive the investment should be and when the investment should be made. A five step procedure for making these decisions forms the basis of the investment process" (*Baily; 1995:9*).

- ) Set Investment Policy
- ) Perform Security Analysis
- ) Construct a Portfolio
- ) Revise the Portfolio
- ) Evaluate the Portfolio

Loans are an essential aspect of commercial banking functions. "First income from loan contributes substantially to the revenues and profit of the bank. Second, lending money to people in the community strengthens the community-bank relationship. Third, lending money spurs business development and supports a growing economy (*Edmister; 1980:82*)." Credit being the most important function of commercial banks, affects overall development of the country. So far as pace of economic development is considered, it is directly related to the quality and quantity of credit, which is derived from various financial institutions especially commercial banks of Nepal.

Investment operation of commercial banks is very risky one. For this, commercial banks have to pay due consideration while formulating Investment policy. A rapid development of any commercial bank depends upon its investment policy. A sound investment policy attracts both borrowers and lenders, which helps to increase the volume and quality deposits and investment.

### **1.1.1 Introduction of Banks under Study**

#### **A.) Nepal Arab Bank Ltd (NABIL)**

Nepal Arab Bank Limited Nabil Bank, the 1st foreign joint venture Bank set up in the nation with an objective to introduce modern banking services, commenced its operations on 12th of July 1984 or 2041 Ashad 29 B.S. with Rs. 28 million capital. Dubai Bank Limited, Dubai was the foreign joint venture partner who extended Nabil a technical service agreement in the initial period. The Bank, through its quality customer service and innovative products, has today attained a distinguished recognition in the banking industry of Nepal. The first Joint Venture Bank in Nepal with a 23 Year old journey of History.

NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

From its inception period in 1984 as the first joint venture bank, to commence operations in the Kingdom of Nepal, the bank have been a leader in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be the Bank of 1st Choice to all of its stakeholders and customers. Customers to think of Nabil Bank first to meet any financial need of theirs. Nabil Bank would like investors to choose the Bank's share as a blue-chip stock whenever they are in search of an investment opportunity. For the customers, it want to be the first choice in meeting all of the financial requirements, for shareholders, it want to be the investment of choice, for regulators, it want to be an example of a model bank, It wants to be an example for the regulators in terms of professionalism and transparency. Nabil wants to be an actively participating 'good corporate citizen' in all the Communities that the Bank works. It want to be the first choice as an employer with whom to build a career and finally the entire Nabil Team embraces a set of Values that acronym is referred to as 'C.R.I.S.P.' representing the fact that we consistently strive to be Customer Focused, Result Oriented, Innovative, Synergistic and Professional. By

living these values, individually as professionals and collectively as a Team, Nabil Bank is committed to Surge Ahead to be the Bank of 1st Choice in Nepal.

NABIL bank is a full services bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and Master-Card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing. Main aim is to be able to meet customer's entire gamut of financial requirements that is why it prides us in being 'Your Bank at Your Service'

Nabil Bank Limited was the first joint venture bank established in 1984 with 50% invest by Dubai Bank Limited of UAE and of remaining 50% by Nepalese financial institutions comprise 30% and 20% by general public. The shares owned by DBL were transferred to Emirates Bank International Ltd (EBIL), Dubai. Later EBIL sold its entire holding go National Bank ltd, Bangladesh (NBLB). Hence 50% of equity shares of Nabil Bank Ltd are held by NBLB and out of remaining, financial institutions have taken 20% and 30% were issued to general public of Nepal. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 28 points of representation across the nation and over 170 reputed correspondent banks across the globe.

**Table: 1.1**

**Capital Structure of NABIL Bank Limited**

Capital as at 2007/08	Amount in Rs. '000'
Authorized Capital	1600,000
Issued Capital	689'21600
Paid up Capital	68921600

## **B.) Introduction of Everest Bank Limited**

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 32 branches. Punjab National Bank (PNB) is the joint venture partner (holding 20% equity in the bank). The bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London. The bank was bestowed with the “NICCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector.

Recognizing the value of offerings a complete range of services, we have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind. The banks performance under all parameters has been outstanding during the fiscal year 2064-65 after providing for income tax and statutory provisions there was a disposal net profit of Rs. 45 crore compared to Rs. 35 crore last year- an increase of 28.57 %. The bank was able to increase its operating profit by 31.9%, deposit by more than 38% and advances by 39% during the year compared to the corresponding period last year. During the last financial year, the Bank opened the 5 branches namely Golfutar, Kritipur, Bhaktapur, Surkhet & Lagankhel. At Present, EBL has Thirty Two Branches that spread out the nation. Everest Bank is first private commercial bank having largest network. Assets quality has improved by reduction of Non Performing Asset (NPA) to 0.065% from 1.27% in the previous year. This is one of the lowest NPA among the commercial bank in Nepal. Against the Paid-Up Capital by shareholders of Rs. 37.80 crore, the shareholders’ funds now amount to Rs. 119.87 crore – with Core Capital base of Rs. 81.67 crore. Earnings per Share have surged to Rs 62.78 from Rs

54.22. The local Nepalese Promoters hold 50% stake in the Banks equity, while 20% of equity is contributed by joint venture partner PNB whereas remaining 30% is held by the public.

**Table: 1.2**

**Capital Structure of Everest Bank Limited**

Capital as at 2007/08	Amount in Rs. '000'
Authorized Capital	20,00,000
Issued Capital	740,000
Paid up Capital	740,000

**1.2 Focus of the Study**

Nepal's entry into privately and publicly owned commercial/joint venture banks is relatively new compared to other countries. It can be said that the poor performance of Nepalese commercial banks as well as the national bank owes to the lack of effective policies and measures taken by the government towards the collective improvement of the Nepalese banking sector.

This study focuses on the financial performance of two joint venture banks, viz., Nabil Bank Limited and Everest Bank Limited. Ratio analysis has been used to assess the financial strengths and weakness of these banks.

**1.3 Statement of the Problem**

Banking institutions are inevitable for the resource mobilization and all-round development of the country. It is the resource for economic development; it maintains economic confidence of various segments and extends credit to people. In Nepal, the profitability rate, operating expenses, dividend distribution among the shareholders etc. have been found to be inconsistent. The problem of the study will ultimately find out the reason behind the differences in their financial performance.

The tendency to concentrate JVBs only in urban areas like Katmandu, Biratnagar and Pokhara etc. has raised the certain questions. This state of affairs cannot contribute much

to the socio-economic development of the country where 90% of the population lives in the rural areas and 81% of population depends upon agriculture. These JVBs are reluctant to extend their operation in rural areas. Despite the circular of NRB, the central bank of the country, regarding compulsory investment of 10% of their total investment in the rural areas, these banks are inclined to pay fines rather than direct their resources to such less profitable sector. This problem needs to be solved, so that even the small investors in the rural areas can benefit from the services of such banks. Moreover, even the existing branches of the commercial banks in the rural areas do not seem to have been able to mobilize the local resources effectively.

The mushrooming of banking, finance companies, rural banks, and co-operative societies in a short span of time has brewed new competitive scenario and has passed a challenge to the previously dominant banks like Nepal Arab Bank Ltd (now NABIL), Nepal Grindlays Bank Ltd. (now SCBNL) and Nepal Indo-Suez Bank Ltd. (now NIBL) who have been making attractive profits. In the changed scenario, these banks need to explore their strengths and weaknesses, and improve their performance because their success depends upon their ability to boost their productivity and financial performance.

The present study seeks to explore the efficiency and weakness of NABIL and EBL with the help of ratio analysis.

Thus, this study attempts to answer the following research questions:

- ) What is the comparative position of two banks in term of liquidity, profitability, turnover, leverage and capital adequacy?
- ) Is there any difference in financial performance between Nabil Bank Ltd. and Everest Bank Ltd.?
- ) How is the liquidity position of the banks?
- ) What is the overall financial status of banks?

## **1.4 Objectives of the Study**

The overriding objective of this dissertation is to study the financial performance of NABIL and EBL. To be more specific, this proposed study keeps the following objectives;

- ) To compare and analysis of various ratio between NABIL and EBL
- ) To examine the relative financial performance of NABIL and EBL in terms of different kinds of ratios.
- ) To assess the financial performance of these banks
- ) To provide a package of suggestions and possible guideline to improve the performance of EBL and NABIL.
- ) To analyze the deposit, investment and profit's trend and its projection for five years (2003/04-2007/08) of NABIL and EBL.

## **1.5 Significance of the Study**

The significance of the study can be highlighted through the following points;

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

## **1.6 Limitation of the Study**

The time was the major limitation of the study. As a partial fulfillment for the degree of Masters of Business Studies, it was supposed to be completed within three months.

- ) The scope of the study is limited within the framework of ratio analysis only. The study doesn't cover other financial performance analysis techniques.
- ) Reference of Journals and Articles could not be presented due to unavailability of suitable materials.
- ) Since the study is fully based on the secondary data collected from various sources, their relevancy will depend upon the authenticity of the publishers.
- ) The study has not paid attention toward the funds flow and cash flow patterns.

## **1.7. Organization of the Study**

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

### **Chapter-I: Introduction**

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, focus of the study, problems of the study, objectives of the study and need or significance of the study and limitation of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

### **Chapter-II: Review of Literature**

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field.

### **Chapter-III: Research Methodology**

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

### **Chapter-IV: Presentation and Analysis of Data**

This chapter analysis the data related with study and presents the finding of the study and also comments briefly on them.

### **Chapter-V: Summary, Conclusion and Recommendation**

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. This review of literature has been classified into three subgroups as follow.

- ) Conceptual Review
- ) Review of Journal and articles
- ) Review of Thesis

#### **2.1 Conceptual Review**

##### **2.1.1 Bank**

Banking, transactions carried on by any individual or firm engaged in providing financial services to consumers, businesses, or government enterprises. In the broadest sense, banking consists of safeguarding and transfer of funds, lending or facilitating loans, guaranteeing creditworthiness, and exchange of money. These services are provided by such institutions as commercial banks, savings banks, trust companies, finance companies, and merchant banks or other institutions engaged in investment banking. A narrower and more common definition of banking is the acceptance, transfer, and, most important, creation of deposits. This includes such depository institutions as commercial banks, savings and loan associations (more common in the United States), building societies, and mutual savings banks. All countries subject banking to government regulation and supervision, normally implemented by central banking authorities. For further information on central banks and investment banking, see the relevant articles.

##### **2.1.2 Concept of Commercial Bank**

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through

their lending and investing activities to borrowers, individual business firms and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are media through monetary policy is affected. These facts show that the commercial banking system of the nations is important for the functioning of the economy.

Banks are business firm; like Frisbee Manufacturer, fast food chains and textbook publishers, bankers buy inputs, message them a bit, burn a little incense, say the magic words, and out pop some output from the oven. If there lick holds, they sell the finished product for more than it costs to buy the raw materials in the first place. For bankers, the raw materials are money.

Evaluation of financial performance is a study of overall financial position of any organization. It is closely related to the decision making. In the modern context, it gives vital support for the investment decisions, financing decisions and dividend decisions. Financial performance analysis is undergone with the help of periodically made financial statements of the firm.

### **2.1.3 Financial statements**

“The Financial Statements are the means of presentation of a firm’s financial condition and basically consist of two types of statements - The Balance Sheet & Income Statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain summary of information regarding financial affairs that is organized systematically. The top management is responsible for preparing these statements.

The basic objective of financial statements is to assist in decision making. The analysis and interpretation of financial statements depend on the nature and type of information available there in” ( *Panday; 2004: 31*).

Hence financial statement refers to any formal and original statement that discloses the financial information related to any business concern during a period. The income

statements and balance sheet usually prepared at the end of each financial year show the firm's position.

#### A) Balance Sheet

“Balance sheet is one of the basic financial statements of an enterprise. It is also called the fundamental accounting report. As the name suggests, the balance sheet provide information about financial standing or a position of a firm at a particular point of time usually end of the financial year. It can be visualized as a snapshot of the financial status of a company” (*Khan and Jain; 1993:13*).

Balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment of time, usually at the end of the financial year. Balance sheet is a financial statement, which contains information regarding different capital expenditures made on purchase of assets on particular date and information regarding various sources of funds acquired by the business concern to finance these assets and also the different sources of capital and liabilities at that particular point of time.

#### B) Income Statement

“Income statement is designed to portray the performance of the business firm for specific period of time i.e. for a year or month or quarter. The business revenues and expenses resulting from the accomplishment of the firms operation are shown in the income statements. It is the “Scoreboard” of the firm's performance during particular period of time. It shows the summary of revenues, expenses and net income or loss of a firm for a particular period of time. Income statement also serves as a true measure of the firm's profitability”.

### **2.1.4 Financial Performance Analysis**

“Financial Analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data” (*Pandey; 1999:96*).

“Financial Statement Analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets, liabilities and owner’s equity of a business at a moment in time, usually the end of a year or a quarter. Next, the income statement summarizes the revenues and expenses of the firm over a particular period of time, again usually a year or quarter. While the balance sheet represents a snapshot of the firm’s financial position at a moment in time, the income statement depicts a summary of the firm’s profitability over time. From these two statements certain derivate statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows”(Van Horne; 1998:56).

“Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account" (Pandey; 2004:560). "Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm’s position and performance” (Metcalf; 1976:157).

“Financial Statement Analysis allows managers, investors and creditors as well as potential investors and creditors to reach conclusion about the recent and current status of a corporation. The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning. Analyzing of what has happened should be of great value in improving the standards, techniques and procedures of financial control involved in carrying out finance function” (Kuchhal; 1982).

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to form expectations about the future levels of earnings and dividends and about the risks of these expected values. Financial statement analysis generally begins with the calculation of a set of a financial

ratios designed to reveal the relative strength and weakness of a company as compared to other companies in the same industry, and to show whether the firm's position has been improving or deteriorating over time. Financial analysis is that sort of calculation, which is done with the help of annual report and the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis. "It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available" (*Helfert, 1992:2*).

"Financial appraisal is a scientific evaluation of profitability and financial strength of any business concern. Financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. A complete financial analysis and interpretation of financial statement involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results"(*Jain; 1996:36- 37*).

"Financial statement analysis involves a comparison of firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses" (*Weston and Fred; 1996:78*).

"Financial Performance Analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in

the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization” (*Hampton; 1998:99*).

"Much can be learnt about business performance and financial position through appraisal of financial statements, the appraisal or analysis of financial statements spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been buried in a maze of details" (*Jain; 1996:37*).

### **2.1.5 Objectives of Financial Performance Analysis**

Financial Analysis enables us to explore various facts related to the past performance of business and predicts about the future potentials for achieving expected results. Major objectives of analysis of financial statement are to assess various factors in relation to the business firm as presented below.

- ) The present and future earning capacity or profitability of the concern
- ) The operational efficiency of the concern as a whole, and of its various parts or departments.
- ) The short-term and long-term solvency of the concern.
- ) The comparative study regarding to one firm with another firm.
- ) The possibility of developments in the future making future forecasts and preparing budgets.
- ) The financial stability of business concern,
- ) The real meaning and significance of financial data,
- ) The long term liquidity of its fund.

### **2.1.6 Need of Financial Performance Analysis/ Financial Statement Analysis**

The need for the Analysis of financial statement arises in order to address the following questions (*Pradhan; 2003: 47-48*).

- ) How was the firm doing in the past? Was there any problem? If so, in what Area?
- ) How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?
- ) What about the future? Is there any likely problem on the way in the future and what will its position be in the future?
- ) What corrective actions can be taken now to solve the problems and improve the performance? How will the recommendation of any course of actions or changes in the policy or practice help solve problems and improve the company's position?
- ) What are the expected results of recommendations? Are there any improvements?

### **2.1.7 Significance of Financial Analysis**

Significance of Analysis lies on the objectives of financial analysis of any firm. The facts discovered by the analysis are perceived differently by different groups associated with the concern. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness are interpreted on the basis of objectives in the hand.

“Such Analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources”(Agrawal; 1993:582).

“The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be numerated as” (Srivastava; 1993:58-59)

- ) Top Management
- ) Creditors
- ) Shareholders
- ) Economists
- ) Labor Unions

#### **A) Top Management**

The responsibility of the top management is to evaluate:

1. Are the resources of the firm has been used effectively and efficiently?

2. Is the financial condition of the firm sound enough?
3. On the basis of past facts, firms can anticipate their future. Hence, top management can measure the success or failure of a company's operations, determine the relative efficiency of various departments, process and products appraise the individual's performance and evaluate the system of internal audit.

#### B) Creditors

The creditors can find out the financial strength and capacity of the borrower to meet their claims. Trade creditors are interested in the firm's ability to meet their claims over a short span of time. The suppliers of long term debt focus upon the firm's long term solvency and survival. A lending bank through an analysis of these statements can decide whether the borrower retains the capacity of refunding the principal and paying interest in time or not.

#### C) Shareholders

The shareholders, who have invested their money in the firm's shares are most concerned about the firm's earning. They evaluate the efficiency of the management and determine about the necessity for the change. In large company the shareholder's interest is to decide whether to buy, sell or hold the shares. They wish to buy the shares in case of sound performance of the firm where as they simply intend to hold the shares in the condition of satisfactory performance. But they are hurried to sell the shares in case of poor performance.

#### D) Economists

To diagnose the prevailing status of business and economy, economists analyze the financial statements (of any firm). The government agencies analyze them for the purpose of price regulation; rate setting and similar other purposes.

#### E) Labor Unions

Productivity is the synonym of well-motivated labors. Labor unions are interested in rights and benefits of labor to enhance the moral of labors. For further motivation they expect increase in wages, fringe benefits and so on. These benefits are affected by the company's profitability condition. Therefore the union assesses the financial condition of the firm to determine whether the firm is in the situation or not to make such facilities available.

### **2.1.8 Process of Financial Performances Analysis**

Financial Analysis basically financial statement analysis, is a technique of answering various questions regarding the performance of a firm in the past, present and the future on the basis of past performance. The analysis recommends the steps to be taken by financial managers while undergoing the assessment of financial position.

The questions, that as elucidated above create the need to follow certain steps such as first identification and analysis of problem in order to come up with appropriate recommendations, and then to project the expected results and examine them if there are improvements before implementing such recommendations. The following chart presents the process to be followed in the analysis of financial statements.

### **2.1.9 Types of Financial Performance Analysis**

“The nature of financial Analysis differs according to the purpose of the analyst. “a distinction may be drawn between various types of financial analysis either on the basis of material used for the same or according to the modus operandi of the analysis”( *Jain; 1996:154*)

#### **A) According to material used**

##### **1. External Analysis**

It is made by those who do not have access to the detailed records of the company. This group, which has to depend almost entirely on published financial statements, includes investors, credit agencies and governmental agencies regulating a business in a nominal way.

##### **2. Internal Analysis**

The internal analysis is accomplished by those who have access to the books of accounts and all other information related to the business. While conducting this analysis, the analyst is a part of the enterprise he is analyzing. Analysis for managerial purpose is the internal type of analysis and is conducted by executives and employee of the enterprise as well as governmental and court agencies which may have major regulatory and other jurisdiction over the business.

## **B) According to Modus Operandi Analysis**

### 1. Horizontal Analysis

When Financial Statements for a number of years are reviewed and analyzed, the analysis is called horizontal analysis. As it is based on data from year to year, rather than on one date or period of times as a whole, this is also known as dynamic analysis.

### 2. Vertical Analysis

It is frequently used for referring to ratios developed for one date or for one accounting period. It is also called static analysis.

## **C) According to Objective**

### 1. Long Term Analysis

This is made in order to study the long term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. For the long run success of a business concern, this analysis helps in the long term financial planning.

### 2. Short Term-Analysis

This is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business. This analysis is helpful for short term financial planning.

## **2.1.10 Techniques of Financial (Statement) Analysis**

The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms. There are various tools and techniques of financial statement analysis, each of which is used according to the purpose for which the analysis is carried out. The widely used techniques are as follows:

- a. Ratio Analysis
- b. Du Pont System of Financial Statement Analysis
- c. Common Size Analysis
- d. Funds Flow Analysis
- e. Cash Flow Analysis

### **a. Ratio Analysis:**

Ratio Analysis has been used as a major tool in the interpretation and evaluation of financial analysis. The term ratio refers to the numerical quantitative relationship between the two items/variables. A ratio is calculated by dividing one item of the relationship with the other base. In financial analysis, a ratio is used as a yardstick for the evaluation of financial performance of the firm. "The analysis of financial ratio involves two types of comparison. First, the present ratio may be compared with the past and expected future ratios for the same company and second, the method of comparison involves comparing the ratios of one firm with those of similar firm or with industry averages at the same point, in time. Such comparison gives insight into the financial performance of the firm." Ratio analysis is widely in use. It may not give the entire picture of an enterprise. Ratios themselves are not conclusion. They are only the means. The Ratios are calculated from data available in the financial statement of an enterprise. The Ratio completed from the available data are numerical, there should not be the tendency to regard them as a precise portrayals of a firm true financial status. For some firms, accounting data may closely approximate economic reality, for others, it is necessary to go beyond the figures in order to obtain their financial condition of performance.

### **Types of Ratios**

Different Ratios can be calculated from the available data in the financial statement. Broadly Ratios are classified in four groups. They are:

- i) Liquidity ratios
- ii) Capital structure/leverage ratios
- iii) Activity (assets management) ratios
- iv) Profitability ratios

#### **i) Liquidity Ratio**

Liquidity refers to the ability of enterprises to pay its current liabilities. Liquidity implies the utilization of such funds of the firm which are idle or in very little amount. A proper balance between the two contradictory requirements i.e. liquidity and profitability are required for the efficient financial management. The more current assets associated with

high liquidity and low profitability and vice versa. The less current Ratio and quick Ratio are the most widely used ratios for the general purpose to measure the liquidity position of an enterprise.

### **ii) Capital Structure/Leverage Ratios**

The Capital Structure/Leverage Ratio is associated with the long -term solvency of an enterprise. The long -term creditors would judge the soundness of a firm on the basis of long term financial strength measured in terms its ability to pay the interest regularly as well as repay the installment of principal due to dates or in one lump sum at the time of maturity. Leverage Ratios show how much of an enterprise's fund are financed by debt & equity. These Ratios also show the prospects for future financing.

The Capital Structure Ratio indicates the soundness of capital structure of an enterprise. It can be calculated on two ways. The first approach is to examine what proportion of borrowed capital occupies the capital structure i.e. calculated the Debt to Total Capital Ratio. The second approach is to examine the number of times the interest earned covered by earnings and to calculate the fixed charges covered by earnings.

### **iii) Activity Ratio**

An Activity Ratio may be defined as the test of relationship between sales and various types of Activity Ratios. Activity Ratios are employed to evaluate the efficiencies with which the firm manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which the assets are being covered or turned over into sales. So Activity Ratios presume that there exists an appropriate relationship between sales and various assets. The more important Activity Ratios for general - purpose analysis are Inventory Turnover Ratio, Total Assets Turnover Ratio, Fixed Assets Turnover Ratio, Capital Employed Turnover Ratio etc.

### **iv) Profitability Ratio**

Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure

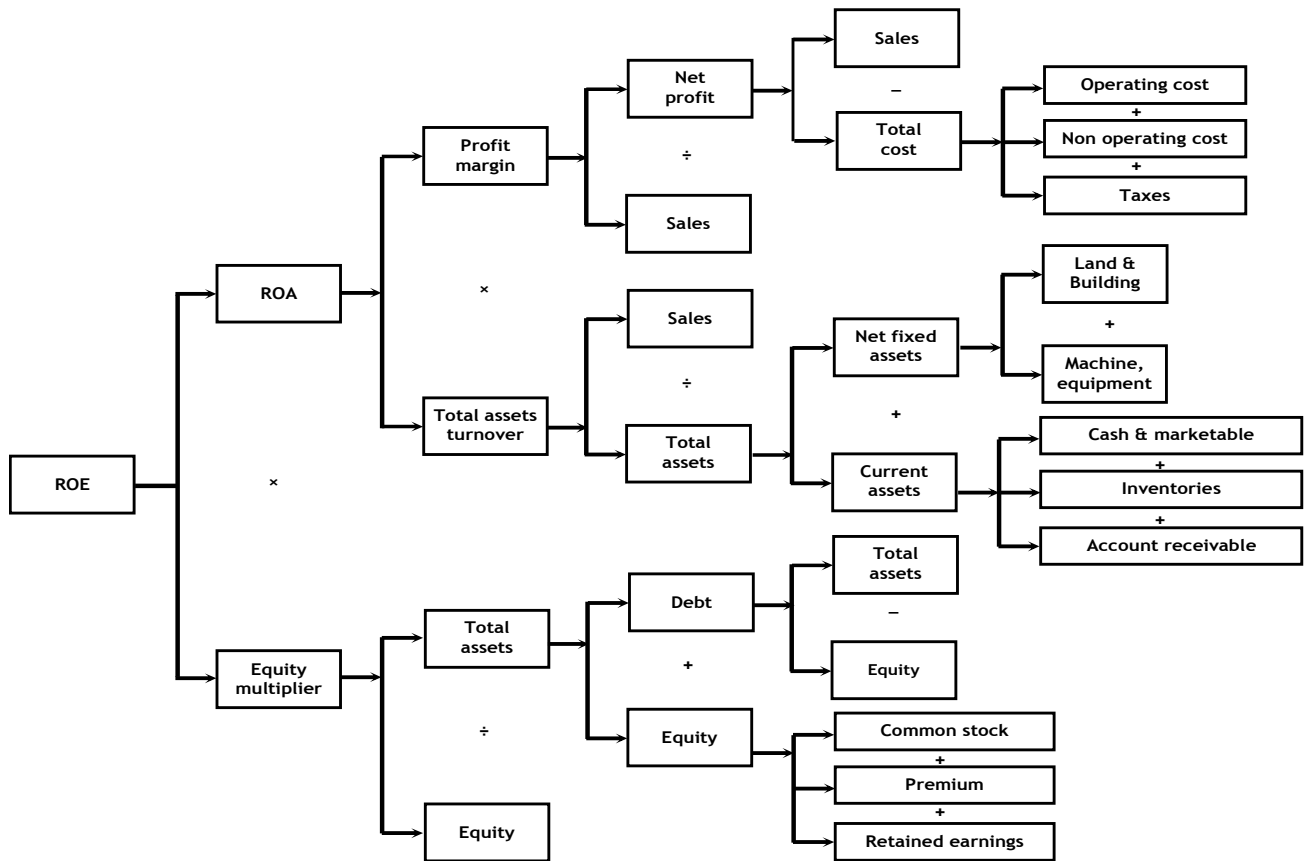
the operative effectiveness of an enterprise. Besides management of the company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc. Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation (*Panday; 1998: 133*).

### **b. Du Pont System of Financial Statement Analysis**

“The Du Pont system is designed to show how the profit margin on sales, the assets turnover ratio and the use of debt interact to determine the rate of return on equity” (*Weston;1996-307*)

The Du Pont system of financial statement analysis is developed by the financial experts of the Du Pont Company by putting together the effects of profitability, investment and the equity ratios. The approach is based on the relationship among the three basic areas of the firm such as (i) cost controlling area (ii) Assets management area and (iii) Financial leverage area. The directed to address the concern of the shareholders; hence its main focus is on the return on equity (ROE)The ROE is analyzed in terms of the factors that directly affect the ROE. The factors such as costs, assets utilization and leverage ratio are the grounds on which several test are made to see how the ROE is affected by such factors. The following modified Du Pont Chart presents the relationship among these factors and ROE.

**Figure 2.1**  
**Du Pont System of Financial Analysis**



*Source: Weston and Brigham; 9<sup>th</sup> Edition: P99.*

For a business firm, the return on assets (ROA) is the rate of return on the total investment that includes both equity and debt capital. The ROA does not reflect the actual rate of return to equity holders. What reflects the return for stock holders is the return on their money (i.e. ROE), which is generally higher than the ROA. Thus ROA is an overall measure and reflects the overall performance of the company. The Du Pont system addresses the concerns of stockholder and focuses on ROE.

Du Pont equation defines ROE as a product of ROA and equity multiplier and ROA as a product of profit margin and total assets turnover.

The Du Pont equation is as follows:

$$\begin{aligned}\text{ROE} &= \text{ROA} \times \text{equity multiplier} \\ &= \text{profit margin} \times \text{total assets turnover} \times \text{equity multiplier} \\ &= \text{Net profit/sales} \times \text{sales/total assets} \times \text{total assets/ equity}\end{aligned}$$

### **c. Common Size Analysis**

The common size analysis is another technique of analyzing the items of financial statement on relative terms. Under this method, the percentage of every item in the income statements and balance sheets is carried out for past several years to determine the performance trend of each item during the period under analysis. After analyzing the rising, falling or constant trend of efficiency in the business operation one can make comparison with the industry average or competitors.

The common size analysis is carried out for a period of one or more. The income statement items are divided by sales and expressed as a percentage of sales. The balance sheets items are divided by total assets and expressed as percentage of total assets. These percentages for a company are compared with the standard measures such as percentages calculated in the same manner industry and the competitors. Thus, the comparison shows the company's performance relative to competitors as well as compared to its own past record.

### **d. Funds Flow Analysis**

Funds flow Analysis is the statement of changes in financial position of any organization that determines only the sources and used of fund between two dates of balance sheet. It is prepared to uncover the information that financial statements fail to describe clearly. It describes the sources from which funds were derived and used to which these funds were put.

The statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to the changes in owner's equity. It also uncovers the way of using financial resources during the period by the firm.

Method of preparing funds flow statement depends essentially upon the sense in which the term 'fund' is used. There are three concept of fund: cash concept, total resources concept and working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept refers total assets and resources as fund. The term 'fund' represents only to working capital on the stated last concept However, working capital concept of fund has gained wide acceptance as compared to the other concepts. Therefore any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Any transaction that decreases working capital is treated as application. But, any transaction that affects current liabilities or current assets without resulting any changes in working capital is not taken as sources or use.

#### **e. Cash Flow Analysis**

This statement is carried out to know clearly the various items of inflow outflow of cash. It is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It deals the causes of changes in cash position for the period of two balance sheets date in brief. At the time of preparing cash flow statement, only cash receipt from debtors against credit deals are considered as the source of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose are regarded as the uses of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

#### **2.1.11 Limitations of Financial Performance Analysis**

Financial Performance Analysis is of great significance for investor, creditor, management, economist, and other parties having interest in business. It helps management to evaluate its efficiency in past performance and takes decision relating to the future. Its limitations are listed below.

(a) Historical nature of financial statements:

The basic nature of statements is historical. Past can never be a precise and can never be

perfectly helpful for the future forecast and planning.

(b) No subject for judgment:

Financial analysis is a tool to be used by experts, analysts etc. to evaluate the financial performance of firm. That's why it may lead to faulty conclusion if used by unskilled analyst.

(c) Reliability of figures:

Reliability of Analysis depends on reliability of the figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the income statement, window dressing in the balance sheet, questionable procedures adopted by the accountant for the valuation of fixed assets and such other facts.

(d) Single year analysis is not much valuable:

The analysis of these statements relating to single year only will have limited use and value. From this, one can not draw meaningful conclusion.

(e) Result may have different interpretation: Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the cause of inefficiency of the management due to under-utilization of fund.

(t) Change in accounting methods:

Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

(g) Pitfall in inter-firm comparison:

When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of the firm as compared to the whole industry.

(h) Price level change reduces the validity of analysis:

The continuous and rapid changes in the value of money, in the present day, economically also reduces the validity. Acquisition of assets at different level of prices make comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting periods.

(i) Selection of appropriate tool

There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of the analyst. If wrong tool is used, it may lead to wrong conclusion. This may be harmful to the interest of business.

## **2.2 Review of Journal and Articles**

Under this heading, reviews of research papers of researchers are analyzed to find out the investment policies of commercial banks.

Thapa (1994), expresses his views in his research paper “*Financial System of Nepal*” that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to high credit needs particularly by newly emerging industries, the bank still seems to lack adequate funds. The banks are increasing their lending to non – traditional sectors along with the traditional sectors. Out of all commercial banks (excluding two recently opened regional commercial banks), Nepal Bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit, the later turning towards negative from time to time. Because of growing competition and limitation of investment sectors, the spread between interest income and interest expenses is declining. These banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected. On the other hand, the foreign joint venture banks have been functioning in an efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

He concludes that by its very nature of the public sector, these two domestic banks couldn't compete with the private sector banks, so only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Pradhan (2003) in his research paper “*Role of Saving, Investment and Capital Formation in Economic Development, A case of Nepal,*” has studied about the strong role and impact of saving, investment and capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equations used in this study have been estimated at current prices as well as in real terms with the entire study period divided into different sub periods.

The results presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to three important conclusions: First, saving, investment and capital formation have positive impact on economic development. Second, the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving and capital formation on economic development while weak role-played by investment.

### **2.3 Review of Thesis**

Tuladhar (2000) conducted a study on “*A Study on Investment Policy of Nepal Grindlays Bank Limited in Comparison to Other Joint Venture Banks of Nepal*” with the objective of:

1. To study the fund mobilization and investment policy with respect to fee-based off – balance sheet transaction and fund based on balance sheet transactions.
2. To study the liquidity, efficiency of assets management and profitability position.
3. To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.
4. To perform an empirical study of the customer’s views and ideas regarding the existing services and adopted invested policy of the Joint venture banks.

The study is mainly based on secondary data and in some aspects of the study primary data are also collected through questionnaire survey of 100 respondents.

The research findings of the study are as follows:

- ) From the analysis of primary data concerning in which sector should JVBs invest; 28.37% respondents emphasized on educational sector to be invested by these JVBs as the potential investment sector. Consequently poverty stricken and deprived sector was given second priority (26.24), whereas industrial sector (18.44), tourism sector (16%), agricultural sector (16%) , and construction sector (4.25) are given third, fourth, fifth and sixth priority respectively.
- ) The mean of total investment to total deposits ratio of Nepal Grindlays Bank Ltd. Is higher than the other JVBs. The mean of the loan and advances to total deposits ratio of Nepal Grindlays Bank Ltd. is less and inconsistent than NABIL Bank Ltd. and Himalayan Bank Ltd.
- ) Loan and advances to working fund ratio of Nepal Grindlays Bank Ltd. was found less than the mean ratio of other banks. Investment on government securities to working fund ratio of Nepal Grindlays Bank Ltd. had the highest mean ratio than NABIL Bank Ltd. and Himalayan Ltd. during the study period.
- ) It was found that total Off-balance sheet operation to loan and advances ratio of Nepal Grindlays Bank Ltd. is found to be of highest mean ratio than that of NABIL Bank Ltd. and Himalayan Bank Ltd. it means Nepal Grindlays Bank Ltd. used to perform highest off-balance sheet operation than the other two JVBs i.e., used to give priority to provide letter of credit, guarantee and others (e.g. trade finance) excessively than to others. The mean of investment on shares and debentures to total working fund ratio of Nepal Grindlays Bank Ltd. was found less than NABIL Bank Ltd. but higher than Himalayan Bank Ltd.
- ) The profitability position of Nepal Grindlays Bank Ltd. is higher than NABIL Bank Ltd. and Himalayan Bank Ltd. as well as it use to provide interest to the customers for different activities consistently. The volume of growth ratio of loan and advances of Nepal Grindlays Bank Ltd. is found higher than that of NABIL Bank Ltd. but lower than Himalayan Bank Ltd. It indicates that all the JVBs used to provide loan and advances in increasing manner. From the analysis of growth

ratio of total investment it is found that Nepal Grindlays Bank Ltd. and NABIL Bank Ltd. have negative growth ratio i.e., they Used to reduce the investment during the study period. But it is increasing in the case of Himalayan Bank Ltd.

- ) The growth ratio of net profit of Nepal Grindlays Bank Ltd. seemed to be more Satisfactory than NABIL Bank Ltd. but in case of Himalayan Bank it seemed to be very high.

Kapadi: (2002) has conduct research on "*A Comparative Study on Performance of NABIL Bank Ltd and Standard Chartered Bank Limited.*" The study of this thesis is the descriptive analytical method. The core objective of this thesis is to analyze the financial performance of NABIL bank and SCBNL this includes the examining of liquidity capital structure and activity and profitability ratios of the ratio joint venture sample banks.

The specific objectives of his research are:

1. To examine the trend of deposits and loan and advances of NABIL bank and SCBNL.
2. To study the liquidity profitability capital structure activity and capital adequacy position of NABIL bank and SCBNL.
3. To suggest and recommended some measures by evaluating and finding financial performance of NABIL bank SCBNL on the basis of finding.

From the detail analysis the research finds the following findings of the study.

He found that most of the capital structure ratios show that the capital structure of both the banks is highly leveraged.

- ) Total debt to equity ratio of both the banks reveals that the claims of the outsider exceeds mere than that of the owner's over the bank asset. However NABIL bank seems to be more leveraged than SCBNL.
- ) Total debt to total assets ratio of both the banks has always been over 88, which indicates the excessively geared capital structure. Comparatively NABIL bank has used a little more debt financial than SCBNL. Long-term debt to total assets ratio

- of NABIL bank is seems to be greater as per mean, which shows more use of long-term debt by NABIL bank than by SCBNL.
- ) Long-term debt to net worth ratio of both the banks is following the fluctuating trend. The mean proportion of outsiders fund and owners fund employed in the total capitalization of NABIL bank is higher than that of SCBNL. This implies that it is following an aggressive strategy of higher risk higher return policy.
  - ) The fixed asset to net worth ratio of NABIL bank is higher than that of SCBNL as per mean ratio. But the investment of owners' equity in fixed assets for both the banks are minimum as is commonly seen in various financial institutions.

Loudari (2003) conducted a study on “A Study on Investment Policy of Nepal Indosuez Bank Ltd. in Comparison to Nepal SBI Bank Ltd.” with the objective of:

1. To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.
2. To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI bank ltd.
3. To analyses relationship between deposit and investment, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. In comparison to Nepal SBI Bank Ltd.

The research findings of the study are as follows:

- ) Current ratios for both the banks are satisfactory.
- ) Nepal SBI Bank Ltd. has increased investment in government securities where as Nepal Indosuez Bank has decreased.
- ) Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd.
- ) Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser amount on government securities and shares and debenture than that of Nepal SBI Bank.

- ) Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.
- ) The analysis of growth ratios shows that growth ratios of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank are less than that of Nepal SBI Bank.
- ) The trend value of loan and advances to total deposits ratio is decreasing in case of both banks. The trend value of total investment to total deposits ratio is also decreasing in case of both banks

Shrestha, (2004) on his thesis entitled “*Role of Rastriya Banijya Bank in Priority Sector Credit & It's Recovery*” has tried to reveal the following objectives:

1. To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.
2. To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.
3. To examine the situation of deprived sector credit (DSC) of RBB.
4. To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB.(Purpose wise)

The major findings made by the researcher are as follows:

- ) Bank’s total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC.
- ) RBB is very much success in complying the NRB policy.
- ) Bank was not able to fully utilize the collected deposits in a proper way.
- ) The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend.
- ) Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector.

) The trend values of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

Shrestha, (2005) in his thesis "*Financial Performance Analysis of Nepal Bangladesh Bank Ltd*" In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The specific objectives of his research are:

1. To analyze the functions, objectives procedure and activities of the NB bank
2. To analyze the lending practices and resources utilizations of NB bank.
3. To determine the impact of growth in deposit on liquidity and lending practices.
4. To examine the lending efficiency and its contribution to profit.
5. To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

The researcher found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged.

The research findings of the study are summarized as:

) NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances.

- ) The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank
- ) Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

Gautam: (2006) has conduct research on "*A Comparative Study on Financial Performance of Standard Chartered Bank Limited and Nepal Bangladesh Bank Limited*" Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

The objectives of his research are:

1. To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
2. To access the debt servicing of the joint venture commercial bank.
3. To examine the correlation and the signification of their relationship between different ratios related to capital structure.
4. To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.
5. To obtained the objectives, some financial, statistical and accounting tools.

He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data.

The research findings of the study are as follows:

- ) The research sample JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim.
- ) The on an average, NBBL bank constitutes 16.27 times of P/E ratio, which should be reduce as quickly as possible.
- ) The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks.
- ) The average ROE of JVB's i.e. SCBL and NBBL area 37.36% and 21.75% respectively.

Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank

Limbu, (2008) in his dissertation "*Credit Management of NABIL Bank Limited*" highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

The main objectives of the research study are as follow.

1. To evaluate various financial ration of the Nabil Bank.
2. To analyze the portfolio of lending of selected sector of banks
3. To determine the impact of deposit in liquidity and its effect on lending practices.
4. To offer suitable suggestions based on findings of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

The research findings of the study are as follows:

- ) Assets management position of the bank shows better performance in the recent years. Non-performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.
- ) In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio poses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio.
- ) In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances.
- ) Earning per share and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.
- ) Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Methodology**

The topic of the study has been selected as “The Comparative study on Financial Performance of Nabil Bank Ltd. and Everest Bank Ltd.” The sole objective of this study is to compare the financial performance in order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology

#### **3.2 Research Design**

A research design is an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data-collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically research design describes the general plan for collecting, analyzing and evaluating data after identifying.

A research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz. (i) selection of problem (ii) methodology (iii) data gathering (iv) Data analysis and (v) report writing. The Present study follows the descriptive as well as exploratory design to meet the stated objectives of the study. The crux of the research is

to analyze NABIL and EBL in relation to credit disbursement and recovery as well overall management.

### **3.3 Population and Sample**

The objective of the study is to explore and describe the financial performance of commercial bank in Nepal from the investor's point of view. However, with regard to the availability of the financial information, two samples were identified purposively from the banking sector.

Here, the total 26 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. So among the various commercial banks in the banking industry, Here Nabil bank Ltd and Everest Bank Limited has been selected as sample for the present study. Likewise, financial statements of five years are selected as samples for the purpose of it.

The selected banks for present study are:

Nabil Bank limited

Everest Bank Limited

### **3.4 Nature and Sources of Data**

There are two sources of data collection. The present study is based on secondary source of data. All the adequate data are collected from secondary sources.

This refers to data that are already used and gathered by others. For the major sources of secondary data are Annual Report of concern Bank, Internet and E-mails, NRB directives and Economy survey of Government of Nepal and Ministry of finance

### **3.5 Data Collection Procedure**

Different tools and techniques were adopted while collecting the data for this study. Collected secondary information was analyzed during the course of the deskwork. However, during the desk study, an information gap was found. This gap was fulfilled by the discussion with the thesis advisor and finance experts of the security board and the NEPSE.

### **3.6 Data Analysis Tools**

Presentation and analysis of data is one of the important part of the research work. The collected raw data will first be presented in systematic manner in tabular form and then will be analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these some graph charts and tables will be presented to analyze and interpret the findings of the study. The tools applied are-

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#### **3.6.1 Financial Tools**

##### **i) Liquidity Ratios:**

This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligations. As a Financial Analytical tools, following liquidity ratios will be used.

##### **a.) Current Ratio:**

This ratio shows the bank's short-term solvency. It shows the ratio of current assets over the current liabilities. This ratio can be computed by dividing the total current assets by total current liabilities, which can be presented as:

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

Higher ratio indicates the strong short-term solvency position and vice-versa.

**b.) Cash and Bank Balance to Total Deposit Ratio:** Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio can be computed by dividing cash and bank balance by total deposit and can be presented as:

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash \& bank balance}}{\text{Total deposits}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes deposits made by customers through different accounts like current (demand deposit), saving, fixed deposit, call deposit and other deposit accounts.

**c.) Cash and Bank Balance to Current Assets Ratio:** This ratio measures the proportion of most liquid assets viz. cash and bank balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash. The ratio is computed by dividing cash and bank balance by current assets, presented as under;

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash \& bank balance}}{\text{Current assets}}$$

**d.) Investment on Government Securities to Total Current Assets Ratio:** This ratio is calculated to find out the percentage of current assets invested on government securities viz. treasury bills and development bonds. The ratio is stated as under;

Investment on Govt. securities to total current assets ratio =

$$\frac{\text{Investment on Govt. Securities}}{\text{Current assets}}$$

## **ii) Assets Management Ratios:**

Asset management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective

utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

**a.) Loan and Advances to Total Deposit Ratio:** This ratio is also called credit- deposit ratio (C D ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under;

$$\text{Loan and Advances to total deposit ratio} = \frac{\text{Loan \& advances}}{\text{Total deposits}}$$

**b.) Total Investment to Total Deposit Ratio:** Investment is one of the major forms of credit creation to earn income. This implies the utilization of firm's deposit on investment on government securities, shares and debentures of other companies and banks. This ratio can be calculated by total investment divided by total deposit as:

$$\text{Total investment to total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposits}}$$

**c.) Loan and Advances to Working Fund Ratio:** Loan and advances is the major component in the total working fund (total assets), which indicates the ability of bank to utilize its deposits in the form of loan and advances to earn high return. The ratio is computed by dividing loan and advances by total working fund, which is stated as under;

$$\text{Loan and advances to working fund ratio} = \frac{\text{Loans and advances}}{\text{Total working fund}}$$

**d.) Investment on Government Securities to Total Asset Ratio:** This ratio shows that bank's investment on government securities in comparison to the total working fund. This ratio can be computed by dividing investment on government securities by total working fund, which can be presented as;

Investment on Govt. Securities to total working fund =

$$\frac{\text{Investment on Govt. Securities}}{\text{Total working fund}}$$

### iii) Profitability Ratios:

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher. Under this, the following profitability ratio will be computed.

**a.) Return on Loan and Advances Ratio:** This ratio indicates how efficiently the bank utilizes its resources in the form loans and advances. This also measures the earning capacity of its loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which can be expressed as;

$$\text{Return on loan and advances ratio} = \frac{\text{Net profit (loss)}}{\text{Loans \& advances}}$$

**b.) Return on Total Asset Ratio (ROA):** This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as;

$$\text{Return on total working fund ratio (ROA)} = \frac{\text{Net profit (loss)}}{\text{Total working fund}}$$

The numerator indicates the portion of income left to the internal equities after deduction all costs, charges and expenses.

**c.) Return on Equity (ROE):** Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the bank has used funds of the shareholders. This ratio can be computed by dividing net profit by total equity capital (net worth). This can be calculated as;

$$\text{Return on Equity (ROE)} = \frac{\text{Net profit (loss)}}{\text{Total equity capital}}$$

**d.) Total Interest Earned to Total Asset Ratio:** This ratio is computed to find out percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working funds. This fund is computed by dividing total interest earned by total working fund can be presented as;

$$\text{Total interest earned to total working fund ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

**d.) Interest Income to Total Income Ratio:** This ratio measures the volume of interest income in total income of the bank. The high ratio indicates the high contribution made by the lending and investing and vice-versa. This ratio can be completed by dividing interest income by total income presented as under;

$$\text{Interest income to total income ratio} = \frac{\text{Interest income}}{\text{Total income}}$$

**c.) Interest Expenses to Total Expenses Ratio:** This ratio measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operation efficiency and vice-versa. This ratio is calculated by dividing interest expenses by total expenses, which can be presented as under;

$$\text{Interest expenses to total expenses ratio} = \frac{\text{Interest expenses}}{\text{Total expenses}}$$

**e.) Total Interest Paid to Total Working Fund Ratio:** This ratio depicts the percentage of interest paid on liabilities with respect to total working fund, which can be presented as;

$$\text{Total interest paid to total working fund ratio} = \frac{\text{Total interest paid}}{\text{Total working fund}}$$

#### iv.) Risk Ratio

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization can not achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the NABIL and EBL.

**A) Credit Risk Ratio:** Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total Loan and Advances.

Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of no-performing assets in total Loan and Advances. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice-versa.

**(B) Liquidity Risk Ratio:** The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

## **vi. Other Ratio**

**a) Earning per Share (EPS):** EPS refers to net profit divided by total numbers of share outstanding. EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as;

$$\text{Earnings per Share (EPS)} = \frac{\text{Net profit (loss)}}{\text{Total number of shares outstanding}}$$

## **b) Market Price per Share**

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

## **c) Price Earning Ratio**

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Here, total equity capital includes shareholders' reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

## **2.6 Statistical Tools**

Some important statistical tools will be used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis will be used.

**i) Mean:**

A mean is the average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

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

Where,  $\bar{X}$  = Mean of the values

$\sum X$  = Summation of the values

N = No. of Observations

**ii) Coefficient of variation:**

The calculated standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation (C.V.) is given by the following formula in the percentage basis:

$$\text{Coefficient of variation (C.V.)} = \frac{s}{\bar{X}} \times 100$$

**iii) Measures of Correlation:**

We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measure the performance of these banks. Correlation refers to the degree of relationship between two variables. If between two variables, increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient describes the degree of relationship between two variables. It interprets whether variables are correlated positively or negatively. This tool analyses the relationship between those variables by which it is helpful to make appropriate investment policy for profit minimization. The Karl Pearson coefficient of correlation (r) is given by following formula:

$$\text{Coefficient of Correlation (r)} = \frac{\sum xy}{N \sqrt{\sum x^2 \sum y^2}}$$

Where,

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

$$y = \frac{\sum Y}{N}$$

$t_1$  = Standard series of X

$t_2$  = Standard series of Y

N = Number of pairs of Observations

The Karl Pearson coefficient of correlation always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and in plus signifies the positive correlation. As the value of correlation reaches to the value of zero, it is said that there is no significant relationship between the variables.

#### **iv) Trend Analysis:**

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trends line following formula can be used:

$$y = a + bx$$

Where,

y = Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

## **CHAPTER - IV**

### **PRESENTATION AND ANALYSIS OF DATA**

Introduction review of literature and research methodology is presented in the previous chapters that provide the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data. In this chapter, researcher has analyzed and diagnosed Financial Performance of Nabil Bank and Everest Bank Limited. Different tables and diagrams are shown to make the analysis simple and understandable.

#### **4.1 Financial Analysis**

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed.

Various financials ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial Banks i.e. NABIL and EBL. Some important financial rations are only calculated in the point of view of fund mobilization and investment patterns. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

##### **4.1.1 Ratio Analysis**

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. Four

main categories of ratios have been taken in this study that is mainly related to financial performance of banks.

#### 4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity posting to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

#### A) Current Ratio

This ratio measures the liquidity position of the commercial banks. It indicates the ability of Banks to meet the current liquidity.

**Table No. 4.1**  
**Current assets to current liability (in times)**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	2.10	2.08	2.08	1.83	1.34	1.89	0.321	0.17
EBL	1.17	1.14	1.13	1.16	1.10	1.14	0.027	0.024

*Source:* Appendix 1 and 2

Above table shows the current ratio of selected commercial banks during the study period. The current ratio of NABIL bank is in decreasing trend and EBL is fluctuating trend. In general, it can be said that all the banks have sound ability to meet their short-term obligations. In the case of NABIL C.R. has high ratio in each year except in 2007/08. In an average, liquidity position of NABIL is greater than EBL i.e.  $1.89 > 1.14$  due to high mean ratio. So, NABIL is sound in meeting short-term obligation than EBL. Likewise, S. D. and C.V. of EBL is less than NABIL i.e.  $0.321 > 0.027$  and  $0.17 > 0.024$ . It can be said that C.R. of EBL is more consistent than NABIL. Lastly, from the above

analysis it is known that all these two banks have better liquidity position because the standard ratio is 2:1. They have met the standard ratio.

### **B) Cash and Bank Balance to Total Deposit Ratio**

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. Following table shows cash and bank balance to total deposit of NABIL and EBL during the study period.

**Table No. 4.2**  
**Cash & Bank Balance to Total Deposit Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	6.88	3.83	3.26	5.99	8.37	5.67	2.124	0.375
EBL	7.8	10.4	11.2	13.1	11.1	10.7	1.9	0.177

*Source:* Appendix 1 and 2

The above Table No. 4.2 reveals that the Cash and Bank Balance to Total Deposit Ratio of NABIL and EBL are in fluctuating trend. The highest ratio of NABIL is 8.37% in FY 2007/08 and lowest is 3.26% in FY 2005/06. Similarly, the highest ratio of EBL is 13.1% in FY 2006/07 and lowers in 7.8 % in 2003/04. The mean ratio of NABIL and EBL are 5.67% and 10.7% respectively. EBL has higher ratio than the NABIL which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of NABIL is 0.375 times and EBL is 0.177 times. S.D. of EBL is lower than the NABIL

The above analysis has to conclude that the cash and bank balance position of EBL with respect to NABIL is better in order to serve its customer's deposits. It implies the better liquidity position of EBL from the view point of depositor demand. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds income generating areas. Thus EBL should invest in more productive

sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

### C) Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the firms as per cash and bank balance. Higher the ratios, better the ability of the firms to meet the daily cash requirement of their customers. But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such manner that firm may not be paid interest on deposits and may not have liquidity crisis.

Following the states the cash and bank balance to current assets NABIL and EBL during the study period.

**Table No. 4.3**  
**Cash & Bank Balance to Current Asset Ratio**

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	8.57	6.33	4.55	8.25	13.27	8.20	3.267	0.398
EBL	6.6	9.1	9.8	11.2	9.9	9.3	0.017	0.18

*Source:* Appendix 1 and 2

The above table reveals that cash and bank balance to current assets ratio of NABIL and EBL are in fluctuating trend. The mean ratio of NABIL and EBL is 8.20% and 9.3% respectively. The higher mean ratio shows EBL's liquidity position is better than that of NABIL. Moreover the .S.D and C.V. of NABIL is higher than EBL. The higher C.V. of NABIL indicates that it has more inconsistency in the ratios in comparison to EBL

Regarding the above analysis, it can be concluded that EBL has a better ability to meet daily cash requirements of their customers but it should be noted that EBL has excess cash due to the low investment opportunities.

#### **D) Investment on Government Securities to Current Assets Ratio**

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different securities issued by government in different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market or they can be converted into cash, they are not very liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but less return is generated than others risky assets.

**Table No. 4.4**

#### **Investment on Government Securities to Current Assets Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	51.78	34.91	16.60	28.36	23.09	30.95	13.45	0.434
EBL	25.2	16.1	21.0	17.0	12.0	18.3	5.01	0.274

*Source:* Appendix 1 and 2

The table 4.4 shows investment on government securities to current assets ratio of NABIL and EBL. Both Banks has fluctuating type ratios. The table shows the highest ratio of NABIL is 51.78% in FY 2003/04 and lowest is 16.60% in FY 2005/06. In the same way, the highest ratio of EBL is 25.2% in FY 2003/04 and lowest is 12% in FY 2007/08.

The mean ratio of NABIL is 30.95 percent, which is higher than the mean ratio of EBL 18.3 percent. It means NABIL has invested more money in Government securities than that of EBL. In another words EBL has emphasizes on more loan and advances and other short-term investment than investment in govt. securities. For minimization of investment risk, EBL should divert its investment in govt. securities. Similarly, S.D. is 13.45 and 5.01 and C.V is 0.434 and 0.274 of NABIL and EBL respectively. The higher C.V. of NABIL shows the more inconsistency in the ratios with compare to NABIL.

#### 4. 1.1.2 Assets Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit, so to satisfy its customers and for own existence. Assets management ratio measures how efficiently the bank manages the resources at its commands. Through following ratios, assets management ability of banks has been measured.

##### A) Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan & advances for the purpose of profit generation. A higher ratio of loan & advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan & advances to total deposit ratio of related banks.

**Table No. 4.5**  
**Loan and Advance to Total Deposit Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	60.55	75.05	68.64	68.13	68.18	68.11	5.137	0.075
EBL	73	75.4	71.0	75.1	76.5	74.2	2.2	0.0296

*Source:* Appendix 1 and 2

The above table shows that the loan & advances to total deposit ratio of NABIL and EBL is fluctuating trends. EBL has higher ratio than that of NABIL in each year and mean too. It indicates the better mobilization of deposit by EBL. The mean of NABIL and EBL are 68.11% and 74.2% respectively. So EBL has higher ratio than that of NABIL. It reveals that the deposit of EBL is quickly converted in to loan and advances to earn income. The bank will be able to better mobilization of collected deposit if there is above 70% to 90% of loan and advances to total deposit according to NRB. So in all of the year the EBL has met the NRB requirement or it has utilized its deposit to provide loan. But NABIL has not met the NRB requirement or it has not utilized its deposit to provide loan properly. The S.D. and C.V of NABIL is 5.137, 0.075 similarly EBL has 2.2, 0.0296.

## B) Total Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of NABIL and EBL are calculated and presentation below.

**Table No. 4.6**  
**Total Investment to Total Deposit Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	41.33	29.25	31.94	38.32	31.14	34.40	5.163	0.15
EBL	31.4	21.1	30.4	27.4	21.1	26.3	4.97	0.189

*Source:* Appendix 1 and 2

The above table shows that total investment to total deposit ratio of NABIL and EBL. Both banks have fluctuating trend total investment to total deposit ratio. Higher ratio of NABIL is 41.33% percent in FY 2003/04 and lowest ratio is 29.25 percent in FY 2004/05 in the same way the highest ratio of EBL 31.4% percent in FY 2003/04 and lowest ratio is 21.1percentage in FY 2007/08. Investment volume of EBL is lower than that of NABIL because more funds of EBL were used in profitable loans to achieve optimum mix of interest earning assets.

The mean of the ratio of NABIL and EBL are 34.40% and 26.3% respectively so NABIL has higher ratio. It signifies NABIL has successfully allocated its deposit in investment portfolio to get higher investment return. it also implies that EBL has lower investment opportunities. The S.D and C.V. of NABIL is 5.163 and 0.15 and EBL has 4.97 and 0.189 respectively.

## C) Loan & Advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose of income generation. A

high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan & advances to total assets of NABIL and EBL as follows.

**Table No. 4.7**  
**Loan & Advances to Total Assets Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	48.90	61.60	57.87	57.04	57.54	56.59	4.66	0.082
EBL	61.2	64.9	61.4	63.7	67.5	63.8	2.6	0.041

*Source:* Appendix 1 and 2

The above table shows the loan & advances to total assets ratio of NABIL and EBL are in fluctuating trend during the study period. While observing their ratios EBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year in comparison of NABIL.

The mean of NABIL and EBL are 56.59% and 63.8% respectively. So EBL has higher ratio than that of NABIL. It reveals that in total assets, EBL has high proportion of loan and advances. EBL has utilized its total assets more efficiently in the form of loan & advances. The higher C.V. of NABIL states that it has less uniformity in these ratios throughout the study period than that of EBL. S.D. and C.V. of NABIL and EBL have 4.66, 2.6 and 0.082 and 0.041 respectively.

#### **D) Investment on Government Securities to Total Assets ratio**

It is not possible to apply all collection, deposit and other resources in to loan & advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities in profit maximization and risk minimization point of view. The higher ratio represents the better position of fund mobilization into investment on government securities and vice-versa.

**Table No. 4.8**

**Investment on Government Securities to Total Assets ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	35.03	17.91	10.31	17.64	12.51	18.68	9.71	0.52
EBL	25	16	20.8	16.8	11.9	18.1	4.9	0.273

*Source:* Appendix 1 and 2

Above table shows that the investment on government treasury bills to Total assets of NABIL and EBL are in fluctuating trend. The highest ratio of NABIL is 35.03% in 2003/04 and EBL is 25% in 2003/04 and the lowest ratio of NABIL and EBL are 10.31% in 2005/06 and 11.9% in 2007/08 respectively.

From the table we notice that mean ratio of NABIL and EBL are 18.68% and 18.1% respectively. NABIL has little higher ratio in every year and mean too. It means NABIL has invested more money in risk free assets than that of EBL. In another words EBL has emphases on more loan and advances and other short-term investment than investment in govt. securities. For minimization of investment risk, EBL should divert its investment in govt. securities.

There is inconsistent in the ratio of NABIL during the study period, which is indicated by higher C.V. than EBL.

**4.1.1.3 Profitability Ratio**

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc.

Profitability ratios are the best indicators of overall efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization.

Through the following ratios, effort has been made to measure the profit earning capacity of NABIL and EBL.

#### A) Return on Loan & advances

Every financial institution tries to mobilize their deposits on loan & advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan & advances ratio of selected banks are presented as follows.

**Table No. 4.9**  
**Return on Loan & advances**

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	5.56	4.91	4.92	4.34	3.49	4.64	0.77	0.17
EBL	2.4	2.2	2.4	2.2	2.5	2.35	0.13	0.06

*Source:* Appendix 1 and 2

Above table shows that return on loan and advances ratio of NABIL is in decreasing trend and EBL is in fluctuating trend except in 2005/06. The highest ratio of NABIL is 5.56% in the year 2003/2004 and lowest ratio 3.49% in year 2007/2008. The mean ratio is 4.64%. Whereas highest ratio of EBL is 2.5% in year 2005/2006 and lowest ratio is 2.2% in 2004/05. The mean ratio is 2.35%. NABIL bank shows the good earning capacity in loan and advances whereas EBL show poor earning capacity in form of loan and advances. From the table we notice that NABIL has higher Ratios in all year and mean too. It can be concluded that NABIL bank has utilized the loan and advance for the profit generation purpose in proper way.

#### B) Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

**Table No. 4.10**  
**Return on Total Assets Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	2.72	3.02	2.84	2.47	2.01	2.61	0.39	0.15
EBL	1.5	1.5	1.5	1.4	1.7	1.50	0.10	0.068

*Source:* Appendix 1 and 2

Above table shows the Return on Total Assets of NABIL and EBL. Both banks have decreasing trend of return on its total assets except in 2004/05 of NABIL and EBL. However, NABIL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.61% of total assets in an average which is higher than that of EBL(i.e. 2.61%>1.50).NABIL has also higher ratio in each years. Where as S.D. and C.V .of NABIL and EBL are 0.39, 0.15 and 0.10 and 0.06 respectively. Higher C.V of NABIL shows that it has high incontinesces in the ratios.

### C) Return on Equity

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and there by, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It reflects, the extend to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of NABIL and EBL during the study period.

**Table No. 4.11**  
**Return on Equity Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	30.76	31.34	33.91	32.79	30.60	31.88	1.43	0.045
EBL	20.2	20.5	24.6	24.7	23.4	22.7	2.19	0.096

*Source:* Appendix 1 and 2

The above listed table shows Return on Equity Ratio of NABIL and EBL. Above calculated statistic indicate that NABIL and EBL both have fluctuating return on equity ratio. NABIL has higher ratios in each year and it has also higher mean ratio (i.e.31.88%>22.7%)

Despite stiff competition and an adverse macro economic environment, NABIL is currently generating higher ROE in comparison with EBL. In brief, it signifies that the shareholders of NABIL are getting higher return but in case of EBL, they are getting lesser. It can be concluded that NABIL has better utilized the equity for the profit generation. It proves to be a good strength of NABIL in attracting future investment also while EBL shows its weakness regarding efficient utilization of its owner’s equity in comparison with NABIL.NABIL has homogeneous return in each year. It is the strength point of NABIL.

EBL has relatively more inconsistency through out the study period because its S.D. and C.V is higher.

**D) Total Interest Earned to Total Assets Ratio**

Total interest earned to total assets ratio evaluates how successful the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of the selected sample banks. The total interest earned to total assets ratio of NABIL and EBL

**Table No. 4.12**

**Total Interest Earned to Total Assets Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	5.98	6.22	5.87	5.83	5.33	5.85	0.33	0.056
EBL	6.8	6.1	5.7	5.3	6.0	5.9	0.6	0.097

Source: Appendix 1 and 2

They both have increased total interest earned during studied period. Despite the higher Total assets and interest earned in NABIL, it seems less conscious about managing its assets in order to earn more interest ratio. NABIL shows the decreasing trend of the interest earned ratio except in year 2004/05 and its average ratio is 5.85% whereas EBL shows fluctuating trend and it has maintained average ratio 5.9%.EBL has higher ratio in each year except in year 2005/06. The mean ratio of EBL is more than that of NABIL. In comparison, EBL seems effective in earning interest to some extent than that of NABIL.

Moreover, EBL also has higher inconstancies in the ratios during the study period. It can be concluded that EBL has successfully mobilized their fund in interest generating assets.

#### **E) Total Interest Earned To Total outside Assets Ratio**

The main assets of commercial banks are it's out side assets, which includes loan & advances, investment on government securities, investment on shares and debentures and other all types of investment. Thus, this ratio reflects the extent to which the banks are successful to earn interest as major income on all the outside assets. A high ratio indicates high earning on such total assets and vice-versa. The following Table No. 4.15 exhibits the ratio of total interest earned to total outside assets of NABIL and EBL during the study period.

**Table No. 4.13**  
**Total Interest Earned To Total outside Assets Ratio**

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	7.14	7.20	6.86	6.48	6.32	6.80	0.39	0.057
EBL	6.1	6.2	5.2	5.1	5.8	5.7	0.49	0.086

*Source:* Appendix 1 and 2

Above table shows the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of bank NABIL is in decreasing trend except in year 2004/05. whereas ratios of EBL is in fluctuating trend. The highest ratio of NABIL is 7.20 percent in 2004/05 and lowest ratio is 6.32 in 2007/08 and similarly the highest ratio

of EBL is 6.2 percent in 2004/05 and lowest ratio 5.1 percent is in 2006/07 of. The mean ratio of NABIL and EBL are 6.80% and 5.8% respectively. Here NABIL seems to have little more efficiency in generating total interest through well utilizations of outside assets than that of EBL and also has relatively inconsistent in returns as it has higher C.V than that of EBL.

**F) Total interest Earned to Total Operating Income Ratio**

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generating sectors considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from FY 2003/04 to 2007/08 are presented to analyze in the following table.

**Table No. 4.14**  
**Interest Earned to Operating Income Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	98.72	93.83	96.36	107.27	118.45	102.93	10.04	0.098
EBL	208	192	199	191	188	196	7.9	0.040

*Source:* Appendix 1 and 2

Above table shows Interest Earned to Operating Income Ratio of NABIL and EBL. Both banks has fluctuating ratio during study period. EBL has greater share of total interest earn in its total operating income in each year and mean too. The mean ratio of NABIL and EBL are 102.93 % and 196% respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity).NABIL has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is

not good for long run but in short run it is not so bad. Thus, from short-term view, EBL is in good condition. EBL has managed sound interest earned to operating income ratio. The S.D. and C.V of NABIL is 10.04 and 0.098 similarly, EBL has 7.9 and 0.040. It indicates NABIL has relatively inconsistent in interest earned to total operating income as it has higher C.V than that of EBL.

**G) Total Interest Paid to Total Assets Ratio**

Total interest paid to total assets ratio help to show and measure the percentage of interest paid by the firm in comparison with total assets. If interest paid to total assets ratio is higher, there will be higher interest expenditure on total assets. The following table shows that total interest paid to total assets of NABIL and EBL.

**Table No. 4.15**  
**Interest Paid to Total Assets Ratio**

Name of Banks	Fiscal Year						Mean	S.D.	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08				
NABIL	1.69	1.42	1.60	2.04	2.04	1.76	0.277	0.16	
EBL	3.29	2.55	2.51	2.41	2.3	2.6	0.38	0.147	

*Source:* Appendix 1 and 2

Due to the higher ratio in each year of EBL, it seems less conscious about borrowing cheaper fund. Both banks show fluctuating trend. NABIL has average ratio of 1.76% whereas EBL has maintained average ratio 2.6%. The mean ratio of EBL is more than that of NABIL and EBL has also higher ratio in each year. In comparison, EBL seems ineffective in getting cheaper fund The C. V. of NABIL is greater than the EBL it indicate high risk and insignificant of NABIL rather than EBL

**4.1.1.4 Risk Ratio**

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization can not achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to

get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the NABIL and EBL.

**A) Credit Risk Ratio/Non-Performing Loan to Total Loan Ratio**

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non- performing loan to total Loan & Advances. Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of no-performing assets in total Loan & Advances. Higher ratio indicates more risky assets in the volume of Loan & Advances of the bank and vice-versa.

**Table No. 4.16  
Credit Risk Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	3.35	1.32	1.38	1.12	0.74	1.58	1.09	0.69
EBL	0.88	0.83	0.88	0.87	0.086	0.71	0.348	0.491

*Source:* Appendix 1 and 2

Above table shows that NPL to total loan and advances of NABIL is in decreasing trend except in 2005/06 and EBL is in decreasing trend. Decreasing trend is the good sign of the efficient credit management. NABIL seems effective in latest two years and EBL seems effective in decreasing risk ratio. From mean point of view, non-performing loan to total loan and advances ratio of NABIL and EBL are 1.58 % and 0.71% respectively during the study period. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. However, in comparison, EBL has efficient

operating of credit management than that of NABIL from the mean point of view. However if we see ratios in latest years NABIL has efficient operating of credit management than that of EBL.

**(B) Liquidity Risk Ratio:** - The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

**Table No: 4.17**  
**Liquidity Risk Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	6.88	3.83	3.26	5.99	8.37	5.67	2.12	0.37
EBL	7.8	10.4	11.2	13.1	11.1	10.7	1.9	0.177

*Source:* Appendix 1 and 2

The above Table No. 4.17 reveals that the liquidity risk Ratio of NABIL and EBL are in fluctuating trend. The highest ratio of NABIL is 8.37% in FY 2007/08 and lowest is 3.26% in FY 2005/06. Similarly the highest ratio of EBL is 13.1% in FY 2006/07 and lowers in 7.8 in 2003/04. The mean ratio of NABIL and EBL are 5.67% and 10.7% respectively. EBL has higher ratio than the NABIL, which shows its greater ability to pay depositors money as they want.

#### **4.1.1.6 Other Ratios**

##### **A) Earning Per Share**

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per

share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it doesn't reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

**Table No. 4.18**  
**Earning Per Share**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	93	105	129	137	108	114.4	18.11	0.18
EBL	45.60	54.22	62.77	78.41	91.82	66.56	18.60	0.28

*Source:* Appendix 1 and 2

Above table shows that earning price per share of NABIL and EBL. NABIL has increasing trend of EPS except in 2007/08 and EBL has increasing trend of EPS. While observing their ratios in overall, NABIL is better mobilizing its resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too. It is quite satisfying to state that NABIL has been able to maximize shareholder wealth from the viewpoint of EPS. The C.V of EBL is higher than NABIL, it indicates that there is inconsistency in earning per share of EBL than that of NABIL.

### **B) Market Price per Share**

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally, MPS is determined through supply and demand factors.

**Table No. 4.19**  
**Market price per share (in Rs)**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	740.00	1000	1505	2240	5050	2107	1741.8	0.83
EBL	680	870	1379	2430	3132	1698	1050.7	0.619

Source: Appendix 1 and 2

This table shows market price of the share of NABIL and EBL. Both banks have increasing trend of Market price. It indicates better performance of company and high expectation by shareholder. Average mean price of NABIL is greater than that of EBL (i.e. 2107 > 1698). It indicates that shareholder of NABIL are getting higher price. Similarly C.V. of NABIL is little bit high it indicates little bit inconsistent in its market price.

#### **D) Price Earning Ratio**

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

**Table No. 4.20**  
**Price Earning Ratio**

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	10.80	14.27	17.34	36.84	48.70	25.59	16.40	0.64
EBL	14.91	16.06	21.97	30.99	34.11	23.60	8.66	0.37

Source: Appendix 1 and 2

Above table shows that price earning ratio earning of NABIL and EBL are in increasing trend. From the mean point of view, mean ratio of the NABIL and EBL are 25.59 and 23.60 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 25.59 in NABIL and Rs 23.60 in EBL. Looking the mean ratio we conclude that in short run, investor of NABIL is getting better profitability because they are selling their shares in high price. However, from the long term view and sustainable fair price,

investor of EBL will get better profitability and they will be in safe side in comparison with NABIL as low ratio is preferable for fair and sustainable market price.

The S.D and C.V of NABIL is high than the EBL it indicate its risk to invest in NABIL rather than in the EBL.

## **4.2 Statistical Analysis**

Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, regression analysis, co-relation analysis, trend analysis, various types of tests etc. There is used following convenient statistical tools are used in this thesis study.

### **4.2.1 Coefficient of Correlation Analysis**

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan & advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan & advances and net profit NABIL and EBL using Karl Persons coefficient of correlation, value of coefficient of determination ( $R^2$ ) probable error (P.Er.) and (6 P.Er.) are also calculated and value of them are analyzed.

#### **A) Correlation Coefficient between Deposit and Loan & Advances**

Deposit have played vary important role in performance of a commercial banks and similarly loan & advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan & advances are dependent variable (Y). The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not.

**Table No. 4.21**

**Correlation between Deposit and Loan & Advances**

Name of Banks	Evaluation Criteria			
	r	R <sup>2</sup>	P.Er.	6 P.Er.
NABIL	0.989	0.978	0.00662	0.0397
EBL	0.998	0.996	0.00121	0.00423

*Source: BY SPSS Data Editor*

From the above table, it is found that coefficient of correlation between deposits and loan & advances of NABIL and EBL is 0.989 and 0.998. It shows that both have the positive relationship between these two variables. It refers that deposit and loan & advances of NABIL and EBL move together very closely. Moreover, the coefficient of determination of NABIL is 0.978. It means 97.80 percent of variation in loan & advances has been explained by deposit. Similarly, value of coefficient of determination of EBL is 0.996. It refers that 99.6 percent variance in loan & advances are affected by total deposit. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er. In other words, there is significant relationship between deposits and loan & advances.

**B) Coefficient of Correlation between Total Deposits and Total Investment**

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y).

The following Table shows the coefficient correlation between deposits and total investments i.e. r, P. Er., 6 P. Er. and coefficient of determination (R<sup>2</sup>) of NABIL and EBL during the study period.

**Table No. 4.22**

**Correlation between Deposit and Total Investment**

Name of Banks	Evaluation Criterions			
	r	R <sup>2</sup>	P.Er.	6 P.Er.
NABIL	0.926	0.857	0.0429	0.257
EBL	0.897	0.8046	0.0592	0.3552

*Source: BY SPSS Data Editor*

From the above table, the researcher found that the coefficient of correlation between total deposit and total investment of NABIL is 0.926 It shows the high degree positive correlation. In addition, coefficient of determination of NABIL is 0.857 It means only 85.7 percent of total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of NABIL.

Similarly, there is high degree correlation positive coefficient between total deposit and total investment of EBL, which is indicator by correlation coefficient of 0.897. The value of coefficient of determination is found 0.8046 this refers that 80.46 percent of the variation in total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of EBL

From the above analysis, the conclusion can be drawn in the case of NABIL and EBL that both have high degree positive correlation. It indicates that both are successful to mobilize its deposit to provide investment.

**C) Co-efficient of Correlation between Loan and advance and Net Profit**

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of NABIL and EBL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating

this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination. The following table shows the 'r',  $R^2$ , P.Er. and 6 P. Er. between those variables of NABIL and EBL for the study period.

**Table No. 4.23**  
**Correlation between Loan and advance and Net profit**

Name of Banks	Evaluation Criteria			
	r	$R^2$	P.Er.	6 P.Er.
NABIL	0.955	0.912	0.0265	0.1589
EBL	0.991	0.982	0.0054	0.033

*Source: Through SPSS Data Editor*

Above table shows correlation coefficient between, Loan and advance and net profit is 0.955 of NABIL. It refers that there is positive correlation between these two variables. Here, 91.2 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.912 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. Likewise EBL also high degree positive correlation i.e. 0.991 between Loan and advance and net profit. The coefficient of determination  $R^2$  is 0.982 which indicates that 98.2 percent variability in net profit is explained by Loan and advance. Moreover, correlation coefficient is high than 6P.Er. so it indicatethat the relationship between Loan and advance and net profit is significant for EBL. In conclusion, EBL has more significant relationship between Loan and advance and net profit than that of NABIL.

#### **D) Coefficient of Correlation between Total Investment and Net Profit**

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P.Er. During the fiscal year 2003/04 to 2007/08.

**Table No. 4.24**

**Correlation between Total Investment and Net Profit**

Name of Banks	Evaluation Criterions			
	r	R <sup>2</sup>	P.Er.	6 P.Er.
NABIL	0.847	0.717	0.085	0.511
EBL	0.85	0.7225	0.084	0.504

*Source: Through SPSS Data Editor*

Above table shows correlation coefficient between total investment and net profit of NABIL is 0.847 which implies there is positive correlation between total investment and net profit. In addition, coefficient of determination of NABIL is 0.717. It means only 71.7 percent of Profit is contribute by total investment. Obviously, this correlation is significant at all due to coefficient of correlation is higher than 6P.Error. On the other hand EBL has also positive correlation between total investment and net profit i.e. 0.85. The coefficient of determination of EBL is 0.7225 It means 72.25 percent of Profit is contribute by total investment. this relationship is significant as its correlation coefficient is higher than 6 P.Er. i.e.  $0.85 > 0.504$ . EBL has more significant relationship between total investment and net profit than that of NABIL

Thus it can be concluded that the degree of relationship between total investment and net profit of EBL and NABIL are same. This correlation coefficient indicates that the equals performed in order to generate net profit through investment.

**E) Coefficient of correlation of Total Deposit between NABIL and EBL**

Coefficient of correlation of total deposit between NABIL and EBL and shows their linear relationship.

**Table No. 4.25**

**Correlation between Total Deposit of NABIL and EBL**

Evaluation Criterions			
R	R <sup>2</sup>	P.Er.	6 P.Er.
0.991	0.982	0.00543	0.0326

*Source: Through SPSS Data Editor*

This table shows how the total deposit of NABIL and EBL is related. 0.991 of correlation coefficient shows that there is highly positive correlation between these two banks in this regard. But this correlation coefficient is also significant because the correlation coefficient is high than 6 P.Er. As the 0.982 of coefficient of determination, this shows the 98.2 percent of the degree of relationship. The degree of relationship between these two banks is also high. This relationship is significant as its correlation coefficient is higher than 6 P.Er.

**F) Coefficient of correlation of Total Investment between NABIL and EBL**

The coefficient of correlation of total investment between selected commercial banks is shown as follow:

**Table No. 4.26**  
**Correlation between Total Investment of NABIL and EBL**

<b>Evaluation Criteria</b>			
<b>R</b>	<b>R<sup>2</sup></b>	<b>P.Er.</b>	<b>6 P.Er.</b>
0.913	0.834	0.0502	0.3012

*Source: Through SPSS Data Editor*

The above table reveals that there is moderate positive correlation between NABIL and EBL in case of total investment. It implies that the total investment of NABIL and EBL move in the same direction. Here  $R > 6$  P.Er. Therefore, correlation coefficient is significant. This can be said that both NABIL and EBL increase its total investment as same direction. The coefficient of determination is 0.834, which shows the only 83.4 percent of the degree of relationship.

**G) Coefficient of Correlation of Loan & Advances between NABIL and EBL** The coefficient of correlation of loan & advances between NABIL and EBL has been given below.

**Table No. 4.27**

**Correlation between Loan & Advances of NABIL and EBL**

Evaluation Criteria			
R	R <sup>2</sup>	P.Er.	6 P.Er.
0.994	0.988	0.00361	0.02165

*Source: Through SPSS Data Editor*

Above table shows that there is high degree positive correlation between the loan & advances of NABIL and EBL. The correlation coefficient between two banks is 0.994. It means loan & advances of these two banks moves in the same direction in high proportion. This correlation coefficient is significant in order to show the relationship between loan & advances of these two banks because correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.988 which shows the 98.8 percent of the degree of relationship.

**H) Coefficient of Correlation of Net Profit between NABI L and EBL**

The coefficient of net profit between the selected commercial banks shows the relationship between the banks.

**Table No. 4.28**

**Correlation between Net Profit of NABIL and EBL**

Evaluation Criteria			
R	R <sup>2</sup>	P.Er.	6 P.Er.
0.936	0.876	0.03721	0.2233

*Source: Through SPSS Data Editor*

Above statistics shows that there is high degree positive correlation between profits of NABIL and EBL, which is indicated by correlation coefficient of 0.936, This relationship is insignificant because its correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.876 which shows the 87.6 percent of the degree of relationship.

### 4.2.2 Trend Analysis

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

#### A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of Nabil bank and Everest Bank Ltd for further eight year

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots \dots \dots (I)$$

Where  $x = X - \text{Middle year}$

Here,

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

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

NABIL

EBL

$$a = 20662$$

$$a = 14825.32$$

$$b = 4434.7$$

$$b = 3991.335$$

Where as

$$Y_c = 20662 + 4434.7 X \text{ of NABIL}$$

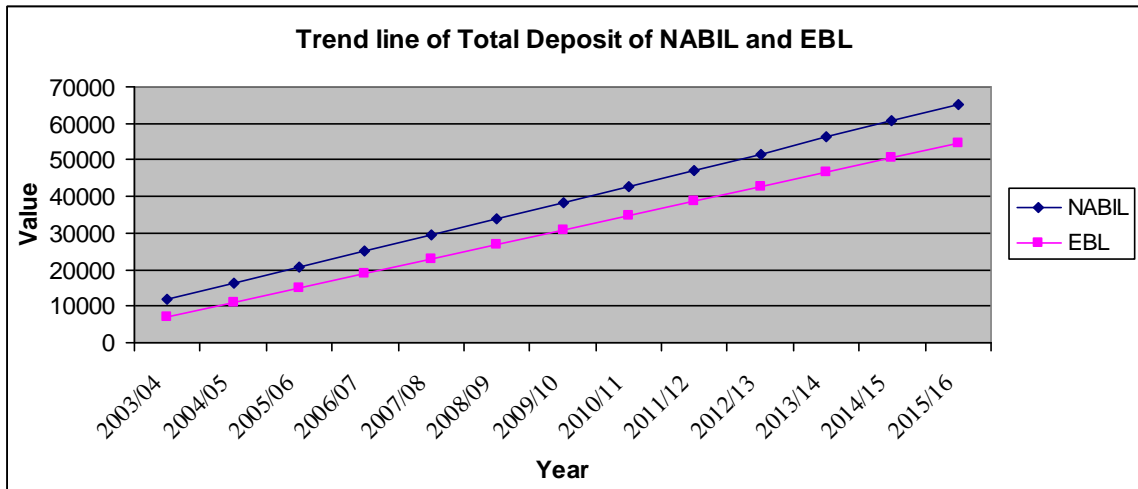
$$Y_c = 14825.32 + 3991.335 X \text{ of EBL}$$

**Table No. 4.29**

<b>Trend analysis of Total Deposit of NABIL and EBL</b>		
Year(x)	NABIL $Y = a + b x$	EBL $Y = a + b x$
2003/04	11792.6	6842.65
2004/05	16227.3	10834
2005/06	20662	14825.3
2006/07	25096.7	18816.7
2007/08	29531.4	22808
2008/09	33966.1	26799.3
2009/10	38400.8	30790.7
2010/11	42835.5	34782
2011/12	47270.2	38773.3
2012/13	51704.9	42764.7
2013/14	56139.6	46756
2014/15	60574.3	50747.3
2015/16	65009	54738.7

Appendix - 3

**Figure No 4.1**



Above table and figure shows that total deposit of NABIL and EBL. Both Banks is in increasing trend. The rate of increment of total deposit for NABIL seems to be higher than that of EBL. The increasing trend of total deposit of NABIL is more aggressive and high rather than EBL. It indicates NABIL has more prospect of collecting Total deposit. The trend analysis has projected deposit amount in fiscal year FY 2008/09 to FY 2015/16. From the above trend analysis it is clear that NABIL has higher position in collecting deposit than EBL.

**B) Trend Analysis of Loan & advances**

Here, the trend values of loan & advances Between NABIL and EBL have been calculated for further Eight year. The following Table shows the actual and trend values of NABIL and EBL.

$Y = a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x \dots\dots\dots (I)$

Where  $x = X - \text{Middle year}$

Here,

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

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

NABIL

EBL

$a = 13721.91$

$a = 11061.46$

$b = 3130.973$

$b = 3095.935$

$Y_c = 13721.91 + 3130.973 X \text{ of NABIL}$

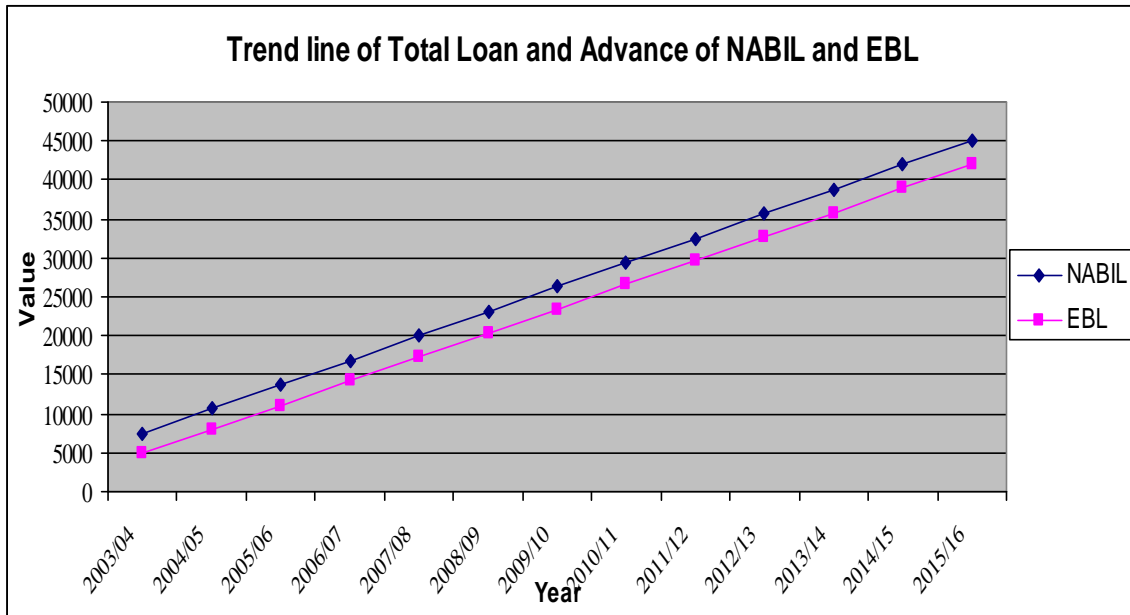
$Y_c = 11061.46 + 3095.539 X \text{ EBL}$

**Table No. 4.30**

<b>Trend line of Total Loan and Advance of NABIL and EBL</b>		
Year(x)	NABIL $Y = a + b x$	EBL $Y = a + b x$
2003/04	7459.96	4870.38
2004/05	10590.9	7965.92
2005/06	13721.9	11061.5
2006/07	16852.9	14157
2007/08	19983.9	17252.5
2008/09	23114.8	20348.1
2009/10	26245.8	23443.6
2010/11	29376.8	26539.2
2011/12	32507.7	29634.7
2012/13	35638.7	32730.2
2013/14	38769.7	35825.8
2014/15	41900.7	38921.3
2015/16	45031.6	42016.9

Appendix - 4

**Figure No 4.2**



Above table depicts that loan & advances of NABIL and EBL. Both Banks has in increasing trend. The increasing trend of NABIL is higher than EBL. The actual value of loan & advances for EBL is quite fluctuating in relation to NABIL. The trend projected for father eight year FY 2007/08 to FY 2015/16 From the above analysis, it is clear that both NABIL and EBL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows, the NABIL has highly mobilizing loan & advances than the EBL.

**C) Trend Analysis of Total Investment**

Under this topic, an attempt has been made to analyze trend analysis total investment of NABIL and EBL for further eight years

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

Here,

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

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

NABIL

EBL

$$a = 7033.358$$

$$a = 3781.802$$

$$b = 1288.572$$

$$b = 790.328$$

$$Yc = 7033.358 + 1288.572 X \text{ of NABIL}$$

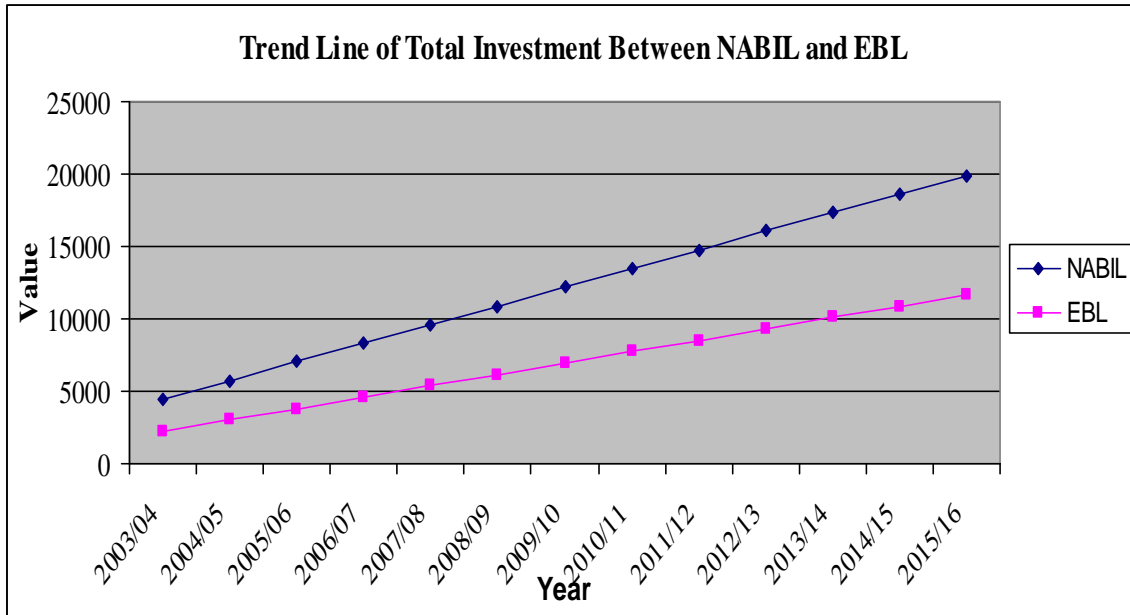
$$Yc = 3781.802 + 790.328 X \text{ of EBL}$$

**Table No. 4.31**

<b>Trend Line of Total Investment Between NABIL and EBL</b>		
Year(x)	NABIL $Y = a + b x$	EBL $Y = a + b x$
2003/04	4456.21	2201.15
2004/05	5744.79	2991.47
2005/06	7033.36	3781.8
2006/07	8321.93	4572.13
2007/08	9610.5	5362.46
2008/09	10899.1	6152.79
2009/10	12187.6	6943.11
2010/11	13476.2	7733.44
2011/12	14764.8	8523.77
2012/13	16053.4	9314.1
2013/14	17341.9	10104.4
2014/15	18630.5	10894.8
2015/16	19919.1	11685.1

Appendix - 5

**Figure No 4.3**



Above table shows the Trend of Total Investment between NABIL and EBL. Both Bank NABIL and EBL have increasing trend in making investment. NABIL has little high and upward trend of increasing, but EBL has moderately increasing trend of total investment. The trend of total investment projected to FY 2015/16. The forecasted trend projected that the NABIL has greater increment rate in total investment than the increment rate of EBL. The figure indicates NABIL has highly mobilized the total investment rather than EBL.

**D) Trend Analysis of Net Profit**

Here, the trend values of net profit of NABIL and EBL have been calculated for five years FY 2003/04 to FY 2007/08 and forecasting for the next eight year till FY 2015/16.

$Y = a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x \dots \dots \dots (I)$

Where  $x = X - \text{Middle year}$

Here,

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

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

NABIL

EBL

$a = 606.048$

$a = 259.874$

$b = 73.712$

$b = 74.069$

$Y_c = 606.048 + 73.712 X \text{ NABIL}$

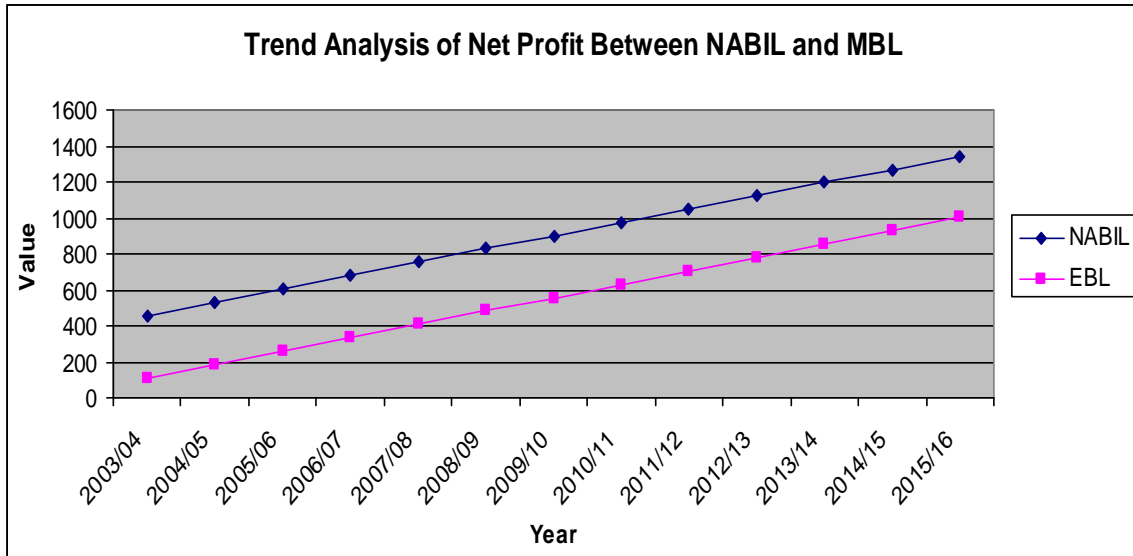
$Y_c = 259.874 + 74.069 X \text{ EBL}$

**Table No. 4.32**

<b>Trend Analysis of Net Profit Between NABIL and EBL</b>		
Year(x)	NABIL $Y = a + b x$	EBL $Y = a + b x$
2003/04	458.624	111.736
2004/05	532.336	185.805
2005/06	606.048	259.874
2006/07	679.76	333.943
2007/08	753.472	408.012
2008/09	827.184	482.081
2009/10	900.896	556.15
2010/11	974.608	630.219
2011/12	1048.32	704.288
2012/13	1122.03	778.357
2013/14	1195.74	852.426
2014/15	1269.46	926.495
2015/16	1343.17	1000.56

Appendix - 6

**Figure No 4.4**



The above table reveals the trend of Net profit of NABIL and EBL. Net profit both bank NABIL and EBL forecasted in increasing trend. The trend of increasing value of net profit of NABIL is higher than EBL. The net profit of NABIL and EBL has been increasing every year by Rs.73.712 million and Rs. 74.069 million respectively. The trend of Net profit projected to FY 2015/16 i.e. further Eight year. Above statistics, shows that both the banks have consistent net profit throughout the study period. In conclusion, NABIL is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of NABIL is high than the EBL.

### **4.3 Major Findings of the Study**

#### **4.3.1 Financial Analysis**

##### **Liquidity Ratio**

From the above research study, following findings are drawn on the liquidity position of the selected commercial banks.

- ) Generally banks have to maintain more liquid assets but the current ratios of all banks are below the standard of 1:1. The mean current ratio of NABIL is 1.89 and EBL is 1.14 the current ratio of NABIL is little higher than EBL. It is indicate better liquidity position of NABIL
- ) Cash and bank balance to total deposit ratio of EBL has higher than NABIL i.e. 10.7% > 5.67% which indicates that the bank has higher liquidity of EBL as compare to NABIL. A high ratio of cash and bank balance may be undesirable which indicates inability to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. But liquidity position is good.
- ) Cash and bank balance to current assets ratio of EBL is higher than NABIL i.e. 9.3%. > 8.20%. Regarding the analysis, it can be said that EBL has a better ability to meet daily cash requirements of their customers but it should be noted that EBL has excess cash due to the low investment opportunities.
- ) Investment on government securities to current assets of NABIL has higher than EBL i.e. 30.95% > 18.3%. It shows NABIL has invested more fund in

government securities. EBL has invested little portion in government securities. Its suggest EBL to increase investment in purchasing of government securities.

- ) Above findings shows that liquidity position of EBL is comparatively better than NABIL. Lower liquidity position of NABIL shows that the current assets have been utilized in some profit generating sectors, but EBL has over liquidly position.

### **Asset Management Ratio**

A commercial bank must be able to manage its assets very well to earn high profit, so to satisfy it's customers and for own existence. The assets management ratios of NABIL and EBL show the following findings.

- ) The loan & advances to total deposit ratio of NABIL is lower than EBL  $68.11\% < 74.2\%$ . It indicates the better mobilization of deposit by EBL. So, EBL has more efficiently utilizing the outsiders' funds in extending credit for profit generating sectors.
- ) The total investment to total deposit of NABIL is much higher than EBL i.e.  $36.3\% > 34.40\%$ . It shows the NABIL is mobilizing its funds on investment in various securities efficiently. It can be said that NABIL is more successful in utilizing its total deposit by investing in marketable securities.
- ) The loan & advances to total assets ratio of EBL is greater than NABIL i.e.  $63.8\% > 56.59\%$ . It refers EBL has utilized its total assets more efficiently in the form of loan & advances with more risk because it has greater variability in the ratio.
- ) Investment on government securities to total assets ratio of NABIL is little higher than EBL i.e.  $18.68\% > 18.1\%$ . This indicates that NABIL has invested more portions of total assets on government securities. It means NABIL has invested more money in risk free assets than that of EBL.

Above findings reveals that the NABIL has better utilization of assets in risk free asset i.e. government security and productive sector rather than EBL.

## **Profitability Ratio**

The major performance indicator of any firm is profit. Following findings are drawn on the basis of profitability position of NABIL and EBL.

- ) Return on loan & advances ratio of NABIL is higher than that of EBL i.e.  $4.64\% > 2.35\%$ . It refers that NABIL. It can be concluded that NABIL bank has utilized the loan and advance for the profit generation purpose in proper way.
- ) Return on total assets ratio of NABIL is slightly higher than EBL i.e.  $2.61\% > 1.50\%$ . However, NABIL seems successful in managing and utilizing the available assets in order to generate revenue.
- ) Return on equity of NABIL is higher than EBL i.e.  $31.88\% > 22.7\%$  which shows that NABIL is more successful to earn high profit through the efficient utilization of its equity capital.
- ) Total interest earned to total assets ratio of NABIL is relatively little lower than that of EBL i.e.  $5.85\% < 5.9\%$  and also has lower variability in the ratio. It indicates that EBL has efficiently used its total assets to earn higher interest income in comparison to NABIL. NABIL seems less conscious about managing its assets in order to earn more interest ratio
- ) Total interest earned to total outside assets ratio of NABIL is higher than the EBL i.e.  $6.80\% > 5.7\%$ . EBL seems to have more efficiency in generating total interest through well utilizations of outside assets than that of NABIL
- ) Total interest earned to total operating income ratio of NABIL is lower than EBL i.e.  $102.93\% < 196\%$ . It means the greater portion of total operating income is occupied by total interest for EBL. It reveals EBL has successful mobilizing their fund in interest generating assets.
- ) Total interest paid to total assets ratio of EBL is higher than NABIL i.e.  $2.6\% > 1.76\%$ . It shows EBL has high interest expenditure to total assets. It supports EBL to increase to interest paid to operating income.

Overall findings of profitability ratios show that NABIL has utilized its fund in risk free asset and EBL has earned profit by interest mobilization.

## **Risk Ratio**

From the above research study, following findings are drawn on the risk position of the sample banks:

- ) The credit risk ratio shows the proportion of no-performing loan in total Loan & Advances. Average credit risk ratio of EBL is lower than NABIL i.e.  $0.71 < 1.58$ . EBL has efficient operating of credit management than that of NABIL from the mean point of view. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%.
- ) The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of EBL is greater than that of NABIL (i.e.  $10.7\% > 5.67\%$ ). It signifies that EBL has sound liquid fund to make immediate payment to the depositors.

Above analysis reveals that both the banks have high interest rate risk which is not desirable for any commercial bank. Here, NABIL has higher interest rate than EBL.

## **Other Ratios**

From the above research study, following findings are drawn on the other ratios of the sample banks i.e. NABIL and EBL:

- ) Average earning per share of NABIL is much greater than that of EBL i.e. Rs.  $114.4 > \text{Rs. } 66.56$ . NABIL is better mobilizing its resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too. The C.V of EBL is higher than NABIL, it indicates that there is inconsistent in earning per share.
- ) Average market price of the share of NABIL is greater than that of EBL i.e.  $2107 > 1698$ . It indicates that shareholder of NABIL are getting higher price It shows NABIL has better financial performance than EBL in order to increase market price per share. The C.V. of NABIL is little bit high it indicates that NABIL has little bit inconsistent in its market price
- ) The mean price-earning ratio of EBL is little lower than that of NABIL i.e.  $23.60$  is low than  $25.59$ . It indicates that for getting Rs 1 as earning, one should invest

Rs 25.59 in NABIL and Rs 23.6 in EBL. Looking the mean ratio we conclude that in short run, investor of NABIL are getting better profitability because they are selling their shares in high price although EPS of EBL is lower in comparison than that of NABIL it s suggest to shareholder to sell their stock to get high income.

Above analysis reveals that NABIL banks has well in other ratios than EBL, NABIL has seem better in every angle than EBL.

### **4.3.2 Statistical Analysis**

#### **Coefficient of Correlation**

Coefficient of correlation analysis shows the following findings from the research study:

- ) Both NABIL and EBL have high positive co-relation between total deposit and loan & advances because NABIL and EBL have 0.989 and 0.998 of co-relation coefficient between deposit and loan & advances. These relationships are significant. This can be regarded as good indication in financial performance for the banks. The correlation coefficient of both bank is significant
- ) There is positive correlation between total deposit and total investment of NABIL and EBL. Where as NABIL has little low degree of positive co-relation i.e.0.926 than EBL i.e. 0.897. EBL has high degree positive correlation where as NABIL has little low degree positive correlation. Both bank's correlation coefficient is significant because the correlation coefficient is more than 6 P.Er.
- ) There is positive correlation between Loan and advance and net profit. Correlation between Loan and advance and net profit of NABIL is 0.955 and EBL is 0.991. EBL has little low degree of positive co-relation. The relationship between Loan and advance and net profit of NABIL has significant and EBL has insignificant due to more and less than 6 P.Er.
- ) The degree of relationship between total investment and net profit of EBL is little high than NABIL i.e. correlation coefficient between total investment and net profit of NABIL and EBL is 0.847 and 0.85 respectively. It refers that EBL is comparatively successful to generate net profit due to high positive correlation.

- The relationship between Loan and advance and net profit of NABIL and EBL has significant due to more than 6 P.Er.
- ) Correlation coefficient of total deposit between NABIL and EBL shows high positive correlation i.e. 0.982. The correlation coefficient shows that It refers that total deposit of both banks move in the same direction in this regard. Correlation coefficient is also significant.
  - ) The correlation of total investment between NABIL and EBL is positive correlation i.e. 0.913. It implies that the total investment of both banks move in the same direction but less proportionately. correlation coefficient of bank is insignificant
  - ) The degree of relationship of loan & advances between the NABIL and EBL is high because correlation coefficient between loan & advances of these two banks is 0.994. It means loan & advances of these two banks moves in the same direction in high. Correlation coefficient is also significant due to more than 6 P.Er
  - ) The correlation of net profit between NABIL and EBL is positive i.e 0.936. It implies that the Net profit of both banks move in the same direction. The relationship between two banks is significant because its correlation coefficient is higher than 6 P.Er.

From the above analysis both bank has positively correlated. In some cases high and some where low but positive correlated.

### **Time Series Analysis (Trend Analysis)**

The research study has revealed following some major findings on the basis of time series analysis.

- ) NABIL and EBL have increasing trend in collecting deposit the rate of increment of total deposit for NABIL seems to be higher than that of EBL Here NABIL has better position in collecting deposit than EBL.
- ) The trend line of loan & advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances. The trend line

of loan and advances for NABIL seems high growing than EBL. It refers that NABIL is more aggressive in mobilizing its loan and advance.

- ) The total investment trend line of NABIL and EBL is upward slopping where as NABIL has aggressive upward slopping of total investment trend line. It refers that NABIL has better increasing trend of total investment than EBL.
- ) The trend line of Net profit for NABIL and EBL is upward slopping But NABIL has aggressively and EBL has smoothly. The position of NABIL is better in order to generate profit than EBL.
- ) Above analysis, reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of NABIL is higher than the EBL. It indicates better performance of NABIL rather than EBL.

## **CHAPTER -V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

There are two aspects included in this chapter. The first aspect focuses on the summary and the conclusion of the study while the second aspect focuses on the suggestions and recommendations that are useful to improve the financial performance of NABIL and EBL.

#### **5.1 Summary**

Economic development is essential for the development of the country. For this, it is required to transform savings into actual investment. Economic development is supported by the financial infrastructure of the country. The financial institutions transfer funds from surplus spending units to deficit units.

The basic task of financial institutions is to mobilize the saving of the community and ensure efficient allocation of the savings to high yielding investment projects to offer attractive and secured returns to different sectors of the economy according to the planned priorities of the country. On the other hand, this process of financial institutions gives rise to the money and other financial assets which therefore have a central place in the development process of the economy. Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus (savers) units to the deficit units (investors) in the economy.

Investment operation of commercial banks is a very risky one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good investment policy attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

In most years, banks are the leading buyers of bonds and notes issued by the government to finance public facilities, ranging from hospitals and football stadium to airport and highways. Moreover, bank reserves the principal channel for government economic policy to stabilize the economy. And banks are also the most important sources of short-term working capital needed for the businesses. They have increasingly become active in recent years in making long-term business loans for new plant and equipments. When businesses and consumers must make payments for the purchase of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. It is the bankers, to whom they turn most frequently for advice and counsel when they need financial information and financial planning.

A bank always puts in effort to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should be reasonably excess over expenses. The major source of income of a bank is interest income from loans, investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly, earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loan and advances. Hence, loan is known as risky asset and investment operation of commercial banks, is a very risky one. Risk of non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

The major problem in almost all underdeveloped countries and Nepal as no exception is that of capital formation and proper utilization. In such countries, the commercial banks have to shoulder more responsibilities and acts as development banks, due to the lack of other specialized institutions.

Commercial banks in the developing countries like Nepal have the greatest responsibility towards the economic development of the country. In modern times, since credit or bank money constitutes bulk is of the economy's aggregate money supply, it mostly changes

the volume of the bank money or credit rather than changes in the total supply of the high-powered money issued by the reserves held by the bank against their deposit liabilities that account for the changes in the aggregated money supply. The main goal of the bank as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it has a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment of the country by providing specially considered loans and advances towards less privileged sectors.

A bank's marketing starts with a proper relationship with customers either to attract savings or for the loan disbursement. Both the depositors and the creditors are customers of the bank. Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need purchase different types of product offered in the market. Deposit products offered to the customers are categorized into general products and special products, and credit products can be bifurcated into fund based products and non-fund based products. The fund based products in practice are developed from the credit products generally known as overdraft, working capital loan, Term loan, bills purchase or negotiation, export and import bills, import/trust receipt loan, export credit, loan against fixed deposit receipt, loan against shares, loan against securities, and loan against bank guarantee and deprived sector loan. The term loan used in practice generally addresses short term loan medium term loan and long term loan to be advanced in various forms such as housing loan, hire purchase loan and bridge financing. The non-fund based product is composed of letter of credit (LC) and bank guarantees with different forms (bid bonds, performance bonds, etc.)

Among the different banking products available in the market, the product with high demand are consumer credit, export and import credit, term loan, Project loan and syndicate loan. All banks and financial institution on the basis of their capital base and liquidity position offer these credit products but none of them so far have been found to have expertise in any one of them for marketing. Relying on any one of the product by portfolio seems more risky. Banks in foreign countries are known to bring out numerous

products. As an example, the bank of America has a vast range of banking business serving individuals and small firms and a big share of the loan syndicate market. It means markets are there for some products and it is created for others. Banks in Nepal are weak in locating the existing market and in creating new markets too.

Loan disbursement is a trade of win-win game lenders and borrowers both get benefited out of it. Customers are the ultimate source of income not products. For the analysis of customers several questions need to be answered. These includes questions such as which customer buys the product and how do they use it? where do customers buy the product, when do customer buy, how do customers choose, why do they preferred that product, how do they respond, and will they buy it again. All these data available in the respective files of the customer make the marketing activities quite easier and effective.

## **4.2 Conclusions**

The overall aspect of liquidity position liquidity position of EBL is comparatively better than NABIL. Lower liquidity position of NABIL shows that the current assets have been utilized in some profit generating sectors, but at the same time the bank has weak short-term solvency position.

The mean. The mean current ratio of NABIL is 1.89 and EBL is 1.14 the current ratio of NABIL is little higher than EBL. It is indicate better liquidity position of NABIL. Cash and bank balance to total deposit ratio of EBL has higher than NABIL i.e.  $10.7\% > 5.67\%$  which indicates that the bank has higher liquidity of EBL as compare to NABIL. Cash and bank balance to current assets ratio of EBL is higher than NABIL i.e.  $9.3\% > 8.20\%$ . Regarding the analysis, it can be said that EBL has a better ability to meet daily cash requirements of their customers. Investment on government securities to current assets of NABIL has higher than EBL i.e.  $30.95\% > 18.3\%$ . It shows NABIL has invested more fund in government securities. Above findings shows that liquidity position of EBL is comparatively better than NABIL.

An asset management aspect of NABIL is better than EBL which is justified by show the following findings. The loan & advances to total deposit ratio of NABIL is lower than

EBL 68.11% < 74.2%. It indicates the better mobilization of deposit by EBL. The total investment to total deposit of NABIL is much higher than EBL i.e. 34.40% > 26.3%. It shows the NABIL is mobilizing its funds on investment in various securities efficiently. The loan & advances to total assets ratio of EBL is greater than NABIL i.e. 63.8% > 56.59%. It refers EBL has utilized its total assets more efficiently in the form of loan & advances with more risk because it has greater variability in the ratio. Investment on government securities to total assets ratio of NABIL is little higher than EBL i.e. 18.68% > 18.1%. This indicates that NABIL has invested more portions of total assets on government securities.

Overall findings of profitability ratios show that NABIL has earned higher profit in relation to every aspects of the bank than EBL. Return on loan & advances ratio of NABIL is higher than that of EBL i.e. 4.64% > 2.35%. It can be concluded that NABIL bank has utilized the loan and advance for the profit generation purpose in proper way. Return on total assets ratio of NABIL is slightly higher than EBL i.e. 2.61% > 1.50%. Return on equity of NABIL is higher than EBL i.e. 31.88% > 22.7% which shows that NABIL is more successful to earn high profit through the efficient utilization of its equity capital. Total interest earned to total assets ratio of NABIL is relatively little lower than that of EBL i.e. 5.85% < 5.9% and also has lower variability in the ratio. Total interest earned to total outside assets ratio of NABIL is higher than the EBL i.e. 6.80% > 5.7%. EBL seems to have more efficiency in generating total interest through well utilizations of outside assets than that of NABIL. Total interest earned to total operating income ratio of NABIL is lower than EBL i.e. 102.93% < 196%. It reveals EBL has successful mobilizing their fund in interest generating assets. Total interest paid to total assets ratio of EBL is higher than NABIL i.e. 2.6 % > 1.76%. It shows EBL has high interest expenditure to total assets. It supports EBL to increase to interest paid to operating income.

In concern to risk ratio, Average credit risk ratio of EBL is lower than NABIL i.e. 0.71 < 1.58. EBL has efficient operating of credit management than that of NABIL from the mean point of view. These Ratios indicate the more efficient operating of credit

management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of EBL is greater than that of NABIL (i.e.  $10.7\% > 5.67\%$ ). It signifies that EBL has sound liquid fund to make immediate payment to the depositors.

The analysis reveals that both the banks have well in other ratios, which is not desirable for any commercial bank. Average earning per share of NABIL is much greater than that of EBL i.e. Rs. 114.4 > Rs. 66.56. NABIL is better mobilizing its resources to get more earning per share (EPS). Average market price of the share of NABIL is greater than that of EBL i.e. 2107 > 1698. It indicates that shareholders of NABIL are getting higher price. It shows NABIL has better financial performance than EBL in order to increase market price per share. The mean price-earning ratio of EBL is little lower than that of NABIL i.e. 23.60 is low than 25.59. It indicates that for getting Rs 1 as earning, one should invest Rs 25.59 in NABIL and Rs 23.6 in EBL. The conclusion is that in short run, investors of NABIL are getting better profitability because they are selling their shares in high price although EPS of EBL is lower in comparison than that of NABIL it suggests to shareholders to sell their stock to get high income.

Coefficient of correlation analysis shows that both NABIL and EBL have high positive co-relation between total deposit and loan & advances because NABIL and EBL have 0.989 and 0.998 of co-relation coefficient between deposit and loan & advances. These relationships are significant. There is positive correlation between total deposit and total investment of NABIL and EBL. EBL has high degree positive correlation whereas NABIL has little low degree positive correlation. There is positive correlation between loan and advance and net profit. Correlation between loan and advance and net profit of NABIL is 0.955 and EBL is 0.991. The degree of relationship between total investment and net profit of EBL is little high than NABIL i.e. correlation coefficient between total investment and net profit of NABIL and EBL is 0.847 and 0.85 respectively. The relationship between loan and advance and net profit of NABIL and EBL has significant due to more than 6 P.Er. Correlation coefficient of total deposit between NABIL and

EBL shows high positive correlation i.e. 0.982. The correlation of total investment between NABIL and EBL is positive correlation i.e. 0.913. It implies that the total investment of both banks move in the same direction but less proportionately. The degree of relationship of loan & advances between the NABIL and EBL is high because correlation coefficient between loan & advances of these two banks is 0.994. The correlation of net profit between NABIL and EBL is positive i.e 0.936. It implies that the Net profit of both banks move in the same direction. The relationship between two banks is significant because its correlation coefficient is higher than 6 P.Er.

The basis of time series analysis NABIL and EBL have increasing trend in collecting deposit the rate of increment of total deposit for NABIL seems to be higher than that of EBL Here NABIL has better position in collecting deposit than EBL. It refers that both the banks are increasing in disbursement of loan & advances. The trend line of loan and advances for NABIL seems high growing than EBL. It refers that NABIL is more aggressive in mobilizing its loan and advance. The total investment trend line of NABIL and EBL is upward slopping. It refers that NABIL has better increasing trend of total investment than EBL. The trend line of Net profit for NABIL and EBL is upward slopping But NABIL has aggressively and EBL has smoothly. The position of NABIL is better in order to generate profit than EBL. Above analysis, reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of NABIL is higher than the EBL. It indicates better performance of NABIL rather than EBL

### **4.3 Recommendations**

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the financial performance of NABIL and EBL effective and efficient but comparatively better NABIL. This would help to draw some outline and make reforms in the respective banks

- ) The current ratio of the two banks, NABIL and EBL is considerable. This can be regarded as good liquidity position. The liquidity position affects external and

- internal factors such as prevalent investment situations, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to NABIL and EBL.
- ) Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that both banks, NABIL and EBL have made some amount of fund in Government securities. But NABIL and EBL are recommended to invest more funds in Government securities instead of keeping them idle.
  - ) To get success in competitive banking environment, deposit must be utilized as loan & advances. The largest item of bank assets side is loan & advances. It has been found that loan & advances to total deposit ratio of NABIL is lower than that of EBL. It means NABIL has not properly used their existing fund as loan & advances. So NABIL is recommended to follow liberal lending policy and to invest more deposit in loan & advances.
  - ) NABIL and EBL have a possible risk because there is large amount of doubtful loan & advances and risky investment. So it is recommended to evaluate that investment and invest in risk less asset to grab opportunities.
  - ) EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the higher performance of banks. so Both Nabil and EBL has able to provide good returns
  - ) Both the banks are recommended to formulate and implement the sound and effective investment portfolio to increase volume of total investment and loan & advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.
  - ) Last political instability directly affected the economic sector such as hotel & tourism, manufacturing and trading sector. Bank loan & advances is decreasing in

this sector. So banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit.

- ) Both companies have earned more income from interest income which is not good for long term view. So both have to increase their revenue through other banking activity for long-term survival and to avoid bad debt risk.
- ) Both banks should be careful in increasing profit of the bank to maintain the confidence of shareholders, depositors and all its customers. so it is strongly recommended to utilize risky assets and shareholders fund to gain high amount of profit.
- ) NRB has given directives to financial institution to invest their certain percentage of investment in deprive and priority sector. Both companies have earned profit from profitable and private sector. So, they are recommended to strictly follow up the directives issued by NRB and should make investment on public utilities sector like health, sanitation, education, drinking water, agriculture etc.

Keeping all these in consideration, the EBL has little less performance than that of NABIL. Therefore, in the future ahead, the EBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector both bank NABIL and EBL should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore new market areas. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.

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## Appendix - 1

### **NABIL BANK LIMITED (NABIL)**

#### **Liquidity Ratio:**

(1) Current ratio:

(In million)

Year	Current assets	Current liabilities	Current ratio (in %)
2003/2004	11329	5387.5	2.10
2004/2005	8819.2	4246.6	2.08
2005/2006	13857.5	6661	2.08
2006/2007	16954	9258.5	1.83
2007/2008	20122.1	14923.6	1.35
Mean			1.89

(2) Cash and bank balance to total deposit ratio:

(In million)

Year	Cash and bank balance	Total deposit	Ratio (in %)
2003/2004	971	14025.94	6.88
2004/2005	559	14853.4	3.83
2005/2006	630	19101.07	3.26
2006/2007	1399	24491.09	5.99
2007/2008	2671	31304.82	8.37
Mean			5.67

(3) Cash and bank balance to current assets ratio

(In million)

Year	Cash and bank balance	Current assets	Ratio (in %)
2003/2004	971	11329	8.57
2004/2005	559	8819.2	6.34
2005/2006	630	13857.5	4.55
2006/2007	1399	16954	8.25
2007/2008	2671	20122.1	13.27
Mean			8.20

(4) Investment on Govt. securities to current assets ratio:

(In million)

Year	Investment on Govt. securities	Current assets	Ratio (in %)
2003/2004	5819.55	11329	51.78
2004/2005	3078.78	8819.2	34.91
2005/2006	2300.35	13857.5	16.60
2006/2007	4808.15	16954	28.36
2007/2008	4646.19	20122.1	23.09
Mean			30.95

**Assets management ratio:**

(1) Loan and Advance to total deposit:

(In million)

Year	Loan and advances	Total deposit	Ratio (in %)
2003/2004	8189.99	14025.94	60.55
2004/2005	10586.17	14853.4	75.05
2005/2006	12922.54	19101.07	68.64
2006/2007	15545.78	24491.09	68.13
2007/2008	21365.05	31304.82	68.18
Mean			68.11

(2) Total investment to total deposit:

(In million)

Year	Total investment	Total deposit	Ratio (in %)
2003/2004	5835.95	14025.94	41.33
2004/2005	4267.23	14853.4	29.25
2005/2006	6178.53	19101.07	31.94
2006/2007	8945.31	24491.09	38.32
2007/2008	9939.77	31304.82	31.14
Mean			34.40

(3) Loan and advance to total working fund:

(In million)

Year	Loan and advances	Total assets	Ratio (in %)
2003/2004	8189.99	16745.49	48.90
2004/2005	10586.17	17186.33	61.60
2005/2006	12922.54	22329.97	57.87
2006/2007	15545.78	27253.39	57.04
2007/2008	21365.05	37132.76	57.54
Mean			56.59

(4) Investment to govt. securities to total working fund:

(In million)

Year	Investment to govt. securities	total assets	Ratio (in %)
2003/2004	5819.55	16745.49	35.03
2004/2005	3078.78	17186.33	17.91
2005/2006	2300.35	22329.97	10.31
2006/2007	4808.15	27253.39	17.64
2007/2008	4646.19	37132.76	12.51
Mean			18.68

**Profitability ratio:**

(1) Return on loan and advance:

(In million)

Year	Net profit	Loan and advances	Ratio (in %)
2003/2004	455.23	8189.99	5.56
2004/2005	519.32	10586.17	4.91
2005/2006	635.26	12922.54	4.92
2006/2007	673.96	15545.78	4.34
2007/2008	746.47	21365.05	3.49
Mean			4.64

(2) Return on total assets ratio:

(In million)

Year	Net profit	Total assets	Ratio (in %)
2003/2004	455.23	16745.49	2.72
2004/2005	519.32	17186.33	3.02
2005/2006	635.26	22329.97	2.84
2006/2007	673.96	27253.39	2.47
2007/2008	746.47	37132.76	2.01
Mean			2.61

(3) Return on equity:

(In million)

Year	Net profit	Total Equity	Ratio (in %)
2003/2004	455.23	1479.88	30.76
2004/2005	519.32	1656.88	31.34
2005/2006	635.26	1873.2	33.91
2006/2007	673.96	2055.12	32.79

2007/2008	746.47	2439.82	30.60
Mean			31.88

(4) Total interest income to total assets ratio:

(In million)

Year	Interest income	Total assets	Ratio (in %)
2003/2004	1001.62	16745.49	5.98
2004/2005	1068.75	17186.33	6.22
2005/2006	1309.99	22329.97	5.87
2006/2007	1587.76	27253.39	5.83
2007/2008	1978.7	37132.76	5.33
Mean			5.85

(5) Total interest earned to Total outside assets ratio:

(In million)

Year	Interest earned	Total outside assets	Ratio (in %)
2003/2004	1001.62	14025.94	7.14
2004/2005	1068.75	14853.4	7.20
2005/2006	1309.99	19101.07	6.86
2006/2007	1587.76	24491.09	6.48
2007/2008	1978.7	31304.82	6.32
Mean			6.80

(6) Total interest earned to Total operating income ratio:

(In million)

Year	Interest earned	Total operating income	Ratio (in %)
2003/2004	1001.62	1014.56	98.72
2004/2005	1068.75	1138.97	93.83
2005/2006	1309.99	1359.51	96.36
2006/2007	1587.76	1480.16	107.27
2007/2008	1978.7	1670.43	118.45
Mean			102.93

(7) Total interest paid to total assets ratio:

(In million)

Year	Interest paid	Total assets	Ratio (in %)
2003/2004	282.95	16745.49	1.69
2004/2005	243.54	17186.33	1.42
2005/2006	357.16	22329.97	1.60
2006/2007	555.71	27253.39	2.04
2007/2008	758.44	37132.76	2.04
Mean			1.76

**Risk ratio:**

(1) Credit risk ratio

(In million)

Year	Non performing loan	Loan and advance	Ratio (in %)
2003/2004	274.36	8189.99	3.35
2004/2005	139.74	10586.17	1.32
2005/2006	178.33	12922.54	1.38

2006/2007	174.11	15545.78	1.12
2007/2008	158.10	21365.05	0.74
Mean			1.58

**Other ratios:**

(1)EPS:

Year	Profit after tax	No. of common shares	EPS(in Rs)
2003/2004	455.23	4916544	92.61
204/2005	519.32	4916544	105.49
2005/2006	635.26	4916544	129.21
2006/2007	673.96	4916544	137.08
2007/2008	746.47	6892160	108.31
Mean			114.54

(2) MPS:

Year	MPS(in Rs)
2003/2004	1000
2004/2005	1505
2005/2006	2240
2006/2007	5050
2007/2008	5275
Mean	3014

(3) Price earning ratio:

Year	EPS (in Rs )	MPS(in Rs)	Price earning ratio( in times)
2003/2004	92.61	1000	10.8
2004/2005	105.49	1505	14.27
2005/2006	129.21	2240	17.34
2006/2007	137.08	5050	36.84
2007/2008	108.31	5275	48.7
Mean			25.59

**Appendix -2**  
**Everest Bank Limited (EBL)**

**Liquidity Ratio:**

(1) Current ratio:

(in million)

Year	Current assets	Current liabilities	Current ratio (in %)
2003/2004	9490.20	8085.94	1.17
2004/2005	11598.45	10138.99	1.14
2005/2006	15807.2	13932.91	1.13
2006/2007	21262.48	18296.45	1.16
2007/2008	26788.83	24276.30	1.11
Mean			1.142

(2) Cash and bank balance to total deposit ratio:

(in million)

Year	Cash and bank balance	Total deposit	Cash and bank balance total deposit(in %)
2003/2004	631.80	8063.90	7.83
2004/2005	1050.00	10097.70	10.40
2005/2006	1553.00	13802.44	11.25
2006/2007	2391.42	18186.25	13.15
2007/2008	2667.97	23976.30	11.13
Mean			10.752

(3) Cash and bank balance to current assets ratio

(in million)

Year	Cash and bank balance	Current assets	Cash and bank balance to current assets ratio(in %)
2003/2004	631.80	9490.20	6.66
2004/2005	1050.00	11598.45	9.05
2005/2006	1553.00	15807.2	9.82
2006/2007	2391.42	21262.48	11.25
2007/2008	2667.97	26895.35	9.91
Mean			9.338

(4) Investment on Govt. securities to current assets ratio:

(in million)

Year	Investment on Govt securities	Current assets	Investment on Govt securities to current assets ratio (in %)
2003/2004	2392.10	9490.20	25.21
2004/2005	1873.71	11598.45	16.15
2005/2006	3322.44	15807.2	21.02
2006/2007	3614.54	21262.48	17.00
2007/2008	3237.98	26895.35	12.039
Mean			18.2838

**Assets management Ratio:**

(1) Loan and Advance to total deposit:

(in million)

Year	Loan and advances	Total deposit	Loan and advance to total deposit (in %)
2003/2004	5884.12	8063.90	72.97
2004/2005	7618.67	10097.7	75.45
2005/2006	9801.30	13802.44	71.01
2006/2007	13664.08	18186.25	75.14
2007/2008	18339.108	23976.30	67.54
Mean			72.422

(2) Total investment to total deposit:

(in million)

Year	Total investment	Total deposit	Total investment to total deposit (in %)
2003/2004	2535.65	8063.90	31.45
2004/2005	2128.93	10097.7	21.08
2005/2006	4200.52	13802.44	30.43
2006/2007	4984.31	18186.25	27.41
2007/2008	5059.6	23976.30	21.10
Mean			26.294

(3) Loan and advance to total working fund:

(In million)

Year	Loan and advances	Total assets	Loan and advance to total working fund (in %)
2003/2004	5884.12	9608.57	61.24
2004/2005	7618.67	11732.51	64.93
2005/2006	9801.30	15959.28	61.42
2006/2007	13664.08	21432.57	63.75
2007/2008	18339.108	27149.34	67.54
Mean			63.776

(4) Investment to govt. securities to total working fund:

(in million)

Year	Investment to govt securities	Total assets	Investment to govt securities to total working fund (in %)
2003/2004	2392.10	9608.57	24.90
2004/2005	1873.71	11732.51	15.97
2005/2006	3322.44	15959.28	20.82
2006/2007	3614.54	21432.57	16.86
2007/2008	3237.98	271493.34	1.19
Mean			15.948

**Profitability Ratio:**

(1) Return on loan and advance:

(in million)

Year	Net profit	Loan and advances	Return on loan and advances ratio (in %)
2003/2004	143.66	5884.12	2.44
2004/2005	170.80	7618.67	2.24
2005/2006	237.30	9801.30	2.42
2006/2007	296.41	13664.08	2.17
2007/2008	451.2	18339.08	2.46
Mean			2.346

(2) Return on total assets ratio:

(in million)

Year	Net profit	Total assets	Return on total assets ratio (in %)
2003/2004	143.66	9608.57	1.50
2004/2005	170.8	11732.51	1.46
2005/2006	237.30	15959.28	1.49
2006/2007	296.41	21432.57	1.38
2007/2008	451.2	27149.34	1.66
Mean			1.498

(3) Return on equity:

Year	Net profit	Total Equity	Return on total equity (in %)
2003/2004	143.66	710.31	20.22497
2004/2005	170.8	832.61	20.51381
2005/2006	237.30	962.8	24.64686
2006/2007	296.41	1201.51	24.66979
2007/2008	451.2	1921.24	23.48483
Mean			22.708

(4) Total interest income to total assets ratio:

Year	Interest income	Total assets	Interest income to total assets ratio (in %)
2003/2004	657.25	9608.57	6.84
2004/2005	719.29	11732.51	6.13
2005/2006	903.41	15959.28	5.66
2006/2007	1144.41	21432.57	5.34
2007/2008	1548.66	27149.34	5.70
Mean			5.934

(5) Total interest earned to Total operating income ratio:

Year	Interest earned	Total operating income	Interest earned to total operating income (in %)
2003/2004	657.25	316.36	207.50
2004/2005	719.29	375.23	191.69
2005/2006	903.41	453.17	199.35
2006/2007	1144.41	597.87	191.41
2007/2008	1548.66	822.7	188.24
Mean			195.638

(6) Total interest paid to total assets ratio:

Year	Interest paid	Total assets	Interest paid to total assets (in %)
2003/2004	316.36	9608.57	3.29
2004/2005	299.57	11732.51	2.55
2005/2006	401.39	15959.28	2.52
2006/2007	517.17	21432.57	2.41
2007/2008	632.61	27149.34	2.34
Mean			2.622

**Risk ratio:**

(1) Credit risk ratio (Non-performing loan to total loan and advances):

(in million)

Year	Non performing loan	Loan and advance	NPL to total loan and advances ratio(In %)
2003/2004	104.7	6095.8	1.72
2004/2005	128.8	7900.0	1.63
2005/2006	129.2	10136.2	1.27
2006/2007	113.18	13664.1	0.94
2007/2008	127.31	18339.08	0.69
Mean			1.25

**Other Ratio**

(1)EPS:

(in million)

Year	Profit after tax	No. of common shares	EP S(in Rs)
2003/2004	143.66	3.15	31.57
2004/2005	170.8	3.15	32.97
2005/2006	237.30	3.78	45.81
2006/2007	296.41	3.78	57.22
2007/2008	451.2	4.914	91.82
Mean			51.878

(2) MPS:

Year	MPS(in Rs)
2003/2004	680
2004/2005	870
2005/2006	1379
2006/2007	2430
2007/2008	3132
Mean	1698

(3) Price earning ratio:

(in million)

Year	EPS (in Rs )	MPS(in Rs)	Price earning ratio( in times)
2003/2004	45.58	680	14.92
2004/2005	54.22	870	16.05
2005/2006	62.78	1379	21.97
2006/2007	57.22	2430	42.47
2007/2008	78.4	3132	39.94
Mean			27.07

## Appendix - 1

### NABIL BANK LIMITED (NABIL)

#### Liquidity Ratio:

(1) Current ratio:

(In million)

Year	Current assets	Current liabilities	Current ratio (in %)
2003/2004	11329	5387.5	2.10
2004/2005	8819.2	4246.6	2.08
2005/2006	13857.5	6661	2.08
2006/2007	16954	9258.5	1.83
2007/2008	20122.1	14923.6	1.35
Mean			1.89

(2) Cash and bank balance to total deposit ratio:

(In million)

Year	Cash and bank balance	Total deposit	Ratio (in %)
2003/2004	971	14025.94	6.88
2004/2005	559	14853.4	3.83
2005/2006	630	19101.07	3.26
2006/2007	1399	24491.09	5.99
2007/2008	2671	31304.82	8.37
Mean			5.67

(3) Cash and bank balance to current assets ratio

(In million)

Year	Cash and bank balance	Current assets	Ratio (in %)
2003/2004	971	11329	8.57
2004/2005	559	8819.2	6.34
2005/2006	630	13857.5	4.55
2006/2007	1399	16954	8.25
2007/2008	2671	20122.1	13.27
Mean			8.20

(4) Investment on Govt. securities to current assets ratio:

(In million)

Year	Investment on Govt. securities	Current assets	Ratio (in %)
2003/2004	5819.55	11329	51.78
2004/2005	3078.78	8819.2	34.91
2005/2006	2300.35	13857.5	16.60
2006/2007	4808.15	16954	28.36
2007/2008	4646.19	20122.1	23.09
Mean			30.95

**Assets management ratio:**

(1) Loan and Advance to total deposit:

(In million)

Year	Loan and advances	Total deposit	Ratio (in %)
2003/2004	8189.99	14025.94	60.55
2004/2005	10586.17	14853.4	75.05
2005/2006	12922.54	19101.07	68.64

2006/2007	15545.78	24491.09	68.13
2007/2008	21365.05	31304.82	68.18
Mean			68.11

(2) Total investment to total deposit:

(In million)

Year	Total investment	Total deposit	Ratio (in %)
2003/2004	5835.95	14025.94	41.33
2004/2005	4267.23	14853.4	29.25
2005/2006	6178.53	19101.07	31.94
2006/2007	8945.31	24491.09	38.32
2007/2008	9939.77	31304.82	31.14
Mean			34.40

(3) Loan and advance to total working fund:

(In million)

Year	Loan and advances	Total assets	Ratio (in %)
2003/2004	8189.99	16745.49	48.90
2004/2005	10586.17	17186.33	61.60
2005/2006	12922.54	22329.97	57.87
2006/2007	15545.78	27253.39	57.04
2007/2008	21365.05	37132.76	57.54
Mean			56.59

(4) Investment to govt. securities to total working fund:

(In million)

Year	Investment to govt. securities	total assets	Ratio (in %)
2003/2004	5819.55	16745.49	35.03
2004/2005	3078.78	17186.33	17.91
2005/2006	2300.35	22329.97	10.31
2006/2007	4808.15	27253.39	17.64
2007/2008	4646.19	37132.76	12.51
Mean			18.68

**Profitability ratio:**

(2) Return on loan and advance:

(In million)

Year	Net profit	Loan and advances	Ratio (in %)
2003/2004	455.23	8189.99	5.56
2004/2005	519.32	10586.17	4.91
2005/2006	635.26	12922.54	4.92
2006/2007	673.96	15545.78	4.34
2007/2008	746.47	21365.05	3.49
Mean			4.64

(3) Return on total assets ratio:

(In million)

Year	Net profit	Total assets	Ratio (in %)
2003/2004	455.23	16745.49	2.72
2004/2005	519.32	17186.33	3.02
2005/2006	635.26	22329.97	2.84
2006/2007	673.96	27253.39	2.47
2007/2008	746.47	37132.76	2.01
Mean			2.61

(4) Return on equity:

(In million)

Year	Net profit	Total Equity	Ratio (in %)
2003/2004	455.23	1479.88	30.76
2004/2005	519.32	1656.88	31.34
2005/2006	635.26	1873.2	33.91
2006/2007	673.96	2055.12	32.79
2007/2008	746.47	2439.82	30.60
Mean			31.88

(5) Total interest income to total assets ratio:

(In million)

Year	Interest income	Total assets	Ratio (in %)
2003/2004	1001.62	16745.49	5.98
2004/2005	1068.75	17186.33	6.22
2005/2006	1309.99	22329.97	5.87
2006/2007	1587.76	27253.39	5.83

2007/2008	1978.7	37132.76	5.33
Mean			5.85

(6) Total interest earned to Total outside assets ratio:

(In million)

Year	Interest earned	Total outside assets	Ratio (in %)
2003/2004	1001.62	14025.94	7.14
2004/2005	1068.75	14853.4	7.20
2005/2006	1309.99	19101.07	6.86
2006/2007	1587.76	24491.09	6.48
2007/2008	1978.7	31304.82	6.32
Mean			6.80

(6) Total interest earned to Total operating income ratio:

(In million)

Year	Interest earned	Total operating income	Ratio (in %)
2003/2004	1001.62	1014.56	98.72
2004/2005	1068.75	1138.97	93.83
2005/2006	1309.99	1359.51	96.36
2006/2007	1587.76	1480.16	107.27
2007/2008	1978.7	1670.43	118.45
Mean			102.93

(7) Total interest paid to total assets ratio:

(In million)

Year	Interest paid	Total assets	Ratio (in %)
2003/2004	282.95	16745.49	1.69
2004/2005	243.54	17186.33	1.42
2005/2006	357.16	22329.97	1.60
2006/2007	555.71	27253.39	2.04
2007/2008	758.44	37132.76	2.04
Mean			1.76

**Risk ratio:**

(1) Credit risk ratio

(In million)

Year	Non performing loan	Loan and advance	Ratio (in %)
2003/2004	274.36	8189.99	3.35
2004/2005	139.74	10586.17	1.32
2005/2006	178.33	12922.54	1.38
2006/2007	174.11	15545.78	1.12
2007/2008	158.10	21365.05	0.74
Mean			1.58

**Other ratios:****(1)EPS:**

Year	Profit after tax	No. of common shares	EP S(in Rs)
2003/2004	455.23	4916544	92.61
2004/2005	519.32	4916544	105.49
2005/2006	635.26	4916544	129.21
2006/2007	673.96	4916544	137.08
2007/2008	746.47	6892160	108.31
Mean			114.54

**(2) DPS:**

Year	DPS (in %)
2003/2004	65
2004/2005	70
2005/2006	85
2006/2007	100
2007/2008	60
Mean	76

**(3) MPS:**

Year	MPS(in Rs)
2003/2004	1000
2004/2005	1505
2005/2006	2240
2006/2007	5050
2007/2008	5275
Mean	3014

(4) Price earning ratio:

Year	EPS (in Rs )	MPS(i n Rs)	Price earning ratio( in times)
2003/2004	92.61	1000	10.8
2004/2005	105.49	1505	14.27
2005/2006	129.21	2240	17.34
2006/2007	137.08	5050	36.84
2007/2008	108.31	5275	48.7
Mean			25.59

## Appendix - 2

### MACCHAPUCCHRE BANK LIMITED (MBL)

#### Liquidity Ratio:

##### (1) Current ratio:

(In million)

Year	Current assets	Current liabilities	Current ratio (in %)
2003/2004	2611	1506.4	1.73
2004/2005	3876.9	2309.2	1.68
2005/2006	5432.5	3802.2	1.43
2006/2007	8137.5	5106.2	1.59
2007/2008	9229.35	3290.45	2.80
Mean			1.85

##### (2) Cash and bank balance to total deposit ratio:

(In million)

Year	Cash and bank balance	Total deposit	Ratio (in %)
2003/2004	410.75	2754.6	14.91
2004/2005	731.13	5586.8	13.09
2005/2006	813.92	7893.3	10.31
2006/2007	1284.1	9475.5	13.55
2007/2008	1588.6	11102	14.31
Mean			13.23

(3) Cash and bank balance to current assets ratio

(In million)

Year	Cash and bank balance	Current assets	Ratio (in %)
2003/2004	410.75	2611	15.73
2004/2005	731.13	3876.9	18.86
2005/2006	813.92	5432.5	14.98
2006/2007	1284.1	8137.5	15.78
2007/2008	1588.6	9229.35	17.21
Mean			16.51

(4) Investment on Govt securities to current assets ratio:

(In million)

Year	Investment on Govt securities	Current assets	Ratio (in %)
2003/2004	71.32	2611	2.73
2004/2005	127.34	3876.9	3.28
2005/2006	904.47	5432.5	16.65
2006/2007	951.27	8137.5	11.69
2007/2008	827.35	9229.35	8.96
Mean			8.66

**Assets management ratio:**

(1) Loan and Advance to total deposit:

(In million)

Year	Loan and advances	Total deposit	Ratio (in %)
2003/2004	2493.1	2754.6	90.50
2004/2005	5061.4	5586.8	90.60
2005/2006	6146.6	7893.3	77.87
2006/2007	7129.9	9475.5	75.25
2007/2008	8642.32	11102.2	77.84
Mean			82.41

(2) Total investment to total deposit:

(In million)

Year	Total investment	Total deposit	Ratio (in %)
2003/2004	274.41	2754.6	9.96
2004/2005	468.61	5586.8	8.39
2005/2006	1190.8	7893.3	15.09
2006/2007	1278.5	9475.5	13.49
2007/2008	1443.55	11102.2	13.00
Mean			11.99

(3) Loan and advance to total working fund:

(In million)

Year	Loan and advances	Total assets	Ratio (in %)
2003/2004	2493.1	3458.5	72.09
2004/2005	5061.4	6478.6	78.13
2005/2006	6146.6	9069.8	67.77
2006/2007	7129.9	10808	65.97
2007/2008	8642.32	12498.6	69.15
Mean			70.62

(4) Investment to govt securities to total working fund:

(In million)

Year	Investment to govt securities	total assets	Ratio (in %)
2003/2004	71.32	3458.5	2.06
2004/2005	127.34	6478.6	1.97
2005/2006	904.47	9069.8	9.97
2006/2007	951.27	10808	8.80
2007/2008	827.35	12498.6	6.62
Mean			5.88

**Profitability ratio:**

(1)Return on loan and advance:

(In million)

Year	Net profit	Loan and advances	Ratio (in %)
2003/2004	46.69	2493.1	1.87
2004/2005	84.87	5061.4	1.68
2005/2006	134	6146.6	2.18
2006/2007	76.8	7129.9	1.08
2007/2008	85.02	8642.32	0.98
Mean			1.56

(2)Return on total assets ratio:

(In million)

Year	Net profit	Total assets	Ratio (in %)
2003/2004	46.69	3458.5	1.35
2004/2005	84.87	6478.6	1.30
2005/2006	134	9069.8	1.48
2006/2007	76.8	10808	0.71
2007/2008	85.02	12498.6	0.68
Mean			1.10

(3)Return on equity:

(In million)

Year	Net profit	Total Equity	Ratio (in %)
2003/2004	46.69	554.22	8.42
2004/2005	84.87	637.74	13.31
2005/2006	134	931.09	14.39
2006/2007	76.8	1000.3	7.68
2007/2008	85.02	1163.35	7.31
Mean			10.22

(4)Total interest income to total assets ratio:

(In million)

Year	Interest income	Total assets	Ratio (in %)
2003/2004	215.07	3458.5	6.22
2004/2005	381.93	6478.6	5.90
2005/2006	563.36	9069.8	6.21
2006/2007	694.48	10808	6.43
2007/2008	796.6	12498.6	6.37
Mean			6.22

(5) Total interest earned to Total outside assets ratio:

(In million)

Year	Interest earned	Total outside assets	Ratio (in %)
2003/2004	215.07	2767.52	7.77
2004/2005	381.93	5530.04	6.91
2005/2006	563.36	7337.46	7.68
2006/2007	694.48	8408.36	8.26
2007/2008	796.6	10085.9	7.90
Mean			7.70

(6) Total interest earned to Total operating income ratio:

(In million)

Year	Interest earned	Total operating income	Ratio (in %)
2003/2004	215.07	129.1	166.59
2004/2005	381.93	227.65	167.77
2005/2006	563.36	356.95	157.83
2006/2007	694.48	409.14	169.74
2007/2008	796.6	500.07	159.30
Mean			164.25

(7) Total interest paid to total assets ratio:

(In million)

Year	Interest paid	Total assets	Ratio (in %)
2003/2004	113.58	3458.5	3.28
2004/2005	187.03	6478.6	2.89
2005/2006	288.66	9069.8	3.18
2006/2007	397.72	10808	3.68
2007/2008	407.92	12498.6	3.26
Mean			3.26

**Risk ratio:**

(1) Credit risk ratio

(In million)

Year	Non performing loan	Loan and advance	Ratio (in %)
2003/2004	24.43	2493.1	0.98
2004/2005	19.74	5061.4	0.39
2005/2006	17.21	6146.6	0.28
2006/2007	82.71	7129.9	1.16
2007/2008	93.34	8642.32	1.08
Mean			0.783

**Other ratios:**

(1)EPS:

Year	Profit after tax	No. of common shares	EP S(in Rs)
2003/2004	46.69	5500000	8.49
2004/2005	84.87	5500000	15.43
2005/2006	134	7150000	18.74
2006/2007	76.8	8216513	9.02
2007/2008	85.02	8216513	10.35
Mean			12.41

(2) DPS:

Year	DPS (in %)
2003/2004	0
2004/2005	0
2005/2006	0.79
2006/2007	0.52
2007/2008	0.52
Mean	0.37

(3) MPS:

Year	MPS(in Rs)
2003/2004	125
2004/2005	256
2005/2006	320
2006/2007	620
2007/2008	1265
Mean	517.2

(4)Price earning ratio:

Year	EPS (in Rs )	MPS(in Rs)	Price earning ratio( in times)
2003/2004	8.49	125	14.72
2004/2005	15.43	256	16.59
2005/2006	18.74	320	17.08
2006/2007	9.02	620	68.74
2007/2008	10.35	1265	124.19
Mean			48.26

### Appendix - 3

#### A) Trend Analysis of Total Deposit Nabil Bank Limited

Year(x)	Total deposit(Y)	X = x-2005/06	X <sup>2</sup>	XY
2003/04	35014	-2	4	-70028
2004/05	35735	-1	1	-35735
2005/06	35934.2	0	0	0
2006/07	35829.8	1	1	35829.77
2007/08	38715.2	2	4	77430.4
Tot n= 5	Y = 181228.17	X = 0	X <sup>2</sup> =10	XY= 7497.13

Source: Annul report of Nabil Bank Limited

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

NABIL

$$a = 20662$$

$$b = 4434.7$$

Where as

$$Y_c = 20662 + 4434.7 X \text{ of NABIL}$$

**B) Trend Analysis of Total Deposit of Everest Bank limited**

Year(x)	Total deposit(Y)	X = x-2005/06	X <sup>2</sup>	XY
2003/04	8063.9	-2	4	-16127.8
2004/05	10098	-1	1	-10097.7
2005/06	13802	0	0	0
2006/07	18186	1	1	18186.25
2007/08	23976	2	4	47952.6
Tot n= 5	Y = 74126.59	X = 0	X <sup>2</sup> =10	XY = 39913.35

Source: Annul report of Everest Bank limited

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

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

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

$$a = 14825.3$$

$$b = 3991.335$$

Where as

$$Y_c = 14825.32 + 3991.335 X \text{ of EBL}$$

## Appendix - 4

### A) Trend Analysis of Loan and Advance of Nabil Bank Limited

Year(x)	Loan and advances (Y)	X = x-2005/06	X <sup>2</sup>	XY
2003/04	8189.99	-2	4	-16380
2004/05	10586.17	-1	1	-10586.2
2005/06	12922.54	0	0	0
2006/07	15545.78	1	1	15545.78
2007/08	21365.05	2	4	42730.1
Tot n= 5	Y =68609.53	X = 0	X <sup>2</sup> =10	XY=31309.73

Source: Annul report of Nabil Bank Limited

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

NABIL

$$a = 13721.91$$

$$b = 3130.973$$

$$Y_c = 13721.91 + 3130.973 X \text{ of NABIL}$$

**B.) Trend Analysis of Loan and Advance of Everest Bank limited**

Year(x)	Loan and advances (Y)	X = x-2005/06	X <sup>2</sup>	XY
2003/04	5884.1	-2	4	-11768.2
2004/05	7618.7	-1	1	-7618.67
2005/06	9801.3	0	0	0
2006/07	13664	1	1	13664.08
2007/08	18339.1	2	4	36678.22
Tot n= 5	Y= 55307.28	X = 0	X <sup>2</sup> =10	XY= 30955.39

Source: Annul report of Everest Bank limited

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

EBL

$$a = 11061.46$$

$$b = 3095.935$$

Where as

$$Y_c = 11061.46 + 3095.539 X \text{ EBL}$$

## Appendix - 5

### A.)Trend Analysis of Loan and Advance of Nabil Bank Limited

Year(x)	Total Investment (Y)	X = x-2005/06	X <sup>2</sup>	XY
2003/04	5835.95	-2	4	-11671.9
2004/05	4267.23	-1	1	-4267.23
2005/06	6178.53	0	0	0
2006/07	8945.31	1	1	8945.31
2007/08	9939.77	2	4	19879.54
Tot n= 5	Y =35166.79	X = 0	X <sup>2</sup> =10	XY=12885.72

Source: Annul report of Nabil Bank Limited

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

NABIL

$$a = 7033.358$$

$$b = 1288.572$$

Where as

$$Y_c = 7033.358 + 1288.572 X \text{ of NABIL}$$

### B.) Trend Analysis of Total Investment of Everest Bank limited

Year(x)	Total Investment (Y)	X = x-2005/06	X <sup>2</sup>	XY
2003/04	2535.7	-2	4	-5071.3
2004/05	2128.9	-1	1	-2128.93
2005/06	4200.5	0	0	0
2006/07	4984.3	1	1	4984.31
2007/08	5059.6	2	4	10119.2
Tot n= 5	Y = 18909.01	X = 0	X <sup>2</sup> =10	XY = 7903.28

Source: Annul report of Everest Bank limited

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Here,

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

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

EBL

$$a = 3781.802$$

$$b = 790.328$$

Where as

$$Y_c = 3781.802 + 790.328 X \text{ of EBL}$$

## Appendix - 6

### A) Trend Analysis of Total Profit of Nabil Bank Limited

Year(x)	Total Profit (Y)	X = x-2005/06	X <sup>2</sup>	XY
2003/04	455.23	-2	4	-910.46
2004/05	519.32	-1	1	-519.32
2005/06	635.26	0	0	0
2006/07	673.96	1	1	673.96
2007/08	746.47	2	4	1492.94
Tot n= 5	Y = 3030.24	X = 0	X <sup>2</sup> =10	XY = 737.12

Source: Annul report of Nabil Bank Limited

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

NABIL

$$a = 606.048$$

$$b = 73.712$$

Where as

$$Y_c = 606.048 + 73.712 X \text{ NABIL}$$

## B.) Trend Analysis of Total Profit of Everest Bank limited

Year(x)	Total Profit (Y)	X = x-2005/06	X <sup>2</sup>	XY
2003/04	143.66	-2	4	-287.32
2004/05	170.8	-1	1	-170.8
2005/06	237.3	0	0	0
2006/07	296.41	1	1	296.41
2007/08	451.2	2	4	902.4
Tot n= 5	Y = 1299.37	X = 0	X <sup>2</sup> =10	XY = 740.69

Source: Annul report of Everest Bank limited

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

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

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

$$a = 259.874$$

$$b = 74.069$$

Where as

$$Y_c = 259.874 + 74.069 X \text{ EBL}$$