CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is among the world's 50 LDCs, sluggish economic growth, a low level of industrialization, underdeveloped production structure with limited commodities to export, unbridled production growth, high concentration of labour force in agriculture etc are some of the specific characteristics that indicates Nepal's underdeveloped economic structure.

After getting membership of WTO in 2004, the more responsibilities and challenges are added on national level. Today Nepal is in infrastructure development phase. After these phase there will be intense competition in every sector. So it is a time to built nation strong like as rock by developing ignored rural areas by including woman workforce in main stream of development. Small and cottage industry which have smell of nationality, other indigenous industry should be made economically strong. The root of national development is people development. Task of people development is only possible when they are economically, socially and politically empowered. So population should be empowered to make the foundation of national sustainable development and globalization in Nepal.

Capital accumulation plays an important role in accelerating the economic growth of a nation, which in terms is basically determined, among others, by saving and investment propensities. But the capacity to save in the developing countries is quite low with a relatively higher marginal propensity of consumption. As a result such countries are badly entrapped in to the circle of poverty. So, the basic problem for the developing countries is raising the level of saving and thus investments.

"Financial statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive to estimates and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, Investing and operating activities and is an evaluation tool for managerial and other business decision" **(Bernstein, Leopard. A, Wild John J. 1998:3)**.

Financial Statement analysis reduces over reliance on hunches, guesses, and intuition and in turn it diminishes our uncertainty in decision-making. It does not lesson the need for expert judgment but rather establishes an effective and systematic basis for making business decisions. Financial statements of a firm mainly include income statement and the balance sheet. They are important source of financial information regarding the firm's operations and its financial position. To analyze the financial performance and strength and weakness of the firm, many types of tools and techniques are used.

Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand and appreciate the value of aggregate economic activity in the economy.

The financial system in Nepal has evolved from a narrow, repressed regime till the eighties to a dynamic expanding sector in the nineties. Indicators of the last decade show that the sector has growth both quantitatively and qualitatively. It could be observed that, at the same time, the financial market has become more competitive, dynamic and also complex. This constitutionals network and the volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

1.2 Concept of Banking

Bank is a financial institution, which plays a significant role, in the development of a country. "Banking institutions are inevitable for the resources mobilization and all round development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people" **(Grywinshki, Ronald, 1993:87)**

"The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy" (**Shrestha, 1993:32)**

Banks are institutions whose debts usually referred to as "bank deposits" are commonly accepted in final settlement of other people's debt. Bank is also defined as an institution, which accepts deposits from the public and in turn advances loan by creating credit. It is different from other financial institutions in the sense that they cannot create credit through they may be accepting deposits and making advances. Banking system occupied an important place in nation's economy. A banking institution is in dispensable in a modern society. It plays a pivotal role in the economic development of a country and forms the core of the money market in the advanced country.

Various types of banking institutions are performing different functions. There's for instance the central bank, which controls the entire currency and credit of the country. It is the organ of government that under takes the major financial operations and by other means influences the behavior of financial institutions so as to support the economic policy of the government. Similarly, commercial banks also perform different functions by accepting the deposits

and advancing loans etc. But in modern times commercial banks are concentrated in their activities of fulfilling the financial needs of their customers. The commercial banks have become the heart of financial system as they hold the deposit of the people, government and business units and investing activities to individuals, business firm and government.

1.3 History of Banking System in Nepal

"Banking concept existed even in the ancient period when the goldsmiths and the rich people used to issue the common people against provides of safe keeping of their valuable items on the presentation of the receipt; the depositors would get bank their gold and valuables of the paying a small amount of safe keeping and saving" **(Samuelson, P.A., 1973:27).**

The history of banking in Nepal can be described as a component of gradual and economic sphere of the Nepalese life. Even the financial system is still in evolutionary phase. Though establishment of banking industry was very recent, some crude bank operation was in practice even in ancient times. In Nepalese chorine, it was recorded that the new era known as "Nepalese Sambat" was introduced by "Shankhadhar" a merchant from Kantipur in 880 A.D. after having paid all the outstanding debt of the country. This shows basic of money lending practice in ancient Nepal. In 11th century during Malla Regime there was an evidence of professional moneylenders and bankers. It is further believed that money- lending business; particularly for financing the foreign trade with Tibet became quite popular during regime of Mallas. However, in the absence of any regulatory measures the unscrupulous moneylenders were known to have changed exorbitant rate of interest and other extra dues on loans advanced.

The establishment of the "Tejarath Adda" by primer ministers "Ranoddip Singh" during the year 1877 AD was fully subscribed by government of Kathmandu valley which played vital role in the banking system, was regarded

as the father of the modern banking institution. The prime task of "Tejarath Adda" was granting of loans and safeguarding of total national deposits. At that time, Indian currency was commonly used in most part of Terai. The primary task of the Tejarath Adda" was to attract the deposits in government exchequer at the beginning but later on general public was also allowed to take the loan at the same rate of interest with gold and silver ornaments as securities and collateral. Although the institution did not accept any deposits, it had played an important role in development process of banking system in Nepal.

The main defects of this institution showed that there was no further financial institution set-up and there was no effort to expand the services. Above all of the defects, this institution did not accept any deposit from the public. In the absence of saving mobilization the "Adda" faced financial problems making it impossible to charter to the credit and service need of general population throughout the country. Udyog Parished (Industrial Development Board) was constituted in 1936 A.D. One year after its establishment, it formulated the" Company act" and "Nepal Bank Act" In 1937 A.D.

In the year 1994 B.S. the establishment of Nepal Bank Limited, with the Imperial Bank of India came into existence under "Nepal Bank Act 1993 B.S." as the first commercial bank of Nepal. At that time Nepalese economy was characterized by the existence of dual currency system (Indian and Nepalese),which was effecting economic stability and development of nation. Thus, theneed of establishment of the central bank required great urgency. As a result Nepal Rastra Bank was established as a central bank of country on 13th Kartik2013 under NRB Act 2012 with the authorized capital of Rs. 10 million fully subscribed by government.

Integrated and speedy development of the country is possible only when the competitive banking services reaches nooks and corners of the country. To cope this situation, government setup Rastriya Banijya bank in 2022 B.S. as a

fully government owned commercial bank. With the come up of RBB, banking services spread to both urban as well as rural area. Agriculture Development Bank was established for the promotion of agriculture sector in country. When the government adopted liberal and market oriented economic policy in the mid80's Nepal allowed the entry of foreign banks of joint venture basis with foreign capital, technology and experience. Nepal Arab Bank Ltd. was the first joint venture bank established on 2041 B.S. under the commercial bank act2031. With the opening of NABIL the door of opening joint venture banks was opened to the private sector.

1.4 Commercial Banks

Financial intermediaries play significant role to the development of national economy. They influence savings and surpluses considerably, which results investments. Financial intermediaries collect financial resources and supply them to the productive sectors that boosts the trade and industry and at last development of the country's economy. Commercial banks are also financial intermediaries they mediate people who save money and who want to secure the use of money by accepting the deposits, burrowing funds and advancing loans. In addition to these primary functions, commercial banks, collect checks and bills, open later of the credit guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc.

"A commercial bank is one which exchanges money, deposits money, accept deposits, grants loan and performs commercial banking functions and which isn't a bank meant for co-operative agriculture industries or for such specific purpose" **(Nepal Commercial Bank, Act 2031:1)**

Commercial Banks are heart of financial system they hold the deposits of many person, government establishment business unit. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services for the producers to customers and the financial

activities of the government. They provide the large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of nation is important to the functioning of the economy **(Read/Cotler/Will/Smith, 1976:39)**. In content of Nepal, commercial banks are operated under "Commercial Bank Act 2031 B. S.", In addition to Commercial Bank Act, Nepal Rastra Bank also lays down other many directives.

1.5 Functions of Commercial Banks

Regarding the functions of commercial banks, commercial bank act exchanges money, accept deposits, grants loans, and performs commercial banking functions. The functions and services of modern commercial banks are classified under the following headings.

(I) Accepting Deposits

A commercial bank accepts deposits from customers in the forms of current, saving and fixed deposits. These deposits are repayable on demand. The depositors other than current A/c are paid interest.

(ii) Granting Loans and Deposits

The second main function of the commercial bank is to grant loans and advances to businessman, the industrialist, the individuals, the different organizations etc. in the forms of term loans, cash credit, overdraft, trust receipts, hire purchase loans etc. Banks charges interest on such loan and advances, which is the largest source of total income.

iii) Agency Service

A modern commercial banks act as an agent of individual's customers, business institutions and different organization. The agency services of banks may involve collection of interest and dividends on debt and share capital. Bankbuys and sells securities are on behalf of the customers. Bank also collects

cheques, draft promissory notes etc and receives their payments. Sometimes, it makes payments of insurance premium, bills of electricity, telephone etc. It takes commission for the services rendered.

(iv) Guarantee on Behalf of Customers

The need of bank guarantee arises in business. Generally, business customers enjoy this service. Sometimes, personal customers may also need a bank guarantee. A guarantee is a definite and irrevocable under taking by a bank on behalf of its customers to make payments up to a specified sum of money to the beneficiary on demand incase of default by its customers.

(v) Issuance of Traveler's Cheque

The people traveling outside the country want to reduce the fear of getting money stolen during the travel. Bank sells the traveler's cheque. The unique feature of the traveler's cheque is that unless the purchaser of traveler's cheque signs for encashment it cannot be encased.

(vi) Opening Letter of Credit

Today letter of credit has become very popular in foreign business. The letter of credit is established opened by the bank on the request of the customers.

(vii) Remittance Function

Sending and receiving fund to / from various places is the necessity of today. The remittance service of bank has benefited both business and personal customers. Funds transfers are made through various modes like demand drafts, telegraphic payment order, swift, fax and mail payment orders.

(viii) Other Services

Modern commercial banks are equally important in undertaking safe custody of important valuable and documents. Banks also offer some of the bank service sat the door of highly valued customers. Few large banks conduct research and

survey in the economic conditions and they supply trade statistics and information. In addition to these, banks also inform their customers about the credit standing of other particles.

1.6 Concept of Joint venture Banks

A Joint Venture Bank is joining of forces between two or more enterprises for the purchase of carrying out a specific operation i.e. industrial and commercial investment production or trade." **(Gupta, D. P. 1984:15)**

The joint venture is common variant for expansion. "A joint venture business involves in equity arrangement between two or more independent enterprises which results in the creation of new organization" **(Jauch and Glueck,1988:232)** this thought identified the joint venture as a mutual understanding among two or more firms then bringing a new enterprise in existence. Basically re constant about the ownership of new firms. In what proportion they are going to contribute ownership is also decided mutually.

Firms within a country as well as operating in different countries may participate in a venture that happens to be more common firm's indifferent countries. The foreign joint venture banks with full-fledged banking functions in Nepal are formed under Company Act 2021 B. s. and operated under the Banijya Bank Act 2031 B. S. Joint Venture Bank have been established for trading to achieve mutual exchanges of goods and services, for sharing comparative advantages by performing joint investment schemes between

Nepalese investors, financial and non-financial institutions as well as private investors and their parents banks. The parent banks that have experience in highly mechanized and efficient modern banking services in the many part of the world have come to Nepal with superior technology, advanced management skills and international network of banking.

Nepal Government deliberate policy of allowing foreign JVB's to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their balanceable capacity through competition efficiency, modernization via computerization and prompt customer service". **(Shrestha,M. K. 2047:44)**

Joint venture banks in Nepal are expected to be the medium of economic development and uplift the community under the guidance, operate under supervision, controlling and direction of Nepal Rastra Bank. Nepal Arab Bank Limited was the first joint venture bank of Nepal, established in 29th Ashar2041 B. S. till now there are nine joint venture banks operating in different parts of Kingdom of Nepal.

The following are some JVBs that have been established in Nepal

S.N	Joint Venture Banks	Established Date	Head Office
1	Nepal Arab Bank Limited	2041/03/29 B.S.	Kathmandu
2	Nepal Investment Bank Limited	2042/11/16 B. S.	Kathmandu
3	Standard Chartered Bank Limited (Formerly Nepal Grindlays Bank)	2043/10/16 B. S	Kathmandu
4	Himalayan Bank Limited	2049/10/05 B. S	Kathmandu
5	Nepal SBI Bank Limited	2050/03/23 B. S	Kathmandu
6	Nepal Bangladesh Bank Limited	2051/02/23 B. S.	Kathmandu
7	Everest Bank Limited	2051/07/01 B. S.	Kathmandu
8	Bank of Kathmandu Limited	2051/11/28 B. S	Kathmandu
9	Nepal credit and Commerce Bank Ltd (Formal Nepal Bank of Cylon Ltd.)	2053/06/28 B. S.	Siddharthanagar

1.7 Role and Function of Joint Venture Banks

With the entry of foreign joint venture banks with foreign collaboration advanced managerial skills, international network personalized manpower, and modern computerized technology have created serious challenges to the existence of the traditionally running inefficient domestic state owned banks.

JVBs are able to provide quality-banking service at the cheaper costs. At sometime, JVBs create the opportunity and environment to the domestic bank to improve their style of doing business by modernizing themselves and sharpening the internal strength. The JVBs have already been providing a dynamic and vital role for the development of the efficient financial market as well as for successful mobilizing and utilizing financial resource in the country, which can be illustrated in the following headings.

(I) Providing Advanced Banking Services

The joint venture banks are expert and efficient for practicing new methods of doing banking business like computerization, providing tele-banking facility, automatic teller machine (ATM), 24 hours banking services, any branch banking facility, premium saving account (PSA), free life insurance of accountholders, and other many attractive facilities.

(II) International Management Network

The top level-management of the JVB is either from foreign country or supported by foreign parent institutions for expertise and professional services. The management is able to formulate policy and strategy according to Nepalese economic climate with the participation of native promoters. Such management system can be a model example to the domestic banks that are operating traditionally.

(III) Creation of Healthy Competition in the Banking Industry

In the post liberalization period the introduction of the JVBs has ended the monopoly of the two domestic banks namely NBL and RBB and brought satisfactory fair competition in the banking business, which results the competitive advantages to customers. Efficiency of the financial market is the backbone of the economy. The advent of the JVBs has contributed much to the direction of domestic saving as well as to the efficiency of funds flow into the

economy which surely would not have been possible through the government's conservative and restricting free competition policy.

(IV) Advantage of Foreign Investment

The JVBs play a remarkable role in making available foreign financial resource for the investment. They act as mediators between foreign investors and native investors and promoters. That will help for the promotion of the trade and commerce in the country. Recently, the JVBs are being criticized, as they only want to operate in urban and suburban areas rather than to rural ones driven by profit motive. However the JVBs have been contributing much in the direction of the development and modernization of the efficient banking system, financial system, domestic saving, and creation of the employment opportunities.

1.8 Focus of the Study

In Nepal many commercial and financial company have opened within few years of period. Basically, joint venture banks have given a new horizon to the financial sector of Nepal. They have achieved tremendous success in terms of market share and profitability due to their prompt service and professionalism. This study focuses on the financial performance and comparative analysis of three joint-venture banks. A brief profile of these three banks is given below:

NABIL Bank Limited

Nabil Bank Ltd. is the first joint venture commercial bank in Nepal which has in corporate in Ashadh 29, 2041(1984 A.D.) Dubai Bank Ltd., was the initial foreign joint venture partner with 50% equity investment. The shareowner Dubai Bank Ltd, were transferred to Emanates Bank International Ltd.(EBIL) Dubai by virtue of its annexation with the later on EBIL Dubai sold its entire 50% equity to national Bank Ltd.

Share Subscription and Capital Structure:

Subscription %	Holding
NB (International) Limited	50%
Nepal Industrial Development Corporation	6.15%
Rastriya Beema Sansthan	10.41%
Nepal Stock Exchange	3.44%
General Public	30%

Authorized Capital: 1,60,00,00,000

Issued capital: Rs68,92,16,000

Paid up capital: Rs. 68,92,16,000

Earning per share and dividend per share of this bank are Rs.108.31 and Rs.60 at the end of the financial year 2008 respectively.

Nepal Investment Bank

Nepal Investment Bank Ltd (NIBL), previous, Nepal Indosuez Bank Ltd. Was established as a joint venture between Nepalese and French partner in Falgun16, 2042 (1985 A.D.) the French partner (hold capital of NIBL) was credit Agricole Indosuez a subsidiary of one of the Largest banking in the world.

Share Subscription and capital structure:

Subscription %	Holding
Organized Institutions	50%
Rastriya Banijya Bank	15%
Rastriya Beema Sansthan	15%
General Public	20%

Authorized Capital: Rs 2,00,00,00,000

Issued capital: Rs. 1,20,39,15,400

Paid up capital: Rs. 1,20,39,15,400

Earning per share of this bank is Rs. 57.87 and dividend per share of this bank is Rs.4.34 with stock dividend of 3:1 ratio at the end of the financial year 2008. The name of the bank has been change in to Nepal Investment Bank Ltd.in June 12, 2002 A.D. provides Loan and advance to agriculture, industries, commerce and to provide modern Banking services to the people.

1.9 Statement of the Problem

Due to the economic recession in the nation, there has been lower investment in the agriculture, manufacturing, industrial and financial sectors which has caused lower growth of gross domestic product and hence foreign trade deficits increasing day by day. JVBs are also facing this economic chaos and difficulties in extending their loan and advances towards the profitable sectors. Because of economic recession, only few entrepreneurs are able to survive and others, who are less competitive, are backing out from the industry. In this situation, banks invest their surplus funds in the non-risky portfolios like treasury bills, or government securities, which yield lower rate of returns in comparison to credit to be in safer side.

The economic slowdown of expansion is occurred mainly because of elasticity of credit supply. The elasticity of credit supply basically depends on the functioning of the central banking system. Central bank has issued directives to regulate the activities of commercial banks with the objective of safeguarding the public sector. Despite of prevailing economic recession in the country, joint venture banks operating in Nepal have managed to perform well in terms of their work efficiency and profitability. However, they are also facing problems in generating an adequate return on their investment and the role of banking sector has been further increased for the enlistment of the country's economy from the present condition. They must attempt to find the potential areas of profitable investment in order to get themselves and the nation away from this economic turmoil.

1.10 Objectives of the Study

The Primary objectives of this study is to make comparative analysis of the financial performance of selected banks namely Nabil Bank Limited and Nepal Investment Bank Limited and to recommended suggestion for the improvement of state of affairs. Some of other objectives are:

a. To evaluate the liquidity position of selected bank.
b. To measure the strength of financial performance of selected bank.
c. To identify the relationship between net profit and total deposit.
d. To suggest & recommend the subject matters of Banks.

1.11 Significance of the Study

Analysis of financial performance of any company is very important. Actually, on the basis of the financial analysis we can say that the concerned company is strong or not. The financial report published by the banks gives the meaningful picture to the general public regarding the financial position of the banks. Thus, the analysis of these statements is necessary in order to give the full and clear-cut position and performance of the banks. This study is mainly compared the financial performance of selected banks which compare the position of selected bank under the study, which encourage to improve the different position and performance of the selected banks. From data presentation and analysis researcher finds different strength and weakness of the selective banks which is recommended to the banks for their further improvement.

Banking Institutions definitely contribute and play an important role for domestic resource mobilization, economic development and maintains economic confidence of various segments and extends credit to people.

a. This study has multidimensional significance in particular area of concerned banks which have been undertaken that justifies for finding out important points and facts to researcher, shareholders, brokers, traders, financial institution and public knowledge.

b. This study helps and justify for finding out the financial performance of concerned selected commercial banks and Government of Nepal to make plans and policies.
c. This study certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

1.12 Limitation of the Study

Every works have its own restriction and limitation due to the lack of time resources and knowledge. Despite the enough efforts of researcher, this thesis is not free from limitation. The study is presented just for the partial fulfillment of M.B.S. (Master of Business Studies) degree. The researcher has come across many problems while presenting the thesis. Following are the major limitations of this thesis. This thesis is based on secondary data collected from concerned banks.

Thus, the result of the analysis depends on the information provided by them. This thesis covers two commercial banks only viz. NABIL Bank Ltd. and Nepal Investment Bank Ltd. only. The thesis is limited to analyze five years period i.e. from FY i.e.(2003/04 to 2007/08).Standard normal performance level is not available especially in Nepalese context. So, interpretations of data are depended upon common sense. In thesis context concerned experts are also consulted. The source of data i.e. published annual report and internet web site is assumed to be correct.

1.13 Organization of the Study

The study on the comparative financial analysis of NABIL and NIBL has been divided into five chapters viz. Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendations.

Chapter - I : Introduction

The introduction chapter briefly explains about the meaning and historical background of commercial bank in Nepal and also the joint venture banks. It describes the introduction of research study, which explains the focus of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Chapter - II: Review of Literature

This chapter deals with conceptual framework/Theoretical review, review of books, Journals and dissertations and Research Gap.

Chapter -III: Research Methodology

The third chapter briefly explains about the research methodology that has been used to evaluate the financial performance of the banks under consideration. This chapter consists of research design, sample and population, source of data and financial tools and techniques to measure the financial performance NABIL and NIBL.

Chapter - IV: Data Presentation and Analysis

In this fourth chapter, the data required for the study has been presented analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relating to the study in a very lucid manner.

Chapter - V: Summary, Conclusion and Recommendations

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to fetch out a conclusion of the study and attempts to offer various suggestion and recommendations for the improvement of the future performances of the three banks under review.

Finally bibliography and annex are represented at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

Review of the literature is focused and directed towards specific purposes. It is a selective subject. A researcher has to select the kind of literature to be reviewed and determine the purpose. It starts with the selections of a problem for research, continues through the various stages of the research process and end with report writing. Reviewing different available literature from various sources is the major objective of this chapter. The prime focus for collecting external literacy information through various textbooks, research journals and research thesis. Various articles relating to different aspects of commercial bank will help to conduct the study smoothly. Review of literature is divided into two categories.

2.1 Conceptual Frame Work/Theoretical Review

Financial decisions are very sensitive and important and cannot be taken blindly or in a vacuum. Financial decisions must be based on proper financial analysis by using, financial tools-such as financial ratios are used to measure the financial performance of the company. According to Surendra Pradhan, "Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firm, to identify problems, if any, in the past or present and /or likely to be in the future, and to provide recommendation to solve the problems" **(Pradhan, 2000:120).**

According to Vanhorn, J.C. & Watchowlcz, J.M, "Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm's financial position analysis at analysis moment in time and next, income statement, that deposits analysis summary of the firm's profitability overtime" **(Vanhorn & Watchowlcz, 1997:120).**

Similarly, Hampton has stated that "It is the process of determining the significant operating and financial statements. The goal of such analysis is to determining the efficiency and performance of the firm's management, as reflected in the financial records and reports." **(Hampton, J.J 1998:98)**

In financial analysis, certain guidelines or criteria are included:

a. Historical evidence of performance as a base of financial performance analysis.
b. Economic consideration such as trend and averages of price level, business profit interest rates, dividend policy, and security price movements etc.

Financial statement gives insight knowledge on the firm's financial position at a point of time and on its operations over some past companies regarding what they have performed financially. Financial report is reporting about what the company has done in terms of assets, liability, income and expenses. On the other hand financial statement also highlights other aspects of company such as liquidity, activity, capital structure and market.

Westom, Besley and Brigham have stated, "Financial statement analysis involves a comparison of analysis 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 the current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness." (**Westorn, Besley & Brigham, 1996:78)**

Financial statement published by the listed company in the stock exchange are collected and analyzed by Nepal Stock Exchange for the calculation of the financial performance of the concerned company. In fact, financial statement comprises of:

Balance Sheet: It is very important means of analysis of financial performance of any companies. It shows assets, liabilities and shareholder's equity etc.

Statement of Profit and Loss Account: It also very important means of financial performance of any company. It comprises of income and expenses over the period of time.

Statement of Retained Earning: This statement explains about the Company's position of earnings to be paid as dividend and the portion of profit to be retained for future uses. It also explains how profit, dividend and other transaction affect the retained earnings and share-holders' equity.

Financial analysis is done on the basis of financial statement of the concerned company. The objective of financial analysis can be described as:

- To get the entire information that can be used at the time of decision making.
- To judge overall performance and management effectiveness.
- To identify the deficiencies and weaknesses.
- To take corrective action in time to check such deficiencies and improve the performance.
- To evaluate the possible implications of alternative course of actions.
- To get in dept information of possibilities of brining changes worthwhile.

2.2 Review of Books, Journals and Dissertations

Under this, various books, articles and dissertations have been reviewed for the purpose of clarification of financial statement and performance of the company under consideration.

2.2.1 Review of Related Books

Western & Copeland (1991), in the 20th chapter "Short Term Financial Management", the author has highlighted the types of short term financing and its related issues. Following are the objectives of this chapter.

a. Discuss the nature and type of short term financing.
b. Evaluate the significance of working capital management of the firm.
c. Explain the relationship between sales growth and current assets.

Short term financing is defined as debt scheduled for repayment within one year. A large number of short-term credits are available and the financial manager must know the advantages and disadvantages of each. The main types of short term financing are:

A. Trade Credit

Trade credit is a customary part of doing business in most industries. It is convenient and informal. Whether trade credit costs more or less than other forms of financing is a moot question, because in such cases, the buyer has no options to buy the goods from the creditors. The trade credit is not applicable to the commercial banks.

B. Loans from Commercial Banks

Loan from the commercial banks is very important source of financing.
Commercial banks take into consideration of following factors while providing loan to its customer.

i. Forms of loan
ii. Size of Customers
iii. Maturity
iv. Security
v. Compensation Balance
vi. Repayment of Bank loan

C. Commercial Paper

In recent years, the issuance of commercial paper has become an increasingly important source of short term financing for many types of corporations, including utilities, finance companies, insurance companies, and bank holding companies and manufacturing companies. Commercial paper consists of unsecured promissory notes issued by the firms to finance short-term credit lines.

In conclusion, the author has quoted that trade credit is the largest single category of short term financing. It is especially important for smaller firm.
Bank credit occupies a pivotal position in the short-tem money market. Banks provide the marginal credit that allows the firms to expand more rapidly that in possible through retained earnings and trade credits. Commercial paper is physically similar to a bank loan. It is sold in broad and impersonal market.

The highest rated firms are the main users of the commercial paper. Working capital management encompasses all aspects of administration of current assets and current liabilities. Short term financial management is widely used in place of working capita management and it covers all decisions of an organization involving cash flows in short term.

Van Horne (2000), in the 12th chapter "Liquidity, Cash and Marketable Securities", the author has focused on the current assets and short term financing. According to the author Liquidity and liquid assets like cash and cashable assets are more important for the company to discharge the current liabilities. The objectives of the chapter can be explained as follows

- Discuss the term liquidity and its role.
- Explain the various aspects of cash management and collections.
- Explain the various aspects of investment in marketable securities.
- Also to focus on the aspect of portfolio Management.

The, term liquid assets refer to money and assets that are readily convertible into cash. Cash is said to be more liquid asset in comparison to other assets. Because of other assets have varying degree of liquidity depending on the way of conversion into cash? For the other assets, liquidity has two dimensions (i) the time necessary to convert the assets into money (ii) the degree of certainty, associated with conversion ratio. Since, assessment of financial performance also depends on the degree of liquidity of the company, so the company under consideration should be enough liquid to discharge it current liability in time.

Other aspects of liability involve cash management and collections. Cash management refers to managing monies of the firm in order to maximize cash availability and interest income on any idle funds. The financial manager has to tackle the cash management and collection of fund seriously. Cash management and collection comprises various aspects like.

- Transferring funds.
- Concentration Banking.
- Lockbox System.
- Control of disbursements.
- Mobilizing funds and slowing disbursement.
- Payroll and dividend disbursements.
- Zero Balance Account.
- Electronic funds Transfers.

The author has also highlighted on investment in marketable securities to properly maintain the liquidity in the firm. According to author a good financial manager should always try to invest the portion of a excess liquid assets. The yields on these sorts of marketable securities may vary due to default risk, coupon rate and other factors involved. The financial manager should consider following aspects while taking decision regarding the investment in marketable securities:

- Default risk.

- Marketability.
- Maturity Period.
- Coupon Rate.
- Taxability.

Types of Marketable Security

- Treasure Security.
- Repurchase Agreement -Agency Security.
- Banker's Acceptance.
- Commercial Paper.
- Negotiable Certificates of Deposits.
- Euro Donors.
- Short-Term Municipal Bonds.

Regarding the portfolio management, the author has emphasized that the financial manager should the investment portfolio in accordance with the need of fund. The term 'portfolio' means collection of investments in different securities. In portfolio analysis, financial manager should analyze future risk and return of securities. The objective of portfolio management is to help developing a portfolio that has the maximum return at chosen level of risk efficient portfolio provides the highest possible return for any specified rate of return. In portfolio analysis, the financial manage should estimate the expected return and the risk of holding securities in a portfolio. In portfolio management expected return and portfolio risk calculated as follows.

Portfolio Returns

The portfolio returns is calculated by using following formula

$$r_p=W_1r_1+ W_2r_2 +\ldots\ldots\ldots\ldots+W_nr_n$$

Where,

r_p Expected portfolio return

r_1 Expected return for stock 1

r_2 Expected return for stock 2

W_1 Weight for stock 1

W_2 Weight for stock 2

W_n Weight for stock n

r_n Expected return for stock n

Portfolio Risk

Portfolio risk is measured by the variance or standard deviation of the return of the portfolio. The variance of returns from a portfolio made up of two assets is defined by following equation:

$$\sigma_p^2 = w_1\sigma_1^2 + w_2 + w_1 w_2 \text{cov}(r_1 r_2)$$

Where,

σ_p^2 = variance of the portfolio's rates of return

w_1 = weight for asset 1

σ_1^2 = variance for assets 1

w_2 = weight for asset 2

σ_2^2 = variance for asset 2

Cov ($r_1 r_2$) = Covariance between returns of asset 1 and asset 2

Instead of Variance, standard deviation (σ_p) can be used to measure the risk of the portfolio. Standard deviation is equally valid as the variance but is easier to interpret. The following equation is used for the calculation of standard deviation of a two asset portfolio.

In conclusion, for the cash management the company should attempt to accelerate cash collections and handle disbursement so that maximum liquidity is maintained in the company. On the other hand, the financial manager should try to use the excess cash in a number of securities. The financial manager

should select the best possible portfolio considering the cash flow pattern and other things of the company.

Pandey, I.M (1999), in the second chapter “Statement of Financial Information” the author has pointed out the financial analysis of any company there needs the financial information. The base of financial planning, analysis and decision-making is the financial information. Financial information is need to predict, compare and evaluate the firm's earning and expanding ability. It is also needed to help in economic decision making like investment and financing decision-making.

In his book, “Financial Management” the author has pointed out the following objectives in second chapter:

a. Discuss the nature, content, form and utility of two financial statements, viz. Balance sheet and profit and loss account.
b. Show relationship between Balance sheet and profit and loss statements.
c. Distinguish between accounting profit and economic profit.

Any firm communicates financial information to the users through financial statements and reports. Thus, financial statements contain summarized information of the firm's financial affairs. These statements are the means to present the firm's financial situations to the users. Preparation of these statements is the responsibility of top management. As the investors, and financial analysis to examine the firm's performance in order to make investment decision use this statement, they should be prepared very carefully and contain as much information as possible. There are two basic financial
Profit and Loss account presents the summary of revenues and expenses and net income of a firm. It serves as a measure of the firm's profitability. The functions of profit and loss account can be described as follows:

a. It gives a concise summary of the firm's revenue and expenses during period of time.

b. It measures the firm's profitability. Communicates information regarding the results of the firm's activities to owners and other.

In conclusion, financial information is required for a financial planning, analysis and decision-making. The user of financial information includes owner's managers, employees, customers, suppliers and society. The financial statements like Balance Sheet and P/L account are the basic instruments for the analysis of financial performance.

Sharan, V. (1991) aimed about the financial structure of firm. According to the author, the term in the 6th chapter called “Financial Analysis", the author has expel financial structure is wider than the capital structure. It refers to the structure of total finance of the company. It consists of both short term financing and long term financing. The objectives of this chapter can be explained as follows:

a. Discuss and explain the term financial structure
b. Explain about various financial leverages.
c. Also explain about financial leverage and risk associated.
d. Explain the various factors affecting financial structure.

The financial decision of the firm is one of the important decisions for the achievement of the maximization of the shareholder' wealth. For this, a financial manager should select a sound financial mix (financial structure), which help to achieve the objective of the firm. The term financial structure refers to the proportion of each type of capital, such as debt, preferred stock, and common equity issued by the firm.

The financial leverage is concerned with the relationship between the firm’s earnings before interest taxes and the earning available for common stock holder. Financial leverage measures financial risk, and financial performance of the firm. It shows how much debt the firm employees in its capital structure.

Financial Leverage and Degree of Financial Leverage can be measured by using following equations:

$$FL = \frac{EBIT}{EBT}$$

Here,

FL= Financial leverage

EBIT =Earning before interest and tax

EBT = Earning before tax

The effect of financial leverage is such that an increase in the firm's EBIT results in a more than proportional increase in the fir's earning per share. Where as a decrease in the firm's EBIT results in a more than proportional decrease in EPS.

Measuring the Degree of Financial Leverage (DFL)

The degree of the financial leverage (DFL) is the numerical measure of the firm's financial leverage. The following equation is used to, calculate DFL

$$DFL = \frac{\% \text{ Change in EPS}}{\% \text{ Change in EBIT}}$$

Here,

DFL = Degree of financial leverage

EPS = Earning per share

EBIT = Earning before interest and tax

The degree of financial leverage is defined as the percentage change in EPS due to a given percentage change in EBIT.

In this chapter the author has pointed out following factors that affects the financial structure of the company. Following are the main factors that affect the financial structure:

a. Growth rate of sales
b. Sales stability

c. Assets structure
d. Management attitude.
e. Lender attitude
f. Competitive structure

A company's financial-structure is affected by above factors. Therefore, in choosing an appropriate capital structure, the financial manager should consider above mentioned factors.

2.2.2 Review of Related Articles

Bhatta (47th Anniversary), In his article "Financial policies to Prevent Financial Crisis", Nepal Rastra Bank Samachar, the author has suggested that the financial markets have become an exciting, challenging and ever changing sector in the recent years. The emergence of global financial institutions as a result of increased economic liberalization has raised a host of questions for financial planners and policy makers. The growth of financial markets has caused complexities in the management and if they are not managed and addressed properly with appropriate policies, then the end result is the financial crisis. The financial crisis which took place in Chile in 1992, Maxico in 1994, South Asian countries 1997, Russian Federation in 1998, Ecuador and Brazil in 1999 and Argentina in the late 2001 were the result of an abrupt growth in the size of financial markets posing serious challenges to their management.

According to the author of the article, the financial crisis in most of the markets, particularly in emerging market, undergo several stages. The, initial stage is deterioration' in financial and non-balance sheets and which promotes the second stage that is currency crisis. The third stage is a further determination of financial and non- financial balance sheets as a result of the currency crisis. This stage is the one that caused the economy to full- fledged financial crisis with its devastating consequences.

Policies to Prevent Financial Crisis

The author has suggested following policies to be adopted for preventing financial crisis:

1. Prudential Supervision

Banking sector problems promote most of the financial crisis. The experience of crisis hit countries show that the deterioration in banks balance sheet increase financial crisis. Further, foreign exchange crisis also lead to a full-blown financial crisis. The supervisory system must give special emphasis on following to prevent financial crisis:

a. Stop undesirable activities of financial institutions.
b. Adequate resources and statuary authority for prudential supervisors
c. Accountability of supervisors.
d. Restrictions on connected lending.
e. Limiting too-big to fail (too-bit- to fail is a policy in which all depositors at a big bank are fully protected if the bank fails)

2. Accounting Standards and Disclosure Requirements

It is true that both markets and supervisors need enough information so as to effectively monitor financial institutions to stop excessive risk taking. There is a practice of making bad loan good by providing additional loan to the troubled borrowers. As a result, it become harder for the markets or supervisors to decide when the banks are insolvent and need to be closed down. In this respect, implementation of proper accounting standards and disclosure requirements helps to established healthy financial institutions.

3. Legal and Judiciary System

The efficient functioning of the financial system requires an efficient legal and Judiciary framework in many developing countries, the legal system may not well be defined about the use of certain assets as collateral or makes attaching collateral a costly and time consuming process. Thus, an effective legal and

judiciary system is required to secure the investment of the lender and other similar cases by decreasing information problem.

4. Monetary Policy and Price Stability

Monetary policy and price stability can also help to prevent financial crisis. When the countries have in past high inflation, foreign debt contracts make the financial system more fragile and thus trigger a financial crisis. Achieving price stability is a necessary condition for having sound currency and with sound currency it is easy to banks and non-financial firms and system government to raise debt in local currency.

5. Exchange Rate Regimes and Foreign Exchange Reserves

Exchange rate regime and foreign exchange reserves can also create financial instability. The experiences of crisis - hit countries have also shown that economies with low amount of foreign currency reserve seemed to be more vulnerable to crisis though, pegged/ fixed exchange rate regime is an efficient mechanism for inflation control, but the same can create server problem if the economy is dominated by substantial amount of foreign debt. Thus, some researchers have advocated that increased holding of foreign currency reserves is required to insulate countries from financial crisis.

6. Encouraging Market Based Discipline

Market based discipline is very much essential for a sound financial system.

This can be maintained by:

- Disclosure requirement, which provides information to the markets that, assist them to monitor financial institutions and keep them away from taking oil too much risk
- Having credit ratings to financial institutions. Requiring them to issues Subordinated debt.

7. Entry of Foreign Bank

A liberalized economy with sound supervisory/ regulatory infrastructure can permit foreign banks to enter in financial system. The adverse shocks in economy will not affect the functioning of these banks since their risk is adversities and their enter can encourage the adaptation of best practices in the banking industry. It is believed that these banks come with better risk management techniques and more efficient banking system.

8. Limitation of Too- Big to Fails hi the Corporate Sector

When some corporate houses considered to be too- big -to fail (or politically influential) by the government, these corporations enjoy in excessive risk taking. If such is the case, lenders do not hesitate to supply additional fund to the troubled corporations and which violates the market discipline. Therefore, too- big to fails as ' in the banking sector should be eliminated.

In conclusion the author has remarked that there is no doubt is no doubt that the key to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institutions. The experiences of the crisis hit countries, especially during the decade of nineties, has proved that a country opening to liberalized economic policy should adopt sequencing policies constraining the pace of participation in the global market place until a sound domestic infrastructure can be put into place.

Gautam (2061), "WTO and challenges of Financial Services Liberalization," Nepal Rastra Bank Samachar 49th Anniversary edition 2061 by Nepal Rastrya Bank, Kathmandu, Nepal. In this article the author has caste highlight on Nepal's entry into WTO and its challenges to financial services. Nepal has become 148th member of world trade organization (WTO). Nepal has liberalized different sectors gradually. It is for sure that Nepal has to face various challenges, especially, in the financial sector. Hence, in his article the author has tried to generalize/ simplify the financial services liberalization and the challenges created by it with reference to membership of WTO.

The Banking system comprises one central bank and 17 commercial banks. The non- bank financial institutions comprise development banks, rural development banks, finance companies, financial co-operatives, non-government financial organization, contractual saving institutions like employee 'Provident fund, Citizen Investment Trust and Insurance set - vices. Such services in Nepal are very important because they provide many opportunities for the efficient allocation of resources, utilization, promotion of economic activities and fair competition and increase foreign direct investment.

The challenges of Financial Services Liberalization with reference to the Membership in WTO:

The financial services has been liberalized and reformed well enough during the last 20 years. Nepalese financial sector presently enjoys the full liberalization. There is no special difficulty in this sector in regard to the membership of WTO. The membership in WTO opens many alternatives gates such as perfect venue for dispute settlement, easy access to the markets of 147 countries of the world, product- wise and country- wise diversification and greater opportunity in the similar markets of the countries with similar geographical and economical situation. It is a big challenge for the country like Nepal is to explore the potential market for its product services and to hold that market in long run. In fact, Nepal is continuously facing some structural and supply side problems including weak technological adaptability, lack of skill and poor infrastructure. The service sector and especially financial services is not exception and thus it will be facing various challenges. These challenges can be categorized as per their cause and relationship

- Future Direction and speed of Financial sector reform
- Restructuring and reengineering of Nepal Rastra Bank
- Formulation and implementation of Legal
- Frameworks Financial policy and political Stability

The technical problems of the country should be addressed so as to take benefit from the open and competitive, market. Strong mechanisms should be designed in financial services sector so as to meet growing challenges. It is a fact that Nepal is landlocked by India and China; therefore, it would be another challenge to explore a good access to growing economics of neighboring countries and to get easy access in their huge market will be our strength to explore the space in competitive market and to sell our services. Otherwise, the challenges will remain out of competence letting us lose the contest.

In conclusion, Liberalization in service sector is inevitable. We can not escape from the ground reality of globalization, wide spread acceptance of WTO and necessity of membership in this international trade institution. It should not be opposed to hide our inefficiencies or governance problems. Rather it is a right time to find out the impacts continue and finish the reform process making the services sector really competitive. Otherwise, we will lose the opportunity.

Reform and liberalization does not mean a cartel, therefore, a fair competition should be ensured in financial services sector. Similarly, transparency and disclosure practices are must for the growth and development of financial services sector.

2.2.3 Review of Related Thesis

Joshi (2003), in her thesis entitled "Financial performance of Nepal Investment Bank Limited," has tried to summarize the financial performance of NIBL.

i. The result of the analysis indicates that the bank had the high debt equity ratio which again exhibits that the creditors have invested more in the bank than the owners.
ii. The result of the analysis indicates that the bank has better mobilization of saving deposits in loans and advances for income generating purpose.

Pradhan (2004), in his thesis entitled "A comparative study on financial performance of HBL and SCBNL" has pointed out following objectives.

i. To analyze comparative financial performance of both banks.
ii. To evaluate liquidity position of both banks.
iii. To identity the relationship between interests earned and operating profit.
iv. To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows

i. Current ratio of both the banks is below the standard; this might effect the liquidity position of these banks.
ii. SCBNL's loan and advances to total deposits ratio are significantly lower than that of HBL.
iii. SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan and advances.
iv. HBL is strongly recommended to increases it’s earning per share and dividend per share to keep investors within the bank.

Karki (2005), in his thesis entitled "A comparative analysis of financial performance of NABIL and SCBNL, has pointed out following objectives.

i. To evaluate liquidity position of both banks.
ii. To analyze comparative financial performance of both banks.
iii. To study the comparative position of both banks.
iv. To offer a package of suggestion to improve the financial performance
v. To identity the relationship between interests earned and operating profit.

Major Finding of this study are as follows:

i. SCBNL has efficiently operated its long-term fund, deposit and assets to generate more profits.

ii. Liquidity position of NABIL bank is favorable in many cases it seems excessive. The proposed recommendation for these banks are to reduce its excessive non-performing assets (Cash and bank balance) and invest on the income generating current assets (Treasury bills), while SCBNL must strength the liquidity position

iii. Comparatively SCBNL's profit ability position is better than that of NABIL.

Sadula (2007), in his thesis entitled "Financial performance of commercial banks and returns to investors: With special reference to BOK, EBL, SCBNL, NIBL, NABIL" has pointed out following objectives:

i. To evaluate Liquidity position of these Banks.
ii. To analyze comparative financial performance of these banks.
iii. To study comparative position of selected banks
iv. To offer a package of suggestion to improve the financial performance.

Major Findings of this study are as follows:

i. Commercial Bank except SCBNL and NABIL are not maintaining constant DP Ratio, It is recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders.

ii. Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

Upreti (2007), in his thesis entitled 'A comparative study of financial performance of NIBL, HBL, SCBNL and EBL", has pointed out following objectives.

i. To study the present of the four joint venture banks
ii. To do the comparative study about the financial performance of these

banks with regard to-their profitable liquidity, efficiency and capital structure

iii. To provide recommendation and suggestion on the findings to improve financial performance of these banks.

Major Findings of the study are as follow

i. Among all the sample banks, HBL has the lowest ratio and EBL has not mobilized its assets into profit generating projects.
ii. SCBNL has been successful in earning more net profit by the proper use of its available assets.
iii. EBL with the highest ratio has been successful in generating more interest by the proper use of its available assets.
iv. EBL and HBL seem to have held more cash and bank balance rather than other commercial banks.

Bhattarai (2008), in his thesis entitled "A comparative analysis of financial performance of Nabil, Investment and Standard Charted Bank Ltd" has pointed out following objectives:

i. To evaluate the liquidity position to measure the strength of financial performance of selected banks.
ii. To evaluate the activity and operation with reference to mobilization of the collected funds.
iii. To analyze price earning, Market value to book value per share and dividend payout.
iv. To evaluate the earning and profitability position of selected banks.
v. To identify the relationship between total deposit and total investment.
vi. To identify the relationship between interest earned and operating profit.

Major Findings of this study are as follows:

i. The current ratio of all samples banks i.e. Nabil bank, NIBL and SCBNL is greater than 1 but Nabil bank has the highest current ratio. It means Nabil bank’s solvency position is better than NIBL and SCBNL.
ii. The cash and bank balance of NIBL with respect to total deposit is more liquidity than other sample banks. It indicates that NIBL is able to make immediate payments to its depositor.

2.3 Research Gap

Large numbers of research are available bearing the same topic, "A comparative analysis of financial performance of commercial Banks". I will draw insights from them. However, the researcher will sustain gap by covering the relevant data and information from the year 2003/04 to 2007/08. Moreover, the researcher has selected two commercial banks of Nepal as sample banks i.e. NABIL Bank Ltd. and Nepal Investment Bank Ltd.

That itself demonstrates the gap of this research from the previous one because the researcher has not found any research done in these banks in collective form. Under this topics many researcher have been done but none of the researcher undertaken regarding the case study of financial performance between the NABIL Bank Ltd and Nepal Investment Bank Ltd.

These banks are leading commercial banks as compared to other commercial banks by which we can find for the perfect comparison between highly growing commercial bank rather than rapidly growing new commercial banks. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore it is the major concern of stakeholders to know the financial situation of the bank.

NABIL and NIBL are the leading commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the financial performance which is the major concern of the shareholders and stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial bank.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that we generally adopted by a researcher, studying his research problem among with the logic behind them.

"Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation or relevant details or data" **(Michael, 1985:57)**.

In other words, research methodology is a systematize way to solve the research problem. The prime objective of this study is to compare, evaluate and assess the financial performance of selected joint venture banks, i.e. NABIL Bank Limited, Nepal Investment Bank Limited and Standard Chartered Bank Nepal Limited. This chapter contains these methods that make convenience for comparison of the performance made, so far by these banks by analyzing the strength and weakness of the financial performance of these three joint venture banks.

"Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view" **(Kothari, 1994:19).** A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

3.2 Research Design

Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. In other words research design is the frame work for a study that helps the analysis of data related to study topic. "A research design is the arrangement of conditions, for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure" **(Selltiz, Claire : Jahoda and Others, 1962:50).**

Research design is very important for scientific investigation. Research design gives the investigator a systematic direction to research work. Actually, research design in a plan for data collection and analysis. It presents a series of guideposts to enables the researcher to process in the right direction in order to achieve the goal.

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework of the project that stipulates what information to be collected from which sources by what procedures. There are various approaches of research design. For our convenience, in this thesis, a comparative analysis of financial performance of three joint venture banks based on descriptive and analytical research design.

3.3 Sources of Data

This study mainly based on secondary data. Secondary data are collected from their respective annual report especially from profit and loss account, balance sheet and other publications made by the banks. Also some data has been gathered from Nepal Stock Exchange's Website. Similarly, articles, journals related to the financial performance study, previous research report etc., have also taken into account while collecting information.

3.4 Populations and Sample

In this study convenience sampling method will be used. At present there are 26 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank. These twenty six commercial banks are considered as population and only two banks viz. NABIL Bank Limited and Nepal Investment Bank Limited have been taken as sample of this study. Five years data are taken to conduct the study from FY i.e. 2003/04 to 2007/08. Following commercial banks have been selected for the study:

1. NABIL Bank Limited
2. Nepal Investment Bank Limited

3.4.1 Data Collection Procedure

Besides the above stated sources of data, a detailed review of literature has been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from Library of Shanker Dev Campus, Central Library of Tribhuvan University, Library of Nepal Commerce Campus and Library of Nepal Rastra Bank. Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then, results were concluded and interpretations were made.

3.4.2 Method of Data Analysis

For the purpose of the study, financial statements of the selected JVBs are analyzed by using financial with the statistical tools.

3.4.3 Financial Tools

In this study the following financial tools have been used to measure the strength and weakness of the sample banks.

3.5 Ratio

Financial analysis is the process of identifying the financial strength and weakness of firm establishing relationship between times of balance sheet and

profit and loss account" **(Van Horne, 1979)**. "Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating results and growth" **(Poudel, 2053)**.

3.5.1 Liquidity Ratio

Liquidity ratios are used to judge a firm's ability to meet short term obligation. It is the comparison between the short term obligations and short-term resources available to meet these obligations. The liquidity ratio measures the ability of a firm to meet its short-term obligation. In order to ensure short-term solvency, the JVBs must maintain adequate liquidity. Liquidity ratio should neither be inadequate nor high. If the liquidity ratio of the bank is not enough, it will result in bad credit ratings, less creditors, confidence, eventually may lead to the bankruptcy. If the company has high degree of liquidity funds, it will unnecessary tied up in current assets. Thus the banks should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding the risk of insolvency. The following ratios are used to find out the short term solvency of the banks.

3.5.2 Current Ratio

The current ratio indicates bank's liquidity and short term debt paying ability. It shows the relationship between current assets and current liabilities. It is calculated dividing the current assets by current liabilities. Thus;

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100\%$$

Current assets are those assets, which can be converted into cash with in short period of time normally, not exceeding one-year. Cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivable, debtors, bills purchased and discounted and miscellaneous are the examples of current assets. Similarly, current liabilities are those obligation which are payable with a short period.

Sometimes it is called working capital ratio. Deposit and other short-term loan, bills payable, tax provision, staff bonus, dividend payables and miscellaneous are the examples of current liabilities.

3.5.2.1Cash and Bank Balance to Total Deposits

This ratio shows ability of bank's fund to cover their current margin call and saving deposits. It is calculated in order to see the position of cash and bank balance to make the payment of deposits when demanded. This ratio is calculated by the following formula:

$$\text{Cash and Bank Balance Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}} \times 100\%$$

Here, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, saving deposits, fixed deposits, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits and vice-versa. Moreover, too high ratio is unfit as capital will be tied-up and opportunity cost will be higher.

3.5.2.2 Cash and Bank Balance to Current Assets Ratio

Cash and bank balance to current assets ratio reflects the proportion of cash & bank balance out of total current currents. It is calculated by dividing cash & bank balance by total current assets. Here, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total current assets encompass all assets except fixed assets.

3.5.3 Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn

profit. This ratio is regarded as the most essential element for the commercial bank growth and survival. The different between total revenues and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay and adequate return to different parties depend upon firm's profit. It is regarding as the most essential element for commercial bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio is better the financial performance of the commercial bank and vice-versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

3.5.3.1Net Profit to Total Assets Ratio

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$$

The numerator indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. Total assets comprise those assets, which appear on the assets side of the balance sheet. The high return on total assets ratio usually indicator that high profit margin and high turnover of total assets and vice-versa.

3.5.3.2Net Profit to Total Deposits (Return on Total Deposits)

$$\text{Net Profit to Total Deposits Ratio} = \frac{\text{Net Profit}}{\text{Total Deposits}} \times 100\%$$

Here, net profit means profit after interest and taxes and total deposit means that total amount deposited in various accounts i.e. current, saving, fixed, call

and short deposits and other. Generally, higher ratio indicates better utilization of total deposits and vice-versa.

3.5.3.3 Return on Net Worth Ratio

$$\text{Return on Net Worth Ratio} = \frac{\text{Net Profit}}{\text{Net Worth}} \times 100\%$$

Here, net worth focuses not only the pain up capital but also include general reserve, capital reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend.

3.5.3.4 Interest Earned to Total Asset Ratio

This ratio is used to measure the percentage of interest earned in relation to total assets of the banks. It signifies the mobilization of the banks assets in interest generating purpose. Higher ratio signifies better efficiency in utilizing the resources in interest generating sectors. It is calculated by using following formula:

$$\text{Interest Earned to Total Asset Ratio} = \frac{\text{Total Interest Income}}{\text{Total Assets}} \times 100\%$$

The numerator comprises total interest income from loans, advances, cash credit and overdrafts, government securities, inter commercial bank and other investment. A high ratio is an indicator of high earning power, and better performance of the JVBs on its total working fund and vice-versa.

3.5.4 Activity Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratio is employed to evaluate the efficiency with the bank manages and utilizes funds. The following ratios are calculated under the activity ratio.

3.5.4.1 Loan and Advance to Total Deposits Ratio

This ratio is used to see extent to which the banks are successful to mobilize the outsider's funds. It is calculated to measure the percentage of total deposit invested in loan, advance and overdraft. It is the proportion of efficiency i.e. loan the advance among the total deposit of the commercial banks. This ratio is calculated by using the following formula:

$$\text{Loan and Advance to Total Deposits Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposits}} \times 100\%$$

Higher ratio shows the finance companies ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the sign of efficient commercial bank and better mobilization of collected deposits and vice-versa.

3.5.4.2 Loan and Advances to Total Working Fund Ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of commercial bank are successful in mobilizing their loan and advances on working fund ratio for the purpose of income generation. This ratio is computed by dividing loan and advance by total working fund. This is stated as,

Here, the denominator includes all assets of on balance sheet items. In other words, this includes current assets, net fixed assets, loans for development bands and other investment in share, debenture and other etc. A high ratio indicates a better mobilization of fund as loan and advances and vice-versa.

3.5.4.3 Total Investment to Total Deposits Ratio

This ratio is calculated to see how efficiently the banks have mobilized the deposits on investment. This ratio is calculated by using the following formula: The numerator consists of investment of government securities, investment on debenture and bonds, shares in subsidiary commercial bank share in other

companies and other investment. A high ratio indicates that the commercial bank's efficiency is more investing on its deposits and low ratio indicates in ability to put its deposit for the lending activities.

3.5.5 Leverage Ratio

Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of debt and equity in financing. Long-term creditors like debenture holders, financial institutions etc. are more interested to the firm's long-term financial strength. The capital structure ratios mainly highlight on the long-term financial health, debt servicing capacity and strength and weaknesses of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary, debt ratios tell us the relative proportions of capital contribution by creditors and by owners. The following ratios are used for analyzing long-term financial health debt servicing capacity and strengths and weakness of JVBs.

3.5.5.1 Debt-Equity Ratio

Debt-equity ratio examines the relative claims of creditors and owners against the banks' assets. Alternatively, the debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is computed by using the following formula:

$$\text{Debt} - \text{Equity Ratio} = \frac{\text{Total Debts}}{\text{Net Worth}} \times 100\%$$

Here, equity funds comprise shareholders capital, general reserve, general loan loss provisions, inappropriate profit and loss balance etc. This ratio helps to ascertain the measure stake in commercial bank between lenders and owner. If debt portion is too high, there is danger-tempting irresponsibility in the part of the owners.

3.5.5.2 Debt-Assets Ratio

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. This ratio is calculated by using the following formula:

$$\text{Debt} - \text{Assets Ratio} = \frac{\text{Total Debts}}{\text{Total Assets}} \times 100\%$$

The numerator consists of short-term and long-term debt. Debt is that sum of money that must be payable. Creditors, bills payable debentures are the examples of debt. A high debt to total assets ratio represents a greater risk to creditors and shareholders and vice-versa. This ratio implies a commercial bank success in exploiting debt to be more profitable.

3.6 Statistical Tools

The statistical tools selected for the comparative study of three banks (NABIL Bank Ltd. and Nepal Investment Bank Ltd.) are as follows.

3.6.1 Arithmetic Mean

Average is the typical values around which other items of distribution congregate. Arithmetic mean of a given set of observation is their sum divided by the number of observation **(Gupta, S.C. 1992)**.

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

3.6.2 The Coefficient of Variation

For comparing the variability of two distributions we compute the coefficient of variation. A distribution with smaller C.V. is said to be more homogenous or uniform or less variable than other and the series with greater C.V. is said to be more heterogeneous or more variable than others. The coefficient of variation is a relative measure which is useful in comparing the amount of variation in data group with different means: Mathematically,

$$C.V. = \frac{\sigma}{\bar{X}} \times 100\%$$

Where,

σ = Standard Deviation

$\bar{X}$ = Mean

C.V. = Coefficient of variation

3.6.3 Coefficient of Correlation

The Coefficient of correlation is an important measure to describe how well one variable is explained by another. It measures the degree of relationship between the two casually related variables. Karl person's coefficient of correlation between two variables X and Y is usually devoted by 'r' which is the numerical measure of linear association between the variables.

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\sqrt{n\sum y^2 - (\sum y)^2}}$$

Where,

n = No. of observation of X and Y

$\sum x$ = Sum of the observations in series X

$\sum y$ = Sum of the observations in Series Y

$\sum x^2$ = Sum of square observations in series X.

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

$\sum xy$ = Sum of product of the observations in series X and Y

3.6.4 Probable Error

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value of correlation coefficient in so far as it depends upon the conditions of random sampling. It is worked out as:

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

Where,

r = Correlation Coefficient

n = No. of pairs of observation

Note:

if ;

r > 6PE (r)

(Correlation coefficient is more than six times of probable error i.e. r is significant)

r < 6PE (r)

(Correlation coefficient less than six times of probable error i.e. r is insignificant)

3.6.5 Coefficient of Determination

The coefficient of determination is the primary way we can measure the extent, or strength of the association exists between two variables X and Y, It is worked out by squaring the coefficient of correlation.

$$R = r^2$$

Where,

r = Coefficient of correlation

R =Coefficient of determination

3.6.6 Trend Analysis

Trend analysis enables to compare two or more companies over different period of time and draw important conclusion about them. It helps in business forecasting and planning future operation.

3.6.7 Least Square Linear Trend

Straight line trend implies that irrespective of the seasonal and cyclical swings and irregular fluctuations, the trend values increase or decrease by a constant absolute amount 'b' per unit of time. Hence, the linear trend values from 'a' series in arithmetic progression, the common difference being 'b' the slope of the trend line.

Mathematically,

The straight line trend is given by the following formula:

$$Y = a + bx$$

Where,

Y = Value of dependent variable

a = Y intercept

b = Slope of the trend line

x = Values of independent variable

3.6.8 Earning Per Share (EPS)

Earning per share calculations made over years indicates whether or not the company's earning power on per share basis has change over that period. EPS shows the profitability of the company of a per share basis. It is calculated by the following formula:

$$EPS = \frac{\text{Net Profit After Tax}}{\text{No.of Common Shares}} \times 100\%$$

3.6.9 Dividend Pay out Ratio (DPR)

This ratio reflects at what percentage of net profit is distributed term of dividend and what percentage is retained in the bank. It is calculated by the following formula:

$$DPR = \frac{\text{Dividend per Share}}{\text{Earning Per Share}} \times 100\%$$

3.6.10 Price Earning Ratio (P/E Ratio)

This ratio shows the price currently paid by the market for each rupee of currently reported earning per share. It is calculated by the following formula:

$$P/E\ Ratio = \frac{\text{Market Value per Share}}{\text{Earning per Share}} \times 100\%$$

3.6.11 Income and Expenditure Analysis

Besides the various ratios, income and expenditure analysis be made for evaluation financial performance of the banks. The profit and loss accounts of the banks are used for this analysis.

3.7 Analytical Procedure

For the purpose of the study, financial statements of the selected JVBs are analyzed by using financial tool along with the statistical tool. Financial tools have been used to measure strength and weakness of the three selected joint venture bank. Then, the selected banks have been compared and analysis according to the various ratios findings.

Statistical tools have been used to analysis the study for finding which bank have more homogenous or uniform than the other, according to the co-efficient of variation. Likewise, Karl person co-efficient of correlation should be used to measure the degree of relation between the two related variable. Probable error also should be used to analysis the reliability of the coefficient of correlation. At last trend analysis should be done according to the past and present financial statement of three selected banks.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

In this chapter data collected from secondary sources are presented and analyzed by using financial and statistical tools. The available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. To evaluate the financial performance of selected banks, ratio analysis, correlation analysis and trend analysis are used in this study.

4.1 Financial Tools

In this study, financial tools have been grouped into liquidity ratio, profitability ratio, activity ratio and leverage ratio etc.

4.1.1 Liquidity Ratio

For analyzing the financial performance of the banks, liquidity ratio is one of the powerful tools. Whether the company is able to meet its current obligation is judged by liquidity ratio.

A. Current Ratio

The current ratio is measure of the firm's short-term solvency. It indicates the availability of current assets in rupees for each one rupee of current liabilities. A ratio of greater than one means that the firm has more current assets than current liabilities. Current ratio measures the relationship between current assets and current liabilities.

Table 4.1
Current Ratio

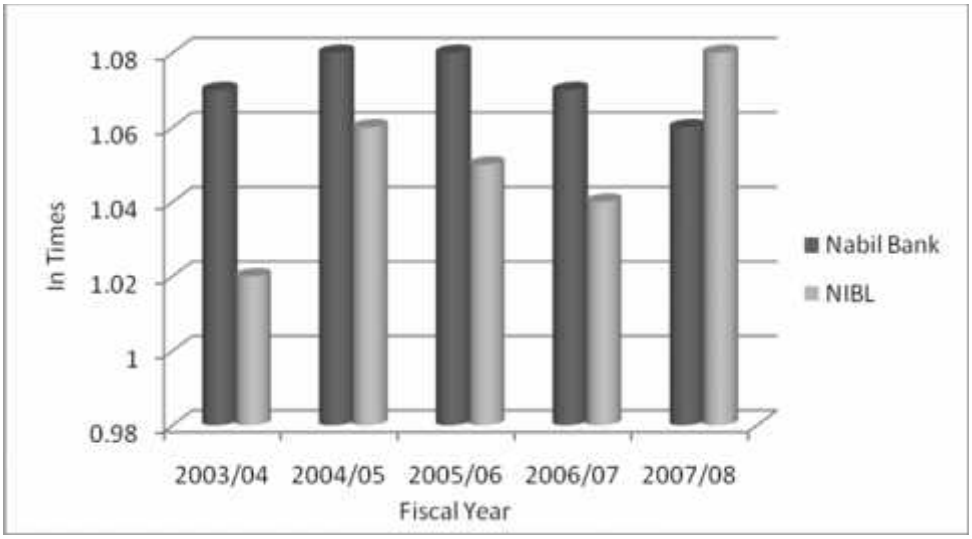
(In times)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	1.07	1.08	1.08	1.07	1.06	1.07	0.0077	0.0072
NIBL	1.02	1.06	1.05	1.04	1.08	1.05	0.02	0.019

(Source: See Annex 1)

Figure 4.1

Current Ratio



In the table and figure 4.1, current ratio has been calculated dividing current assets by current liabilities. It also shows that the current ratio of all the banks is below the normal standard of 2:1. On an average basis, current ratio of Nabil bank is 1.07 which is the higher than NIBL i.e. 1.05. However, considering the average ratio, Nabil Bank is found slightly better liquid than NIBL.

From S.D point of view, NIBL has the higher S.D of 0.02 than Nabil Bank which has 0.0077 It implies that NIBL has high fluctuation (less homogeneity) with respect to current assets to current liabilities.

From C.V. viewpoint, NIBL has highest C.V. i.e. 0.019 than Nabil Bank i.e. 0.0072. This implies that NIBL is more inconsistent in current ratio over the study period than Nabil Bank.

B. Cash and Bank Balance to Total Deposit Ratio

This ratio indicates the ability of banks immediately funds to cover their current margin calls, saving, fixed, call deposit and other deposits and vice versa. This ratio is calculated by dividing cash and bank balance by total

deposits. The following table no 4.2 shows the comparative cash and bank balance to deposits ratio.

Table 4.2

Cash and Bank Balance to Total Deposit Ratio

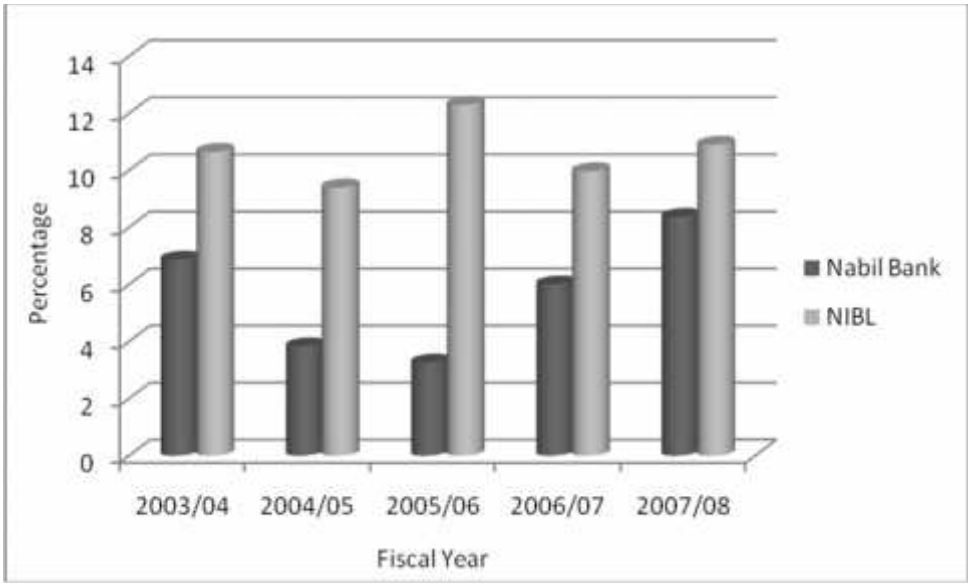
(In percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	6.87	3.83	3.26	6.00	8.37	5.67	1.9	0.34
NIBL	10.65	9.40	12.3	9.97	10.9	10.64	0.98	0.09

(Source: See Annex 2)

Figure 4.2

Cash and Bank Balance to Total Deposit Ratio



In the table and figure 4.2, cash & bank balance to total deposit ratio has been calculated by dividing total cash and bank balance amount by total deposit amount. The above ratio reveals that the ability of banks to cover its short term deposits. On an average basis, NIBL is better position with an average 10.64% than Nabil bank.

From S.D point of view, Nabil Bank has the highest S.D. of 1.9 than NIBL i.e. 0.98 It indicates that there is high fluctuation (Less homogeneity) in cash and bank balance to total deposit ratio of Nabil Bank than NIBL.

From C.V. viewpoint, Nabil bank has highest C.V. i.e. 0.34 than NIBL i.e. 0.09. This implies that Nabil bank is more inconsistent in cash and bank balance to total deposit ratio over the study period than NIBL.

4.1.2 Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. This ratio measures the proportion of each components of operating income to total operating income. The main components of operating income are interest earned, commission and discounts, exchange income and other income, bank receives interest from loans and advances, cash credit, overdraft, investment in government securities and bonds, money at call and short notice, debenture, inter-bank loan and others. Bank receives commission by discounting bills of exchange, remittance, foreign currency fluctuation etc. Under this, following ratios are used.

A Net Profit to Total Assets Ratio

Net profit refers to profit after interest and taxes. Total assets comprise of those assets that appear on the assets side of the balance sheet. A higher degree of ratio shows that total assets of the banks have been utilized in profit earnings. The following table no 4.3 shows the ratio of net profit to total assets.

Table 4.3

Net Profit to Total Assets Ratio

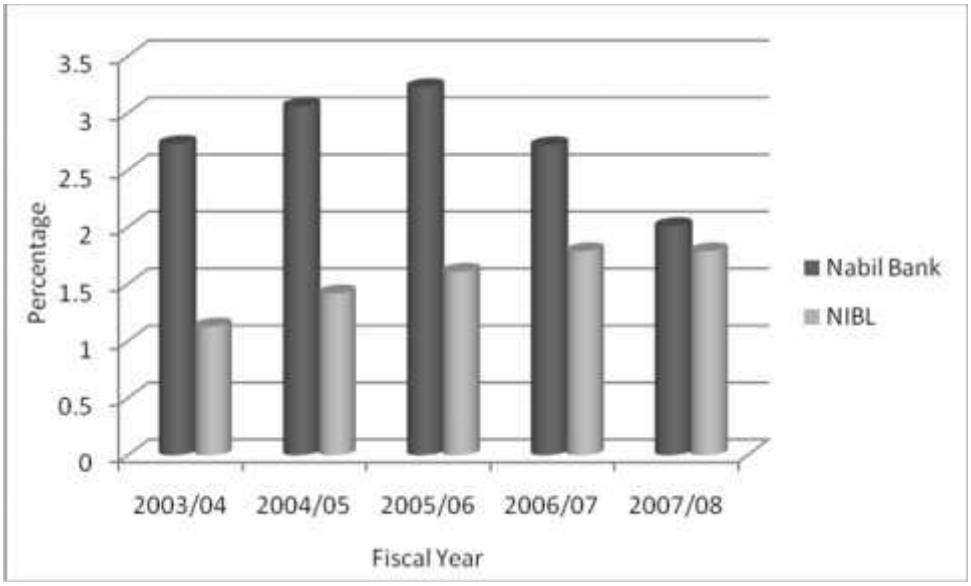
(In percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	2.73	3.06	3.23	2.72	2.01	2.75	0.42	0.153
NIBL	1.13	1.42	1.61	1.79	1.79	1.55	0.25	0.162

(Source: See Annex 3)

Figure 4.3

Net Profit to Total Assets Ratio



In the table and figure 4.3, net profit to total assets ratio has been derived by dividing net profit by total assets. This ratio shows the relationship between net profit and total assets. On an average, I see that Nabil bank has the highest percentage of net profit 2.75% on total assets in average and NIBL has the lowest profit i.e. 1.55% on total assets. It indicates that Nabil bank has been successful to generate more profit than other banks by using its total assets. From S.D. point of view, Nabil bank has the highest S.D. of 0.42 than S.D. of NIBL i.e. 0.25. It implies that Nabil bank has high fluctuation (less homogeneity) in generating profit than NIBL over the study period. From C.V. point of view, NIBL has the highest C.V. of 0.162 than C.V. of Nabil i.e. 0.153. It implies that NIBL has higher degree of variability or is inconsistent in generating net profit than Nabil bank in comparison.

B. Net Profit to Total Deposit Ratio

This ratio, net profit to deposit ratio shows how efficiently the management has utilized its deposits in profit generating activities. This ratio is a mirror for bank's overall financial performance as well as its success in profit generation.

Because of the deposit made by its customer's is the major source of earning of the commercial banks. The higher ratio shows the higher degree of utilization of deposits in generating profit. This ratio is presented by following table 4.4.

Table 4.4

Net Profit to Total Deposit Ratio

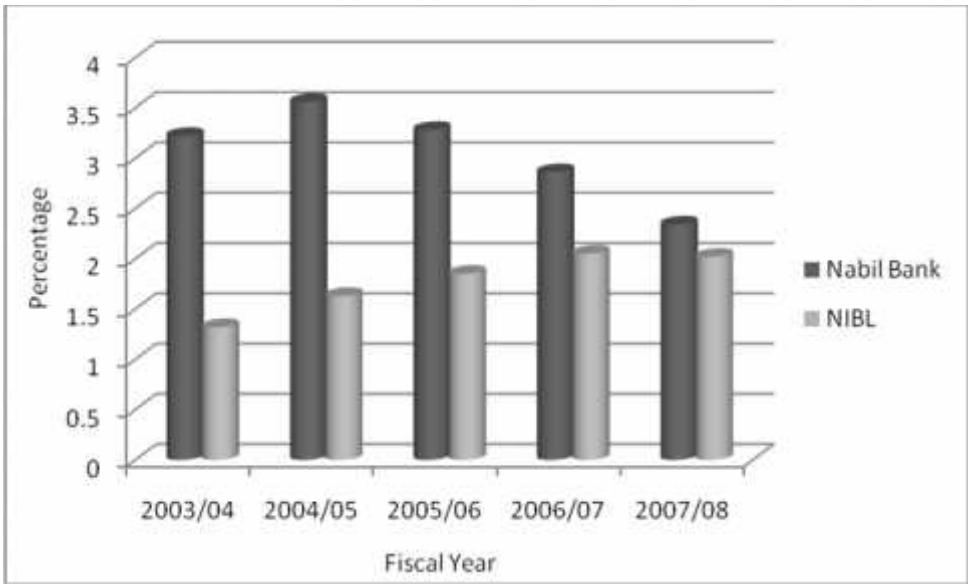
(In percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	3.22	3.56	3.28	2.86	2.34	3.05	0.420	0.138
NIBL	1.32	1.63	1.85	2.05	2.02	1.77	0.272	0.154

(Source: See Annex 4)

Figure 4.4

Net Profit to Total Deposit Ratio



In the table and figure 4.4, net profit to total deposit ratio has been derived by dividing net profit by total deposit. This ratio shows the relationship of net profit and total deposits.

On an average point of view, Nabil bank has the highest ratio of 3.05 and NIBL has the lowest ratio of 1.77. Over the study period, It implies that Nabil bank has been successful in utilizing the depositor's fund more efficiently and ingenerating more profit than NIBL in comparison.

From S.D. point of view, NIBL has the highest S.D. of 0.42 point than Nabil bank with S.D. of 0.272 point. It implies that Nabil bank has high fluctuation (less homogeneity) in generating profit by using deposit where as NIBL with lowest S.D. of 0.272 which indicates it has low fluctuation (more homogeneity) in generating profit by managing the deposit efficiently.

From C.V. point of view, NIBL has the highest C.V. of 0.154 than Nabil C.V. of 0.138 over the study period. It implies that NIBL has high degree of variability or is inconsistent in generating profit than Nabil.

C. Return on Shareholder's Equity to Net Worth Ratio

This ratio revels how profitably the banks have utilized the owner's funds. For the commercial banks, the objective is to earn maximum profit so as to provide reasonable return to the owners. Higher this ratio indicates sound and efficient management. It also indicates towards the favorable condition of wealth maximizations of the bank.

Table 4.5

Return on Shareholder's Equity to Net worth Ratio

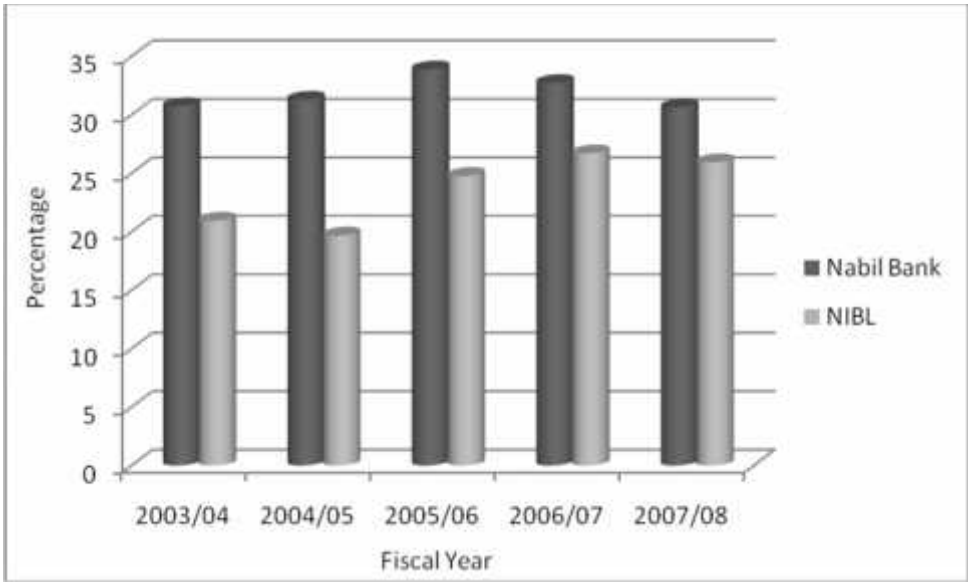
(In percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	30.73	31.29	33.88	32.72	30.63	31.85	1.26	0.04
NIBL	20.94	19.67	24.77	26.70	25.93	23.60	2.79	0.12

(Source: See Annex 5)

Figure 4.5

Return on Shareholder's Equity to Net worth Ratio



In the table and figure 4.5, return on shareholder's equity or net worth ratio has been derived by dividing net profit by net worth or shareholder's equity. Over the study period, on an average of Nabil has the highest ratio of 31.85% than NIBL with 23.60% over the study period. It indicates that Nabil was providing highest return to it's shareholder than NIBL.

From S.D. point of view, NIBL has the highest S.D. 2.79 points than Nabil with 1.26. It implies that, over the study period, NIBL has high fluctuation (less homogeneity) in giving the return to shareholders than Nabil; there is low fluctuation (more homogeneity) in providing more rate of return to its shareholders over the study period.

From C.V. point of view, NIBL has the highest C.V. of 12% than Nabil with C.V. of 4%. It implies that NIBL has higher degree of variability or is inconsistent in providing return to their shareholders than Nabil.

D. Net Interest Earned to Total Assets Ratio

This ratio measures how much interest has been earned in different years by mobilizing the overall assets of the bank. Interest income is main source of income of the banks. Generally, banks generate interest income through the loan and advances, investment, overdrafts, hire purchase finance and loan given to priority and deprived sector as well. A higher ratio represents the better efficiency in mobilizing its resources for the purpose of generating interest income. This ratio has been presented by following table no 4.7.

Table 4.6

Net Interest Earned to Total Assets Ratio

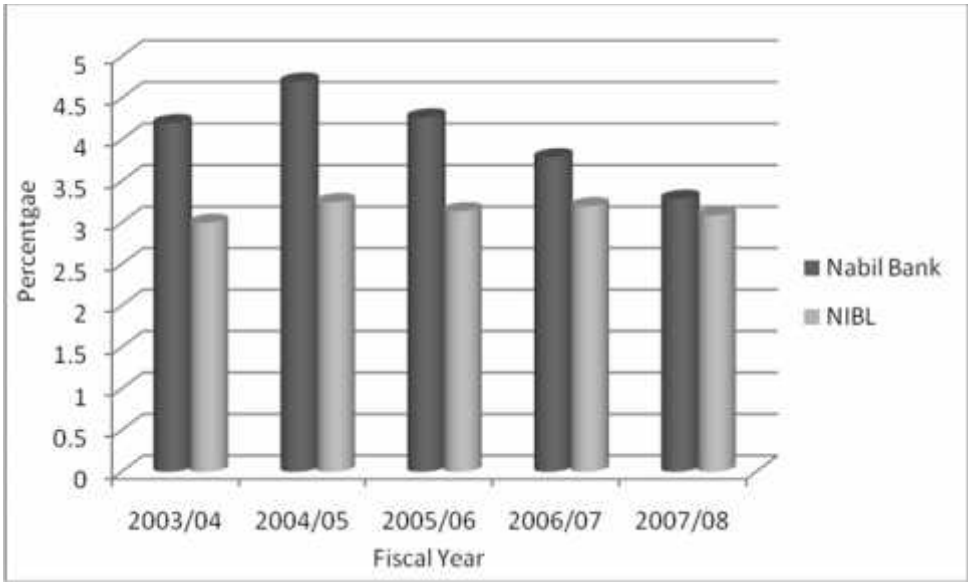
(In percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	4.20	4.70	4.27	3.79	3.29	4.05	0.512	0.126
NIBL	3.00	3.25	3.14	3.20	3.09	3.14	0.087	0.028

(Source: See Annex 6)

Figure 4.6

Net Interest Earned to Total Assets Ratio



In the table and figure 4.6, net interest earned to total assets ratio has been derived by dividing net interest earned by total assets. On an average basis, Nabil bank has the highest ratio of 4.05 than NIBL of 3.14. It implies that Nabil

bank has been managing the assets efficiently and earning more interest than NIBL.

From S.D. point of view, Nabil bank has the highest S.D. with 0.512 point than NIBL of 0.087. It implies that there is high fluctuation (less homogeneity) in interest earning capacity of Nabil bank than NIBL.

From C.V. point of view, Nabil bank has the highest C.V. of 0.126 than NIBL of 0.028. It implies that Nabil bank has high degree of variability or is inconsistent in earning interest by using of its assets over the study period than NIBL.

4.1.3 Activity Ratio

This ratio refers how efficiently the organization is managing its resources. Thus, this ratio measures the degree of effectiveness in use of resources or funds by a firm. It is also known as turnover or efficiently ratio or assets management ratio. Turnover or conversion indicates more efficiency of a firming managing and utilizing its assets. The common activity ratios that are determined under this are as follows.

A. Loan and Advances to Total Deposit Ratio

Commercial banks utilize the outsider's fund for profit generation purposes. Loan and advance to total deposit ratio shows whether the banks are successful in utilizing the outsider funds (i.e. total deposit) for the profit generation purposes (i.e. loan and advances) of not.

Table 4.7

Loan and Advances to Total Deposit Ratio

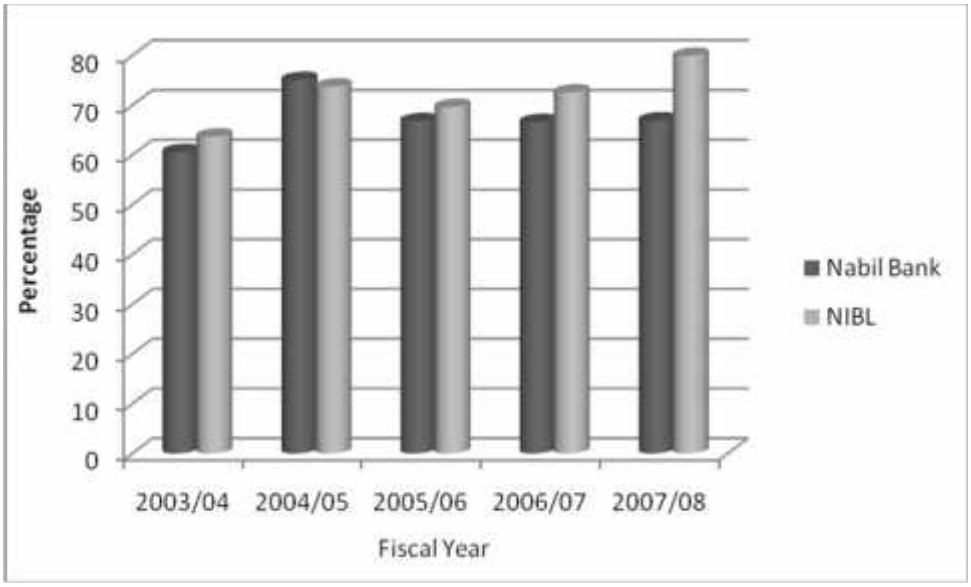
(In percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	60.55	75.05	66.79	66.60	66.94	67.19	4.61	0.069
NIBL	63.68	73.73	69.63	72.56	79.91	71.90	5.30	0.074

(Source: See Annex 7)

Figure 4.7

Loan and Advances to Total Deposit Ratio



In the table and figure 4.7, loan and advances to total deposit ratio has been derived by dividing loan and advances amounts by total deposit amount. This ratio helps to analyze whether the banks have utilized the outsider's fund properly or not. It also shows that, over the study period on an average basis, NIBL has the highest ratio of 71.90 than the lowest ratio of Nabil i.e. 67.19. It implies that NIBL has been successful in using the depositor's fund properly in loan and advances than Nabil over the study period.

From S.D. point of view, NIBL has the highest S.D of 5.30 points where as Nabil has the lowest S.D. of 4.61 point. It implies that NIBL has high fluctuation (lowest homogeneity) in utilizing the depositor's fund in loan and advances than Nabil. From C.V. point of view, NIBL has the highest C.V. of 7.4% where as Nabil has the lowest C.V. of 6.9%. It implies that NIBL is inconsistent or has not been able to utilize the outsider's (depositor's) fund properly in loan and advances than Nabil.

B. Loan and Advances to Total Assets Ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of commercial bank are successful in mobilizing their loan and advances on total assets ratio for the purpose income generation. This ratio is computed by dividing loan and advances by total assets.

Table 4.8

Loan and Advances to Total Assets Ratio

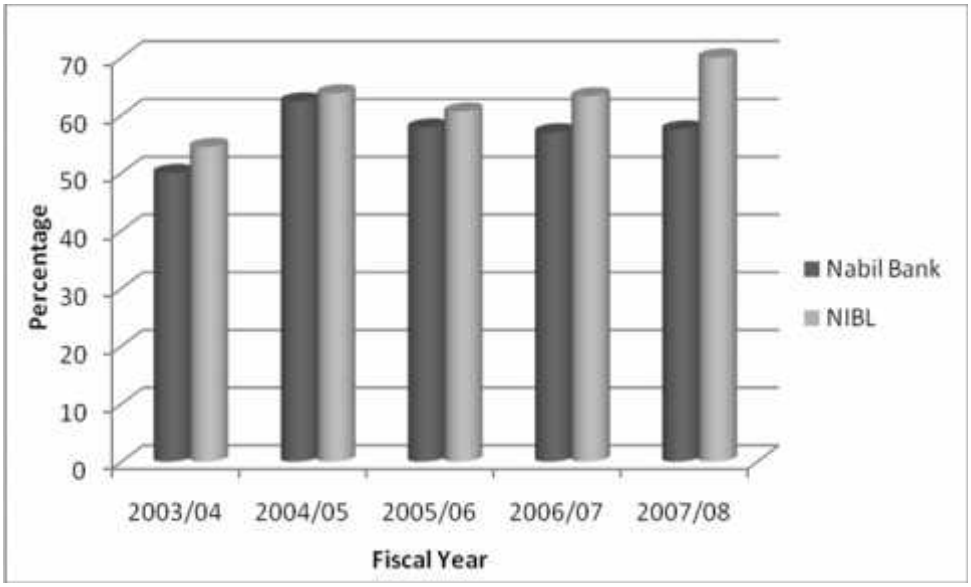
(In percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	49.98	62.39	57.87	57.04	57.54	56.96	3.99	0.07
NIBL	54.51	63.78	60.64	63.29	70.00	62.44	5.02	0.08

(Source: See Annex 8)

Figure 4.8

Loan and Advances to Total Assets Ratio



In the table and figure 4.8, loan and advances to total assets ratio has been derived by dividing loan and advances amount by total assets amount. This ratio helps to analyze whether the banks have utilized the total working fund properly or not. On an average basis, NIBL has the highest ratio of 62.44 than

Nabil with 56.96. It implies that NIBL has been successful in mobilizing loan and advance on total working fund over the study period.

From S.D point of view, NIBL has highest S.D of 5.02 point than of Nabil i.e. 3.99 point. It implies that NIBL has high fluctuation (lowest homogeneity) in utility the total working fund in loan and advances where as Nabil with lowest S.D. of 3.99 point indicates it has low fluctuation (more homogeneity) in using the total working fund properly in loan and advances over the study period.

From C.V. point of view, NIBL has the highest C.V. of 8% where as Nabil has the lowest C.V. of 7%. It implies that NIBL is inconsistent or has not been able to utilize the total working fund properly in loan and advances; where as Nabil has lowest C.V. of 7% is consistent or has been successful to mobilizing the total working fund properly in loan and advances.

C. Total Investment to Total Deposits Ratio

Banks invest money in different forms. They are loans, overdraft, cash credit, discounting bills of exchange, investment in government securities, investment in share of well – established industrial concerns and money at call and short notice. In this analysis investment in government scurrilities, shares and also investment in foreign banks is included to calculate the ratio. Total deposits include saving, current, fixed and call deposit of the respective banks. The ratio of total investment to total deposit has been presented below.

Table 4.9

Total Investment to Total Deposits Ratio

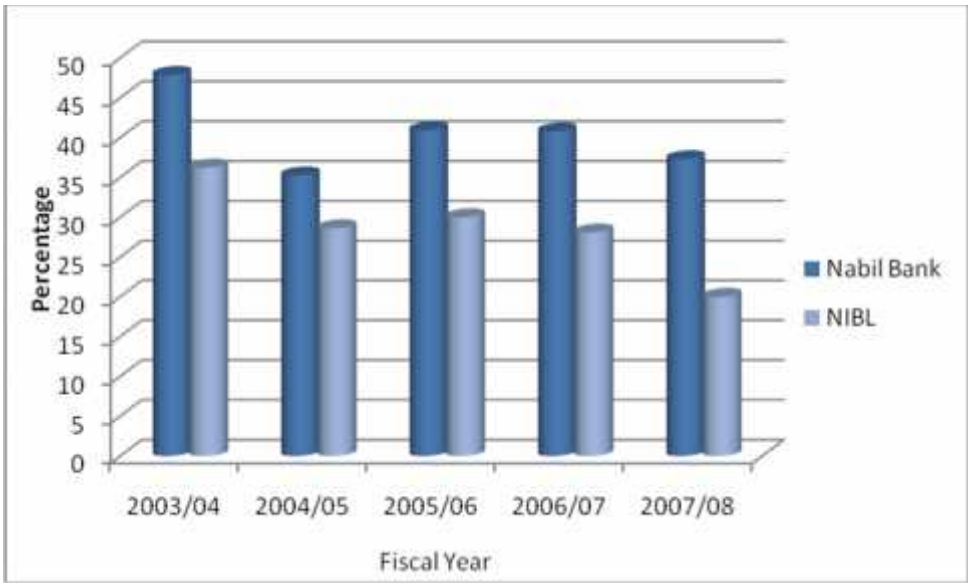
(In percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	47.84	35.21	40.90	40.74	37.26	40.39	4.30	0.11
NIBL	36.20	28.58	29.97	28.05	19.97	28.55	5.12	0.18

(Source: See Annex 9)

Figure 4.9

Total Investment to Total Deposits Ratio



In the table and figure 4.9 shows that on an average basis over the study period, Nabil has the highest percentage of investment in non- risky project i.e. 40.39% in average, where as NIBL has the lowest percentage of investing in non-risky project i.e. 28.55%. It implies that Nabil prefers in investing its depositors fund in non risky project like government bonds, treasury bills, government securities, debentures of other organization etc rather than choosing the risky portfolio like loan and advances to its credit customers.

From S.D. point or view, NIBL bank has the highest S.D. of 5.12 point than Nabil with S.D. of 4.30 points. It implies that NIBL has high fluctuation (less homogeneity) in using the depositors fund in non- risky portfolio than Nabil.

From C.V. point of view, NIBL has the highest C.V. of 0.18 than of Nabil with 0.11 points. It implies that NIBL is inconsistent in investing in non- risky portfolio than Nabil.

4.1.4 Leverage Ratio

Financial leverage or capital structure ratio are calculated to judged the long – term financial position of the firm. These ratios indicate mix of funds provided by owners and lenders. As a general rule there should be an appropriate mix of debt and owners equity in financing the firm's assets. Administration of capital can smoothly by carried with the help of such ratios.

A. Total Debts (Liabilities) to Net Worth Ratio

Debt–equity ratio examines the relative claims of creditors and owners against the bank's assets. Alternatively, total debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is presented as following table no 4.10:

Table 4.10

Total Debts (Liabilities) to Net Worth Ratio

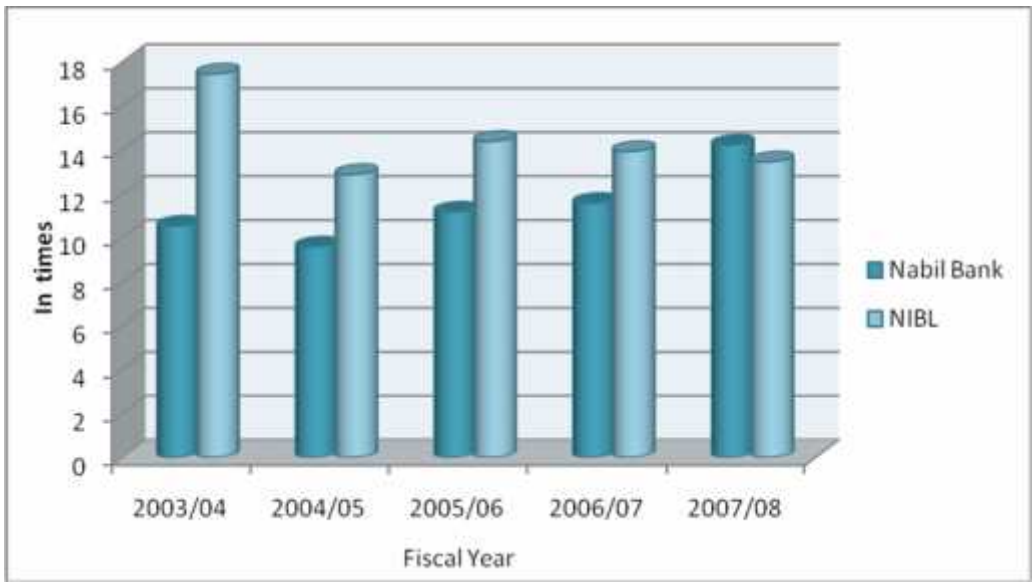
(In times)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	10.54	9.59	11.18	11.58	14.23	11.42	1.59	0.14
NIBL	17.47	12.89	14.40	13.94	13.47	14.43	1.60	0.11

(Source: See Annex 10)

Figure 4.10

Total Debts (Liabilities) to Net Worth Ratio



The above ratio has been derived dividing total debts by net worth. The above table shows that commercial banks have highly leveraged on the basis of equity capital. On an average, NIBL has the highest ratio of 14.43 times. Next to it there is Nabil with an average of 11.42 times. It indicates that NIBL has highly leveraged means; debt capital financing is more than 14.43 times of its share holder's equity.

From S.D point of view, NIBL has nearly higher S.D. of 1.60 points than Nabil bank of 1.59 points in comparison. It implies that has high fluctuation (less homogeneity) with respect to total debt to net worth than Nabil in comparison.

From C.V. point of view, Nabil has the highest C.V. of 14%; next to there is NIBL with C.V. of 11%. It means, Nabil has high degree of variability or is inconsistent in maintaining total debt to total equity over the study period.

B. Total Debts to Total Assets Ratio

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. The following table no 4.11 shows that the relationship between total debt and total assets.

Table 4.11

Total Debt (Liabilities) to Total Assets Ratio

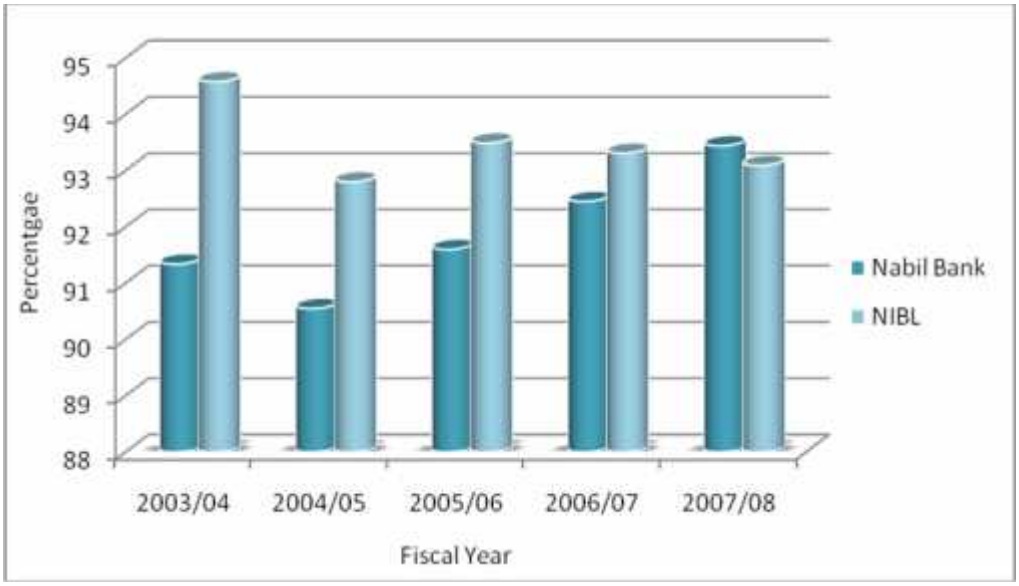
(In Percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	91.34	90.55	91.60	92.45	93.44	91.88	0.99	0.07
NIBL	94.58	92.80	93.49	93.31	93.09	93.45	0.61	0.007

(Source: See Annex 11)

Figure 4.11

Total Debt (Liabilities) to Total Assets Ratio



In the table and figure 4.11, debt ratio has been derived by dividing total debt by total assets. On an average basis over the study period, NIBL has highly debt financing. It means these two banks borrowed outsider's funds by 93.45% and 91.88% respectively.

From S.D. and C.V. point of view, Nabil bank has highest S.D. of 0.99 points and NIBL has lowest S.D. of 0.61 points. It indicates Nabil bank has high fluctuation and NIBL has low fluctuation in using total debts over the study period. Nabil bank has highest C.V. of 7 % and NIBL has lowest C.V. of 0.7%. It means, Nabil bank has high degree of variability is inconsistent to utilizing debt to assets ratio where as NIBL has consistent debt financing.

4.1.5 Earning Per Share

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance or share value. It is profit after tax figure that is divided by the number of common share to calculate the value of earning per share. This figure tells how much profit has been earned by the common

share holder for per share basis. A company can decide whether to increase or reduce the number of share on issue. This decision will automatically after carrying per share.

Table 4.12

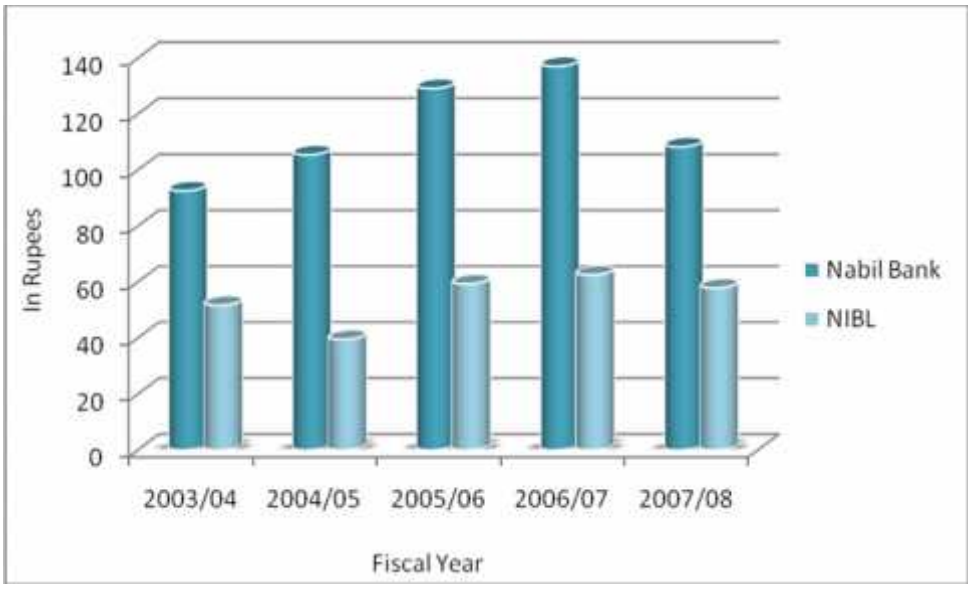
Earning Per Share

(In Rs)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	92.61	105.49	129.21	137.08	108.31	114.54	16.29	0.14
NIBL	51.70	39.50	59.35	62.57	57.87	54.20	8.15	0.15

(Source: See Annex 12)

Figure 4.12
Earning Per Share



From the table and figure 4.12, we can see that on an average, Nabil has the highest amount of EPS Rs. 114.54. Next to it, there is NIBL with EPS of Rs. 54.20. It means that Nabil bank has been able to provide maximum profit to equity holder on a per share basis.

From the S.D. point of view, Nabil bank has highest S.D. of 16.29 points. Next to it, there is NIBL with 8.15 points. It implies that Nabil bank has high fluctuate (less homogeneity) in EPS over the study period and NIBL has low fluctuation (more homogeneity) in EPS over the study period.

From C.V. point of view, NIBL has the highest C.V. of 15% next to it; there is Nabil bank with C.V. of 14%. It implies that NIBL has high degree of variability or is inconsistent in EPS amount over the study period.

4.1.6 Dividend Payout Ratio

Dividend payout ratio measures what percentage/portion of the net profit after tax and preference dividend is paid out to the equity shareholders as dividend and how much it is retained in the firm for the purpose of expansion and growth in the future. This ratio has been presented by following table no 4.13.

Table 4.13

Dividend Payout Ratio

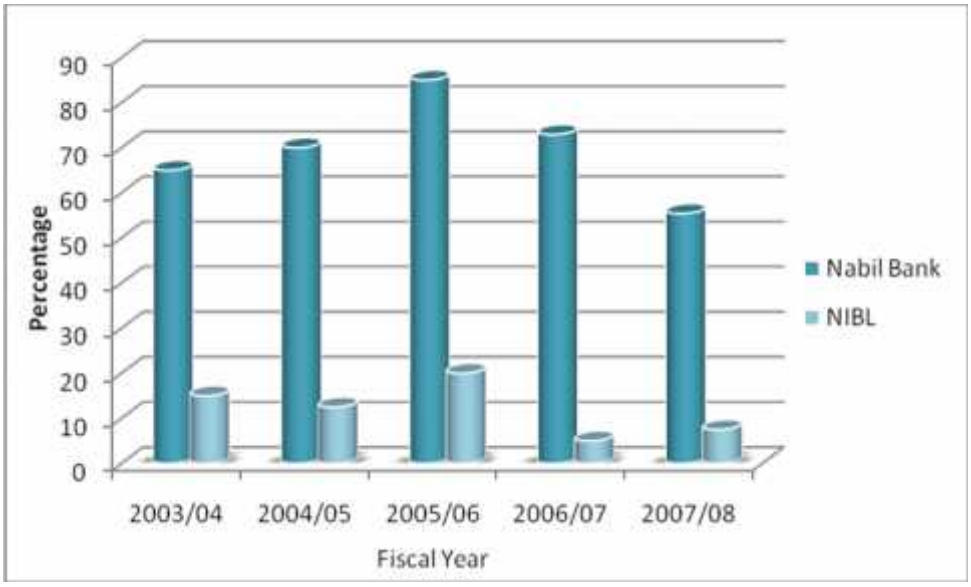
(In percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	65	70	85	72.95	55.40	69.67	0.227	0.07
NIBL	15	12.50	20	5.00	7.50	12	0.254	0.15

(Source: See Annex 13)

Figure 4.13

Dividend Payout Ratio



From the table no 4.13, we can see that on an average basis Nabil has the highest percentage of payment ratio with 69.67%. Next to it, there is NIBL with 12%.

From S.D. point of view, NIBL bank has the highest S.D. of 0.254 point and next to it; there is Nabil with S.D. of 0.227 points. It implies that NIBL has high fluctuation in providing dividend through out the study period than Nabil.

From the C.V. point of view, NIBL has the highest C.V. of 15%. Next to it; there is Nabil bank with C.V. of 7%. It indicates that NIBL has high degree of variability than Nabil.

4.1.7 Price Earning Ratio

This ratio shows the price currently paid by the market for each rupees of currently reported earning per share. This ratio has been presented by following table no 4.14.

Table 4.14
Price Earning Ratio

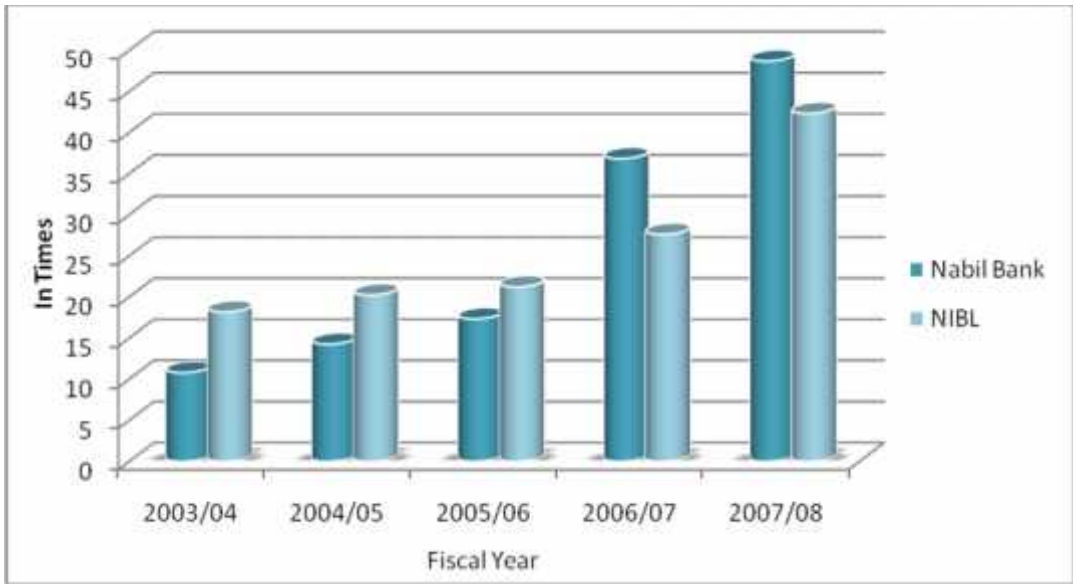
(In Times)

Name of Banks	**Fiscal Year**					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	10.80	14.27	17.34	36.84	48.70	25.59	14.67	0.57
NIBL	18.18	20.25	21.23	27.63	42.33	25.924	8.79	0.34

(Source: See Annex 14)

Figure 4.14

Price Earning Ratio



From the table and figure 4.14, on an average basis NIBL has the highest P/E ratio with 25.92 times. Next to it there is NIBL with 25.59 times.

From S.D. point of view, Nabil bank has the highest S.D. of 14.67 points and next to it; there is NIBL with S.D. of 8.79 points. It implies that Nabil bank has high fluctuation in market price per share than NIBL. From C.V. point of view, Nabil bank has high P/E ratio of 57%. But NIBL has lowest C.V. with 34%, indicates that low degree of variability is consistent in market price per share as earning per share

4.1.8 Income Analysis

The cost have been occurred in increasing revenue are called income. This analysis shows the proportionate income under different heading. Under this analysis, net interest income, exchange gain and commission income should be taken.

A. Net Interest Income to Total Income

This ratio has been derived dividing net interest income by total income. It indicates that, how much percentage of net interest income obtained from total income.

The following table no 4.15, shows that the net interest income to total income of selected joint venture banks.

Table 4.15

Net Interest Income to Total Income

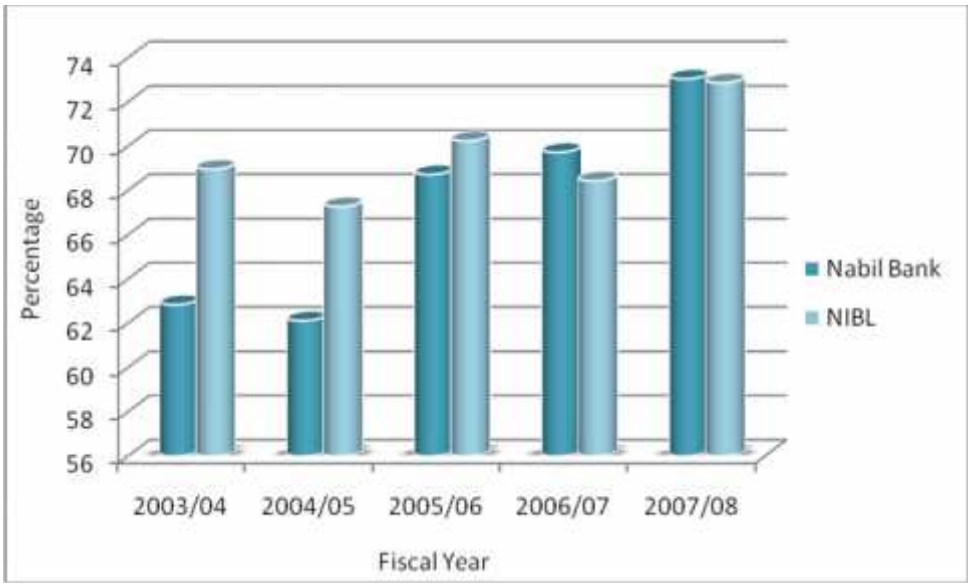
(In percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	62.85	62.12	68.73	69.73	73.05	67.296	4.19	0.07
NIBL	68.97	67.28	70.25	68.44	72.87	69.562	1.91	0.03

(Source: See annex 15)

Figure 4.15

Net Interest Income to Total Income



In the table and figure 4.15, on an average basis, NIBL has the highest percentage of net interest income on total income i.e.69.56%. Next to it; there is Nabil bank with average of 67.30%. . It indicates that, NIBL has successful to earn net interest income over the study period.

From S.D. point of view, Nabil Bank has the highest S.D. of 4.19 points and NIBL has the lowest C.V. of 1.91 point. It indicates that Nabil Bank has high fluctuation in net interest income and NIBL has low fluctuation in net interest income over the study period.

From C.V. point of view, Nabil Bank has the highest C.V. of 7% and NIBL has the lowest C.V. of 3%.It implies that, Nabil Bank has high degree of variability or is inconsistent to earn net interest income over the study period. NIBL has low degree of variability or is consistent to earn net interest income than other sampled bank.

B. Exchange Income to Total Income

Income from foreign exchange includes income through the sale and buys exchange currency and revaluation again. Exchange income to total income ratio is presented as following table 4.16:

Table 4.16

Exchange Income to Total Income

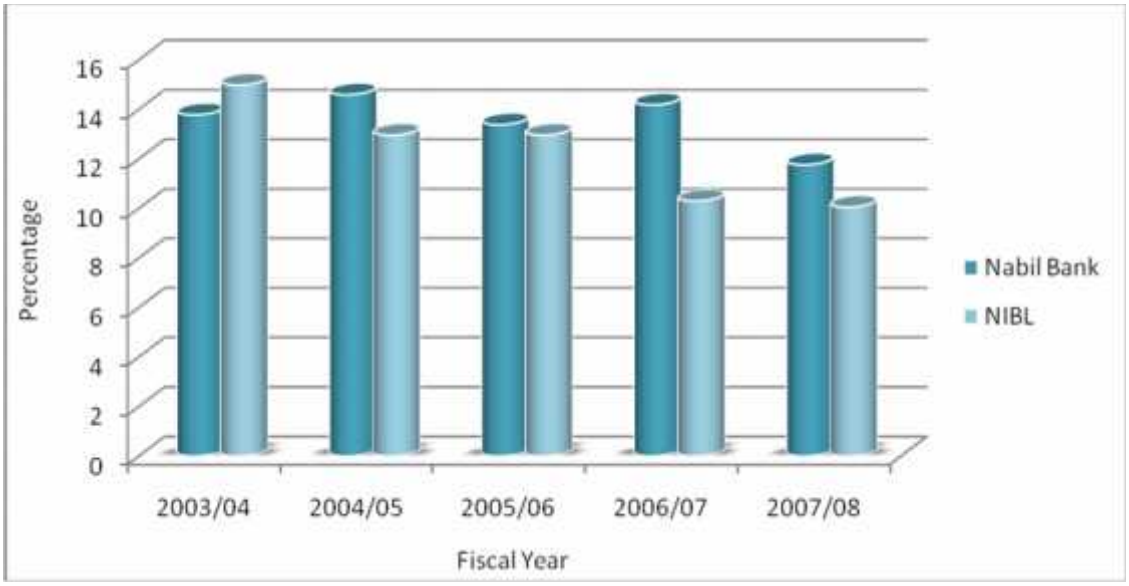
(In percentage)

Name of Banks	Fiscal Year					Average	∃	CV
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	13.78	14.59	13.38	14.18	11.76	13.538	0.976	0.07
NIBL	14.98	12.96	12.96	10.30	10.05	12.25	1.85	0.15

(Source: See Annex 16)

Figure 4.16

Exchange Income to Total Income



From the table and figure 4.16, on an average basis, Nabil has the highest ratio of 13.54%. Next to it; there is NIBL with 12.25%. It implies that Nabil has highest exchange income out of total incomes.

From the S.D. point of view, NIBL has the highest S.D. of 1.85 points and Nabil bank has the lowest S.D. with 0.98 point. It implies that, NIBL has high fluctuation (less homogeneity) in generating foreign exchange income over the

study period and Nabil Bank has lowest fluctuation in generating foreign exchange income over the study period. From C.V. point of view, NIBL has highest C.V. of 15% and Nabil has lowest C.V. of 7%. It indicates that, Nabil is consistent in generating its exchange income out total income over the study period.

4.2 Statistical Tools

In this study, statistical tools have been grouped into coefficient of correlation, probable error and coefficient of determination.

4.2.1 Karl Person's Coefficient of Correlation

It is most widely used statistical tools which measures the significance of the relationship between two variables during the study period. Correlation coefficient is calculates to measure the relationship between Net profit and total deposits of selected joint venture banks. The value of coefficient of correlation shall always be between +_1. Where r = 1, it means perfect positive correlation between two variables. Where r = -1, it means perfect negative correlation between two variables. Where r = 0, it means there is no relationship between two variables.

The formula for computing Karl person's coefficient of correlation is as follows.

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2}\sqrt{n \sum y^2 - (\sum y)^2}}$$

Here,

r = Karl Pearson's Coefficient of Correlation

n = No. of pairs where x and y absorbed.

∑x = Sum Value of net profit (after tax)

∑y = Sum Value of total deposits

∑xy = Sum of product of variable x and y

Table 4.17
Coefficient of Correlation between Net Profit (Dependent) and Total Deposit (Independent) of Nabil Bank Ltd.

(Rs. In Million)

Fiscal Year	x	y	x^2	y^2	xy
2003/2004	455.31	14119.03	207307.1961	199347008	6428535.549
2004/2005	518.64	14586.61	268987.4496	212769191	7565199.41
2005/2006	635.26	19347.4	403555.2676	374321887	12290629.32
2006/2007	673.96	23342.29	454222.0816	544862502	15731769.77
2007/2008	746.47	31915.05	557217.4609	1018570417	23823627.37
Total	**3029.64**	**103310.4**	**1891289.456**	**2349871005**	**65839761.43**

(Source: See Annex 17)

Where;

N=5 years

∑x= 3029.64

∑x2 = 1891289.456

∑y= 103310.38

∑y2= 2349871005

∑xy= 65839761.43

We have;

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2}\sqrt{n \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 65839761.43 - 3029.64 \times 103310.38}{\sqrt{5 \times 1891289.456 - (3029.64)^2}\sqrt{5 \times 2349871005 - (103310.38)^2}}$$

$$= 0.94$$

Above calculation of coefficient of correlation between net profit and total deposit of Nabil Bank Ltd. is 0.94. This analysis indicates that there is a positive correlation between net profit and total deposit. Therefore, net profit (dependent variable) is highly affected by total deposit.(independent variable).

Table 4.18

Coefficient of Correlation between Net profit (Dependent) and Total Deposit (Independent) of NIBL.

(Rs. In Million)

Fiscal Year	x	y	x^2	y^2	xy
2003/2004	152.67	11524.68	23308.1289	132818249.10	1759472.9
2004/2005	232.15	14254.57	53893.6225	203192765.88	3309198.43
2005/2006	350.54	18927.31	122878.2916	358243063.84	6634779.25
2006/2007	501.4	24488.86	251401.96	599704264.10	12278714.4
2007/2008	696.73	34451.73	485432.6929	1186921699.99	24003553.8
Total	**1933.49**	**103647.15**	**936914.70**	**2480880042.92**	**47985718.82**

(Source: See Annex 18)

Where;

N=5 years

∑x=1933.49

∑x2 = 936914.69

∑y= 103647.15

∑y2= 2480880043

∑xy= 47985718.8

We have;

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2}\sqrt{n \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 47985718.82 - 1933.49 \times 103647.15}{\sqrt{5 \times 936914.70 - 1933.49^2}\sqrt{5 \times 2480880042.92 - 103647.15^2}}$$

= 0.99

Above calculation of coefficient of correlation between net profit and total deposit of NIBL is 0.99. This analysis indicates that, there is a high positive correlation between net profit and total deposit. Therefore, net profit (dependent variable) is highly affected by total deposit (independent variable).

4.2.2 Computation of Probable Error

If the value of ‘r’ is less than six times of probable error, there is no evidence of correlation i.e. value of r is not significant. Thus, if the value of ‘r’ is more than sex times of probable error, the coefficient of correlation is practically, i.e. the value of ‘r’ is significant.

Formula:

$$P.E. \text{X} 0.6745 \frac{1 \text{Z} r^2}{\sqrt{n}}$$

P.E. = Probable Error

r = Karl Pearson’s Coefficient of Correlation

n = No. of pairs where x and y absorbed

Probable Error of Nabil bank

Here,

r = 0.94

n = 5

We have,

P.E. =

= 0.04

Again,

6 P. E. = 6 0.04 = 0.24

Since, the value of ‘r’ is more than six times of probable error (i.e. 6 x 0.04 < 0.94). The value of ‘r’ is significant. It implies that management should prepare a promoting planning of increasing the net worth to increase the return.

Probable Error of NIBL

Here,

r = 0.99

n = 5

We have,

P.E. = 0.6745 = 0.006

Again,

6 P. E. = 6 0.006 = 0.036

Since, the value of 'r' is greater than six times of probable error (i.e. 0.99 < 6 x 0.006). So the value of 'r' is significant.

4.2.3 Correlation between Net Profit and Total Deposit

Net profit refers to profit after deducting interest and taxes: The total deposit of the bank comprises of fixed deposit, saving deposit, current deposit and margin deposit etc. In this study, correlation analysis between two variables, net profit and total deposit are calculated to measure the closeness of relationship between them to what extent dependent variable i.e. net profit will be changed when there is a change in independent variable i.e. total deposit. The summary of various values are presented in following table no 4.19

Table 4.19

Correlation between Net Profit and Total Deposit

Evaluation Criteria	Nabil Bank	NIBL
Coefficient of correlation (r)	0.94	0.99
Coefficient of determination (r^2)	0.88	0.98
Probable error (P.Er)	0.04	0.006
6 P.E	0.24	0.036

(Source: See Annex 19)

From the table we see that the correlation coefficient between net profit and total deposit of Nabil bank and NIBL are 0.94 and 0.99 respectively. It also shows that the higher positive relationship between net profit and total deposit of both Nabil except and Nabil bank. In order to measure the degree of change on dependent variable net profit due to the change in independent variable total deposit, value of coefficient of determination (r2) is calculated. Considering the probable error (P.E.), the value of 'r' of Nabil is grater than six times of the P.E. (0.94 > 0.24). Therefore, we can say that the value of 'r' is significant i.e. there is significant relationship between net profit and total deposit of Nabil bank. Also NIBL the value of 'r' is greater than six times of P.E. (0.99 > 0.036) . It means that the value of 'r' of NIBL is also significant i.e. there is significant relationship between net profit and total deposit of NIBL.

4.3 Trend Analysis/ Least Square Method

Trend analysis is a statistical tool, which will highlight the previous trend of the financial performance and helps in forecasting the future financial results of selected banks. Trend analysis shows the trend of loan and advances of selected banks for eight years. Loan and advance shows a bank's efficiency in performance of efficient utilization of the same indicates its success and profitability. Mathematically, Regression Equation is measured as follows,

Regression equation $Y = a + bX$

Here,

Y = Loan and Advance

a = Constant Value

b = Coefficient value

X = Financial Year

Table 4.20

Calculation of Straight Line Trend Analysis of Loan and Advance of Nabil Bank Ltd

(Rs. In Million)

Year (X)	Loan and Advance (Y)	x^2	xy
2003/04 (1)	8548.66	1	8548.66
2004/05 (2)	10946.74	4	21893.48
2005/06 (3)	12922.54	9	38767.62
2006/07 (4)	15545.78	16	62183.12
2007/08 (5)	21365.05	25	106825.3
15	**69328.77**	**55**	**238218.1**

(Source: See Annex 20)

Here,

$\sum x = 15$

$\sum y = 69328.77$

$\sum x2 = 55$

$\sum xy = 238218.1$

we have,

Regression equation $Y = a + bX$

For Calculation of 'a' and 'b'

$\sum y = na + b\sum x$

$\sum xy = a\sum x + b\sum x2$

From these equation,

$a = 4796.22$

$b = 3023.18$

Therefore, Loan and advances on 6th year (2008/09)

$Y = 4796.22 + 3023.18 \times 6$

$= 22935.30$ million

Loan and advances on 7th year (2009/ 10)

Y = 4796.22 + 3023.18 x 7

= 25958.50 Million

Similarly, We can estimate the value of Loan and advance of Nabil Bank for the coming year.

Table 4.21

Loan and Advance of Nabil Bank Ltd. with Estimated Value

(Rs. In Million)

Fiscal year	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Loan & Advances	8548.66	10946.74	12922.54	15545.78	21365.05	22935.30	25958.50

(Source: See Annex 21)

Based on analysis presented table no 4.21 it concludes that loan and advance has been increasing to or expected loan and advances is 22935.30 million and 25958.50 million on financial year 2008/09, 2009/10 respectively, and. so on. It refers that success for aggressive lending policies in terms of loan and advances. It is successful increased for the next coming year from the table.

Table 4.22

Calculation of Straight Line Trend Analysis of

Loan and Advance of NIBL

(Rs. In Million)

Year (X)	**Loan and advance (Y)**	**x^2**	**xy**
2003/04 (1)	7338.57	1	7338.57
2004/05 (2)	10453.2	4	20906.3
2005/06 (3)	13178.2	9	39534.5
2006/07 (4)	17769.1	16	71076.4
2007/08 (5)	26996.7	25	134983
15	**75735.6**	**55**	**273839**

(Source: See Annex 22)

Here,

$\sum x = 15$

$\sum y = 75735.6$

$\sum x^2 = 55$

$\sum xy = 273839$

we have,

Regression equation $Y = a + bX$

For Calculation of 'a' and 'b'

$\sum y = na + b\sum x$

$\sum xy = a\sum x + b\sum x2$

From these equation,

a = 1157.46

b = 4663.22

Therefore,

Loan and advances on 6th year (2008/09)

Y = 1157.46+ 4663.22x 6

= 29136.78 million

Loan and advances on 7th year (2009/ 10)

Y = 1157.46+ 4663.22x 7

= 33800 Million

Similarly, We can estimate the value of Loan and advance of NIBL for the coming year.

Table 4.23

Loan and Advance of NIBL with Estimated value

(Rs. In million)

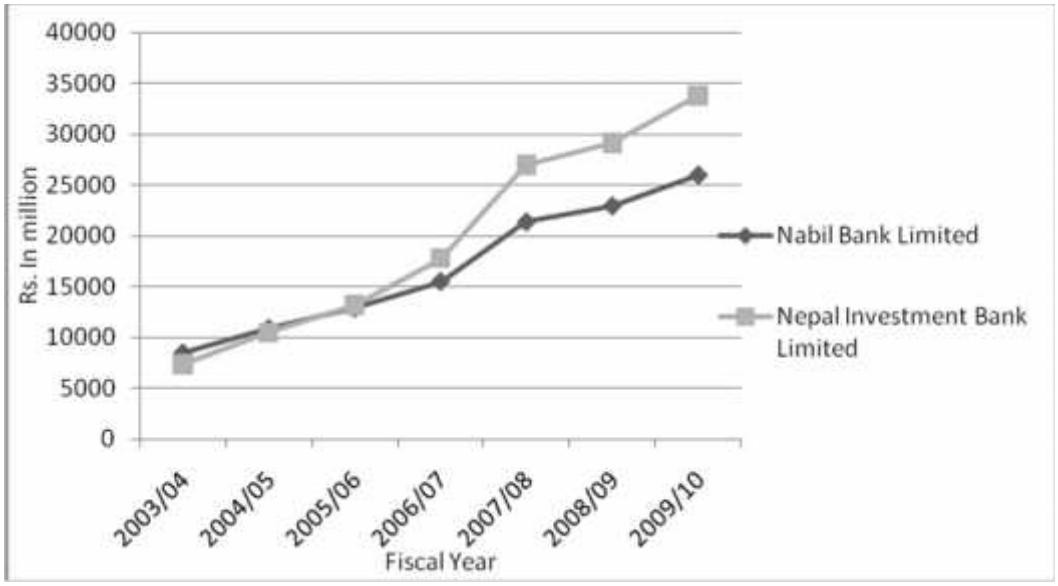
Fiscal year	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Loan & Advances	7338.57	10453.2	13178.2	17769.1	26966.65	29136.78	33800

(Source: See Annex 23)

From the table no 4.23, it concludes that loan and advance has been increasing 246.77 million in 2007/08 and 2361.24 million on 2008/09 and 2009/10 respectively. It refers that success for aggressive lending policies in terms of loan and advances. It is successful increased for the next coming year from the table.

Figure 4.17

Loan and Advance of NIBL and Nabil Bank Limited with Estimated value



In the figure 4.17, the future trend line of both Nabil bank and NIBL has increased continuously in coming year. And it also shows that NIBL is high trend value than Nabil bank in comparison,

Table 4.24
Summary of Trend Analysis Result

(In Million)

Name of Banks	Loan and Advance						
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Nabil Bank Ltd	8548.66	10946.74	12922.54	15545.78	21365.1	22935.30	25958.5
NIBL	7338.57	10453.2	13178.2	17769.1	26966.6	29136.78	33800

(Source: See Annex 24)

According to the table no 4.24, loan and advances of each bank have increased trend at the end of the coming fiscal year 2008/09 and 2009/10. On the other hand average growth rate of NIBL is higher than Nabil bank (i.e. 4149.50 > 3023.18). NIBL in regards to loan and advances on view of outsider must be able to attract, so that it can increase the deposit volume.

4.4 Major Findings of the Study

The major findings of the study are derived on the basis analysis of selected Banks which are given below.

4.4.1 Liquidity Ratio

The liquidity position of selected Banks reveals that:

- The average current ratio of all sample banks i.e. Nabil bank and NIBL is 1.07 and 1.05 respectively. It shows that the current ratio of all the sample banks is below the standard ratio 2:1. It is clear that Nabil bank has slightly more liquid than NIBL. But it can't be concluded that all the banks are in poor condition with low current ratio.
- The average ratio of cash and bank balance to total deposit of all the sampled banks i.e. Nabil bank and NIBL is 5.67% and 10.64% respectively. It reveals that on an average basis NIBL has more liquid to serve its depositors in time with enough cash in hand. Nabil bank is found to be holding less cash in hand than its deposits.

4.4.2 Profitability Ratio

The profitability ratio of two banks reveals that:

- The average ratio of net profit to total assets of Nabil bank and NIBL is 2.75% and 1.55% respectively. It implies that, on an average basis, Nabil bank has earned highest percentage (i.e. 2.75%) of net profit by utilizing its total assets among the sampled banks. Similarly, on an average basis, NIBL has earned 1.55% of net profit against the use of total assets over the entire study period. The above ratio shows how efficiently the sample banks have utilized their available assets over the study period. Among all the samples banks NIBL has the lowest ratio i.e. 1.55%. It means that NIBL has not mobilized its assets into profit generating projects than Nabil bank.
- The average ratio of net profit to total deposit of Nabil bank and NIBL is 3.05% and1.77% respectively. It implies that, on an average basis, Nabil bank has earned the highest percentage (i.e. 3.05%) of net profit by utilizing its total deposit than NIBL. Likewise, NIBL has earned the lowest percentage (i.e. 1.77%) of net profit by utilizing its total deposit over the entire study period. The above ratio shows low efficiently the sample banks have utilized their available deposit into profit generating project. On the other hand, Nabil bank with highest ratio has been successful in the earning more net profit by the proper use of its available deposits than NIBL.
- The average ratio of return on shareholders' equity (net worth) of Nabil Bank and NIBL is 31.85% and 23.60% respectively. It implies that, on an average basis, Nabil bank has provided the highest percentage (i.e. 31.85%) of return to its shareholder by utilizing the shareholders fund among the sample banks. The above ratio shows how much profitability the sample banks have utilized the available fund of shareholders into profit generation over the study period. Among the samples bank NIBL

has the lowest ratio. It means that NIBL has not mobilized the fund of shareholder effectively into profit generating project.

- The average ratio of net interest earned to total assets of Nabil Bank and NIBL is 4.05% and 3.14% respectively. It implies that, on an average basis Nabil Bank has earned the highest percentage (i.e. 4.05%) of net interest by utilizing its total assets into interest generating projects. Among the sample banks, NIBL has the lowest ratio. It means that NIBL has not mobilized its assets into interest generating projects.

4.4.3 Activity Ratio

The activity ratio of selected banks reveals that:

- The average ratio of loan and advances to total deposit of Nabil Bank and NIBL is 67.19% and 71.90% respectively. It implies that NIBL has used highest percentage (i.e. 71.90%) of total deposit into loan and advances than Nabil bank over the study period. Similarly, Nabil bank has used lowest percentage (i.e. 67.19%) of total deposit into loan and advances than NIBL over the study period.
- The average ratio of loan and advances to total assets of Nabil Bank and NIBL is 56.96% and 62.44%respectively. It indicates that NIBL has used and highest percentage (i.e. 62.44%) of total assets in loan and advances than Nabil bank over the study period.
- The average ratio of total investment to total deposit of Nabil Bank and NIBL is 40.39% and 28.55% respectively. It implies that on an average Nabil bank has used 40.39% of total deposit into investment in other projects than regular loans. Similarly, on an average NIBL has used 28.55% of total deposit into investment. In term of investment against total deposit, Nabil bank has used highest percentage (i.e. 40.39%) of its total deposit into non-risky ventures and is ahead of NIBL.

4.4.4 Leverage Ratio

The leverage ratio of sampled banks reveals that:

- The average ratio of total debt to net worth of Nabil bank and NIBL is 11.42 and 14.43 times respectively. It implies that NIBL has highly leverage 14.43 times means, debt capital financing is more than 14.43 times of its shareholder equity over the study period where as Nabil bank has lowest ratio (i.e. 11.42 times) of total debts to net worth.
- The average ratio of total debt to total assets of Nabil bank and NIBL is 91.88% and 93.45% respectively. It indicates that NIBL has highest ratio (i.e. 93.45%) of total debt into total assets. over the study period, on an average basis NIBL has highly debt financing means, NIBL borrowed outsider's funds by 93.45%. Where as Nabil bank borrowed outsider's funds by 91.88%.

4.4.5 Earning Per Share

The average earning per share of Nabil bank and NIBL is Rs. 114.54 and Rs.54.20 respectively. On an average basis, Nabil bank has the highest earning per share (i.e. Rs. 114.54) than NIBL over the study period. Similarly, NIBL has comparatively lower EPS. (i.e. Rs. 54.20)

4.4.6 Dividend Payout Ratio

The average dividend payout ratio of Nabil bank and NIBL is 69.67% and 12% respectively. Nabil bank has highest dividend payout ratio (i.e.69.67%) which provides maximum amount of dividend to its shareholder than NIBL over the entire study period.

4.4.7 Price Earning Ratio

The average price earning ratio of Nabil bank and NIBL is 25.59 and 25.92 times respectively. It implies that NIBL has highest price earning ratio (i.e. 25.92 times) than Nabil bank. It also means that NIBL's market price per share

is 25.92 times greater than its earning per share. Where as Nabil bank's market price per share is 25.59 times greater than its earning per share.

4.4.8 Income Analysis

The income analysis of selected banks reveals that:

- The average net interest income to total income of Nabil bank and NIBL is 67.296% and 69.562% respectively. Over the study period, NIBL has highest and Nabil bank has lowest net interest income on total income.
- The mean exchange income to total income of Nabil bank and NIBL is 13.54% and 12.25% respectively. It indicates that Nabil bank is success to generate exchange income than Nabil bank over the study period
- The average ratio of commission and discount received to total income of Nabil bank and NIBL is 13.10% and 12.85% respectively. It indicates that Nabil bank has highest commission and discount income out of total income than NIBL over the study period.

4.4.9 Expenditure Analysis

From the analysis of expenditure of concerned banks reveal that:

- Higher mean of interest expenses is on NIBL. Similarly, Nabil bank has lower mean. It shows that NIBL has been growing interest expenses against Nabil bank.
- The average staff expenses of Nabil bank have highest than NIBL. It means that Nabil bank has been paying highest amount of staff expenses (i.e. salary, allowance and gratuity funds etc.) than NIBL over the entire study period.

4.4.10 Correlation and Regression Analysis

NIBL and Nabil bank have positive coefficient of correlation i.e. 0.99 and 0.94 respectively. It refers that these two banks net profit (dependent variable) is affected by total deposit (independent variable). These correlations are more

than six times than that of probable error. Thus, these banks have significant value of coefficient of correlation.

4.4.11 Trend Analysis

Loan and advances of each bank have increased trend at the end of the coming fiscal year 2008/09 and 2009/10. On the other hand average growth of NIBL is higher than Nabil bank.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: summary, conclusion and recommendations. In summary part, revision or summary of all fourth chapters is made. In conclusion part, the result from the research is summed up and in recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as further research.

5.1 Summary

The economic development of a country cannot be imagined without the development of commerce and industry. The role of commercial banks in the economic growth of nation can be estimated to be prominent. The very challenging job of commercial banks is to collect the scattered idle resources from the small savers. Actually, commercial banks pool the fund in the sizable volume in order to feed the fund requirement of productive sector promote trade and industrialization in the country there by raising the employment opportunity and earning to the labors and materials suppliers to such industries and traders.

Commercial banks of course contribute a lot to the development of the economy of the country. Thus, to remain in the front line of the great contributor of the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must ensure reasonable profitability.

Under this study, the researcher has tried to cover the various aspects of selected banks covering the period of five years from 2003/04, 2004/05,

2005/06, 2006/07 and 2007/08. In the first introductory chapter, the study report has tried to give history and introduction of banking and its relation to the economy, brief profile of the concerned banks, general concepts of financial statement and the statement of problem, objectives of the study and its limitation. During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted. And as per requirement, internet materials from relevant websites are also visited. These works are complied in the second chapter titled "Review of Literature" of this report.

For this study the researcher has gathered the required data basically from annual reports published by the concerned banks for the last five years. And also internet website of Nepal Stock Exchange is used for necessary data to analyze the financial performance of selected banks (1) Financial ratios to calculate various ratios (2) Statistical tools such as mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination and probable error etc are followed for this research work in third chapter titled" Research Methodology".

Data relating to activities of the banks have been collected and presented in figures and tabular as far as possible are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial and statistical tools and findings of the study have been listed in a systematic manner. All these works are complied in the fourth chapter titled "Data Presentation and Analysis" of the study.

Finally, the summary, conclusion and the recommendation made by the research are presented in the current chapter titled "Summary, Conclusions and Recommendation.

5.2 Conclusion

This study reveals that the current ratio of all samples banks i.e. Nabil bank and NIBL is greater than 1 but Nabil bank has the highest current ratio. It means Nabil bank's solvency position is better than NIBL. The cash and bank balance of NIBL with respect to total deposit is more liquidity than Nabil bank. It indicates that NIBL is able to make immediate payments to its depositor.

Among two sample banks, NIBL has the lowest ratio of net profit to total assets. It means NIBL has not mobilized its assets into profit generating projects. Nabil bank has been successful in earning more net profit by the proper use of its available assets. NIBL has not mobilized its deposit into profit generating project and Nabil bank with the highest ratio has been successful in the earning more net profit by the proper use of its available deposit than others. But in case of mobilized the funds of shareholders efficiently into profit generating projects, NIBL does not mobilized and Nabil bank has been successful in providing more rate of return to its shareholders by the proper use of their available funds than NIBL. From all the sample banks, NIBL has not mobilized its assets into interest generating projects (i.e. income from loans, advances, cash credit and overdrafts, government securities, inter commercial banks other investment). Nabil bank with the highest ratio has been successful in generating more interest income by the proper use of its available assets.

In term of loan and advances against total deposits, NIBL has used more percentage of its total deposits into loan and advances than Nabil bank. From all the sample banks, Nabil bank has mobilized highest percentage of its total deposit into total investment (i.e. investment into government securities, debenture and bonds, shares in subsidiary commercial bank, companies and other investment). From leverage ratio, NIBL has high debt to total assets ratio represents a greater risk to creditor and shareholders than Nabil bank.

Earning per share of Nabil bank has the highest than Nabil bank. Similarly, with the highest dividend payout ratio of Nabil bank refers that the bank provides maximum amount of dividend to its shareholders. NIBL has highest price earning ratio than Nabil bank. From income analysis, NIBL has highest net interest income than Nabil bank. Similarly, exchange income of Nabil bank is greater than NIBL. From correlation and regression analysis NIBL and Nabil bank both have positive coefficient of correlation between net profit and total deposit. From trend analysis, loan and advances of each bank have increased trend but average growth of NIBL is higher than Nabil bank.

5.3 Recommendations

Based on the analysis, interpretation & conclusions, some of the major recommendations are mentioned as bellow:

On the basis of liquidity ratio analysis it is found that selected banks do not have the standard current ratio (2:1). However, from aggressive working capital point of view it is not considered so bad. NIBL seem to have held more cash and bank balance rather than Nabil bank. To maintain liquidity in perfect, all commercial banks have to follow the mid way, i.e. they should invest the idle deposit in productive sector and on the other hand they have enough cash balance to meet current requirement.

The profitability ratio incase of NIBL has lowest with the result of lower profit before tax. So, this bank should reduce operating costs to achieve the operational efficiency. Since by decreasing costs, profit of any bank can grow considerably, they must search for loopholes in their operations where unnecessary costs are being incurred and should eliminate them.

On the basis of activity ratio analysis it is found that all the selected banks have emphasized on issuing loan and advances. But as we know that the increasing bottleneck competition and worsening economic condition has attributed this

area to be very sensitive and risky. Therefore, it is suggested them to investments non-risky assets to increase the level of profit.

In case of selected banks, debt financing has always almost exceeded 90% of the total assets over the review period, which indicates the excessively use of debt finance to total assets. Nevertheless, extensive use of debts capital with the failure in advancing good loans can jeopardize the solvency position of these banks. Therefore, it is suggested to the banks to assess the risk assets portfolio cautiously before accepting higher volumes of deposits.

Expenses are the vital determinants to increase or decrease the profitability of the banks. Interest expenses on deposits also affect the profitability of the banks. Thus, it is recommended that banks should try to reduce the amount of high interest bearing deposits like fixed deposits, saving deposit and others. Instead they should concentrate of non-interest bearing deposit like current deposit, margin deposit etc. At the same time, bank should try to reduce the operating expenses to increase the profitability.

Share holders are the real owners of the organization. But they do not seem to be happy with the rate of return on equity provided by the banks. To some extent, Nabil bank has been successful in providing a better return on equity than NIBL. Thus, it is recommended that the management team should put emphasis on the maximizing the wealth of the share holders.

Low market price of share and less earning per share of commercial banks indicates the poor performance in the market. Similarly, low dividend payout ratio also discourages the shareholders. Reviewing the study, Nabil bank has higher MPS, EPS and dividend payout ratio than NIBL. Therefore, it is suggested to the management team of NIBL to improve their performance.

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WebSites

www.nabil.com.np

www.nepalstock.com

www.nibl.com.np

Annex – 1

Calculation Mean, S. D. and C. V. of Current Ratio

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-x)^2$**	**x**	**$(x-x)^2$**
2003/04	1.07	0.00000	1.02	0.0009
2004/05	1.08	0.00006	1.06	0.0001
2005/06	1.08	0.00006	1.05	0.0000
2006/07	1.07	0.00000	1.04	0.0001
2007/08	1.06	0.00014	1.08	0.0009
Total	**5.36**	**0.0003**	**5.25**	**0.0020**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

$\pm X\sqrt{\frac{1}{N} \quad (x Z x)^2}$

For Nabil bank,

$\exists$ = √0.00006

= 0.0077

For NIBL,

$\exists$ =√0.0004

= 0.02

$CV\ X\frac{\pm}{x}$

or Nabil bank,

CV= 0.0077/1.07

= 0.0072

For NIBL,

CV= 0.02/1.05

= 0.019

Annex – 2

Cash & Bank Balance to Total Deposits Ratio (X)

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-x)^2$**	**x**	**$(x-x)^2$**
2003/04	6.87	1.44962	10.65	0.0000
2004/05	3.83	3.37090	9.4	1.5475
2005/06	3.26	5.78884	12.3	2.7423
2006/07	6	0.11156	9.97	0.4543
2007/08	8.37	7.31162	10.9	0.0655
Total	**28.33**	**18.0325**	**53.22**	**4.8097**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{3.608}$

$= 1.9$

For NIBL,

$\exists = \sqrt{0.964}$

$= 0.98$

$\pm X\sqrt{\frac{1}{N} \quad (x Z x)^2}$

For Nabil bank,

CV= 1.9/5.67

$= 0.34$

For NIBL,

CV= 0.98/10.64

$= 0.09$

$CV\ X\frac{\pm}{x}$

Annex – 3

Net Profit to Total Assets Ratio (X)

	Nabil Bank		NIBL	
Fiscal Year	**x**	**$(x-x)^2$**	**x**	**$(x-x)^2$**
2003/04	2.73	0.0004	1.13	0.1747
2004/05	3.06	0.0961	1.42	0.0164
2005/06	3.23	0.2304	1.61	0.0038
2006/07	2.72	0.0009	1.79	0.0586
2007/08	2.01	0.5476	1.79	0.0586
Total	**13.75**	**0.8754**	**7.74**	**0.3121**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{0.175}$

$= 0.42$

For NIBL,

$\exists = \sqrt{0.063}$

$= 0.25$

$\pm X\sqrt{\frac{1}{N} \quad (x \, Z x)^2}$

$CV \; X \frac{\pm}{x}$

For Nabil bank,

CV= 0.42/2.75

= 0.153

For NIBL,

CV= 0.25/1.55

= 0.162

Annex – 4

Net Profit to Total Deposit Ratio

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-x)^2$**	**x**	**$(x-x)^2$**
2003/04	3.22	0.02822	1.32	0.2061
2004/05	3.56	0.25806	1.63	0.0207
2005/06	3.28	0.05198	1.85	0.0058
2006/07	2.86	0.03686	2.05	0.0762
2007/08	2.34	0.50694	2.02	0.0605
Total	**15.26**	**0.8821**	**8.87**	**0.3693**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{0.17642}$

$= 0.420$

For NIBL,

$\exists = \sqrt{0.0739}$

$= 0.272$

$\pm X\sqrt{\frac{1}{N} \quad (x Z x)^2}$

For Nabil bank,

CV=0.420/3.05

$= 0.138$

For NIBL,

CV= 0.272/1.77

$= 0.154$

$CV\ X\frac{\pm}{=}_{x}$

Annex – 5

Return on Shareholder's Equity to Net worth Ratio

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-x)^2$**	**x**	**$(x-x)^2$**
2003/04	30.73	1.25440	20.94	7.0862
2004/05	31.29	0.31360	19.67	15.4606
2005/06	33.88	4.12090	24.77	1.3642
2006/07	32.72	0.75690	26.7	9.5976
2007/08	30.63	1.48840	25.93	5.4196
Total	**159.25**	**7.9342**	**118.01**	**38.9283**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years For Nabil bank, For NIBL,

$\pm X\sqrt{\frac{1}{N} \quad (x Z x)^2}$ $\exists = \sqrt{1.587}$ $\exists = \sqrt{7.79}$

$= 1.26$ $= 2.79$

$CV\ X\frac{\pm}{x}$ For Nabil bank, For NIBL,

CV= 1.26/31.85 CV= 2.79/23.6

= 0.04 = 0.12

Annex-6

Net Interest Earned to Total Assets Ratio

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-\bar{x})^2$**	**x**	**$(x-\bar{x})^2$**
2003/04	4.2	0.02250	3	0.0185
2004/05	4.7	0.42250	3.25	0.0130
2005/06	4.27	0.04840	3.14	0.0000
2006/07	3.79	0.06760	3.2	0.0041
2007/08	3.29	0.57760	3.09	0.0021
Total	**20.25**	**1.1386**	**15.68**	**0.0377**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{0.26204}$

$= 0.512$

For NIBL,

$\exists = \sqrt{0.0076}$

$= 0.087$

$\pm X\sqrt{\frac{1}{N} \quad (x \, Z x)^2}$

$CV \; X \frac{\pm}{\bar{x}}$

For Nabil bank,

CV= 0.512/4.05

$= 0.126$

For NIBL,

CV= 0.078/3.14

$= 0.028$

Annex – 7

Loan and Advances to Total Deposit Ratio

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-x)^2$**	**x**	**$(x-x)^2$**
2003/04	60.55	44.03650	63.68	67.6013
2004/05	75.05	61.84250	73.73	3.3416
2005/06	66.79	0.15682	69.63	5.1620
2006/07	66.6	0.34340	72.56	0.4330
2007/08	66.94	0.06052	79.91	64.1281
Total	**335.93**	**106.4397**	**359.51**	**140.6659**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years For Nabil bank, For NIBL,

$\pm X\sqrt{\frac{1}{N} \quad (x Z x)^2}$ $\exists = \sqrt{21.29}$ $\exists = \sqrt{28.133}$

$= 4.61$ $= 5.30$

For Nabil bank, For NIBL,

$CV\ X\frac{\pm}{x}$ CV= 4.61/67.1 CV= 5.30/71.90

= 0.069 = 0.074

Annex – 8

Loan and Advances to Total Assets Ratio

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-x)^2$**	**x**	**$(x-x)^2$**
2003/04	49.98	48.77626	54.51	62.9484
2004/05	62.39	29.44148	63.78	1.7849
2005/06	57.87	0.82084	60.64	3.2544
2006/07	57.04	0.00578	63.29	0.7157
2007/08	57.54	0.33178	70	57.0931
Total	**284.82**	**79.3761**	**312.22**	**125.7965**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{15.89}$

$= 3.99$

For NIBL,

$\exists = \sqrt{25.16}$

$= 5.02$

$\pm X\sqrt{\frac{1}{N} \quad (x Z x)^2}$

For Nabil bank,

CV= 3099/56.96

= 0.07

For NIBL,

CV= 5.02/62.44

= 0.08

$CV\ X\frac{\pm}{x}$

Annex – 9

Total Investment to Total Deposits Ratio

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-\bar{x})^2$**	**x**	**$(x-\bar{x})^2$**
2003/04	47.84	55.50250	36.2	58.4613
2004/05	35.21	26.83240	28.58	0.0007
2005/06	40.9	0.26010	29.97	2.0051
2006/07	40.74	0.12250	28.05	0.2540
2007/08	37.26	9.79690	19.97	73.6851
Total	**201.95**	**92.5144**	**142.77**	**134.4061**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{18.50}$

$= 4.30$

For NIBL,

$\exists = \sqrt{27.03}$

$= 5.12$

$\pm X\sqrt{\frac{1}{N} \quad (x Z_{\bar{x}})^2}$

$CV\ X\frac{\pm}{\bar{x}}$

For Nabil bank,

CV= 4.30/40.39

= 0.11

For NIBL,

CV= 5.12/28.55

= 0.18

Annex – 10

Total Debts (Liabilities) to Net worth Ratio

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-\bar{x})^2$**	**x**	**$(x-\bar{x})^2$**
2003/04	10.54	0.78146	17.47	9.2173
2004/05	9.59	3.36356	12.89	2.3839
2005/06	11.18	0.05954	14.4	0.0012
2006/07	11.58	0.02434	13.94	0.2440
2007/08	14.23	7.87364	13.47	0.9293
Total	**57.12**	**12.1025**	**72.17**	**12.7757**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{2.49}$

$= 1.59$

For NIBL,

$\exists = \sqrt{2.56}$

$= 1.6$

$\pm X\sqrt{\frac{1}{N} \quad (x \, Z \bar{x})^2}$

$CV \; X \frac{\pm}{\bar{x}}$

For Nabil bank,

CV= 1.59/11.42

= 0.14

For NIBL,

CV= 1.6/14.43

= 0.11

Annex – 11

Total Debt (Liabilities) to Total Assets Ratio

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-x)^2$**	**x**	**$(x-x)^2$**
2003/04	91.34	0.28730	94.58	1.2679
2004/05	90.55	1.75828	92.8	0.4277
2005/06	91.6	0.07618	93.49	0.0013
2006/07	92.45	0.32948	93.31	0.0207
2007/08	93.44	2.44610	93.09	0.1325
Total	**459.38**	**4.8973**	**467.27**	**1.8501**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{0.98}$

$= 0.99$

For NIBL,

$\exists = \sqrt{0.37}$

$= 0.61$

$\pm X\sqrt{\frac{1}{N} \quad (x Z x)^2}$

For Nabil bank,

CV= 0.99/91.88

= 0.07

For NIBL,

CV= 0.61/93.45

= 0.007

$CV\ X\frac{\pm}{x}$

Annex – 12

Earning Per Share

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-x)^2$**	**x**	**$(x-x)^2$**
2003/04	92.61	480.92490	51.7	6.2400
2004/05	105.49	81.90250	39.5	216.0312
2005/06	129.21	215.20890	59.35	26.5431
2006/07	137.08	508.05160	62.57	70.0904
2007/08	108.31	38.81290	57.87	13.4836
Total	**572.7**	**1324.9008**	**270.99**	**332.3883**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{265.34}$

$= 16.29$

For NIBL,

$\exists = \sqrt{66.48}$

$= 8.15$

$\pm X\sqrt{\frac{1}{N} \quad (x Z x)^2}$

For Nabil bank,

CV= 16.29/114.54

$= 0.14$

For NIBL,

CV= 8.15/54.2

$= 0.15$

$CV\ X\frac{\pm}{x}$

Annex – 13

Dividend Payout Ratio

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-\bar{x})^2$**	**x**	**$(x-\bar{x})^2$**
2003/04	65	101.60640	20	24.0100
2004/05	70	25.80640	15	0.0100
2005/06	85	98.40640	12.5	6.7600
2006/07	100	621.00640	20.5	29.1600
2007/08	55.4	387.30240	7.5	57.7600
Total	**375.4**	**1234.1280**	**75.50**	**117.7000**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{0.0513}$

$= 0.227$

For NIBL,

$\exists = \sqrt{0.0644}$

$= 0.254$

$\pm X\sqrt{\frac{1}{N} \quad (x \, Z \underline{x})^2}$

For Nabil bank,

CV= 0.227/3.25

$= 0.07$

For NIBL,

CV= 0.254/1.75

$= 0.15$

$CV \; X \frac{\pm}{\bar{x}}$

Annex – 14

Price Earning Ratio

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-x)^2$**	**x**	**$(x-x)^2$**
2003/04	10.8	218.7441	18.18	59.969536
2004/05	14.27	128.1424	20.25	32.194276
2005/06	17.34	68.0625	21.23	22.033636
2006/07	36.84	126.5625	27.63	2.910436
2007/08	48.7	534.0721	42.33	269.156836
Total	**127.95**	**1075.5836**	**129.62**	**386.26472**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$$\exists = \sqrt{215.12}$$

$$= 14.67$$

For NIBL,

$$\exists = \sqrt{77.25}$$

$$= 8.79$$

$$\pm X\sqrt{\frac{1}{N} \quad (x Z x)^2}$$

For Nabil bank,

$$CV\ X\frac{\pm}{x}$$

CV= 14.67/25.59

= 0.57

For NIBL,

CV= 8.79/25.93

= 0.34

Annex – 15

Net Interest Income to Total Income

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-x)^2$**	**x**	**$(x-x)^2$**
2003/04	62.85	19.766916	68.97	0.350464
2004/05	62.12	26.790976	67.28	5.207524
2005/06	68.73	2.056356	70.25	0.473344
2006/07	69.73	5.924356	68.44	1.258884
2007/08	73.05	33.108516	72.87	10.942864
Total	**336.48**	**87.64712**	**347.81**	**18.23308**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{17.53}$

$= 4.19$

For NIBL,

$\exists = \sqrt{3.65}$

$= 1.91$

$\pm X\sqrt{\frac{1}{N} \quad (x \, Z x)^2}$

For Nabil bank,

$CV = 4.19/67.30$

$= 0.07$

For NIBL,

$CV = 1.91/69.56$

$= 0.03$

$CV \; X \frac{\pm}{x}$

Annex – 16

Exchange Income to Total Income

Fiscal Year	Nabil Bank		NIBL	
	x	**$(x-\bar{x})^2$**	**x**	**$(x-\bar{x})^2$**
2003/04	13.78	0.058564	14.98	7.4529
2004/05	14.59	1.106704	12.96	0.5041
2005/06	13.38	0.024964	12.96	0.5041
2006/07	14.18	0.412164	10.3	3.8025
2007/08	11.76	3.161284	10.05	4.84
Total	**67.69**	**4.76368**	**61.25**	**17.1036**

Source: Annual Report of Nabil Bank & NIBL

Where,

N = 5 years

For Nabil bank,

$\exists = \sqrt{0.953}$

$= 0.976$

For NIBL,

$\exists = \sqrt{3.421}$

$= 1.85$

$\pm X\sqrt{\frac{1}{N} \quad (x Z x)^2}$

For Nabil bank,

CV= 0.976/13.54

$= 0.07$

For NIBL,

CV= 1.85/12.25

$= 0.15$

$CV\ X\frac{\pm}{\bar{x}}$