

**THE COMPARATIVE STUDY ON FINANCIAL  
POSITION OF NIC BANK LTD AND NEPAL  
INVESTMENT BANK LTD**

**BY:**

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## **VIVA - VOCE SHEET**

We have conducted the viva-voce of the thesis presented by

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Entitled

**THE COMPARATIVE STUDY ON FINANCIAL POSITION OF NIC BANK  
LTD AND NEPAL INVESTMENT BANK LTD**

*And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master's Degree in Business Studies (M.B.S.)*

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*Has been prepared as approved by this department in the prescribed format of  
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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled “THE COMPARATIVE STUDY ON FINANCIAL POSITION OF NIC BANK LTD AND NEPAL INVESTMENT BANK LTD” submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (MBS) under the guidance and supervision of Achyut Raj Bhattarai Associate Professor of Shanker Dev Campus.

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# **CHAPTER - I**

## **INTRODUCTION**

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

Economic development of a country needs development of financial sector. Financial sector development is a sign of economic prosperity. Economic prosperity generates wealth that flows to financial sector in the form of deposits. The deposits are converted into investments and investments again accumulate the wealth. This is a cycle and circulation of money. The better and faster circulations of money from one hand to another are based on the productive use of money. In this regard, financial sector contributes as a catalyst for the economic prosperity of the country. Commercial banks are major financial institutions which occupy quite an important place in the framework of economy because they provide capital for the development of industry, trade and business. So, to make the role of commercial banks effective and efficient, government and other respective organizations should come up with sound investment policy, which will lead to quality and quantity of investments and eventually will contribute to the economic growth of the country.

Commercial banks are major financial institutions, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resource deficit sectors by investing the savings collected as deposits. Besides, commercial banks render numerous services to their customers in view of facilitating their economic and social life. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus commercial banks have become the heart of the financial system.

The role of commercial banks in economy is obviously a prime requisite in the formulation of bank's policy. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective commercial banks formulate sound investment policies, which eventually contribute to the economy of a country. The sound investment policies help

commercial banks to maximize quality and quantity of investment and thereby, achieve the own objectives of profit maximization and social welfare. The banking sector has to play development role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Formulation of sound investment policies and coordinated and planned effort forward the forces of economic development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regard, commercial banks investment policy is also a push drive to achieve priority of industries in the context of Nepal's economic development. Investment policy is one fact of the overall spectrum of policies that guide banks investment operation. A healthy development of any bank depends upon its investment policy.

A good investment practices can be effective on for the economy to attain the economic objective directed towards the acceleration of the pace of development. A good investment practices attracts both borrowers and lenders, which helps to increase the volume and quality of deposit, loan and investment. The load provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial banks investment are considered while making investment policy. Nepalese commercial banks lag far behind fulfilling the responsibilities to invest in the crucial sector of the economy for the enlistment of the national economy. Thus the problem has become very serious one in developing countries like Nepal, which can be solved through formulation of sound investment policy. Sound investment policy can minimize interest rate spread and non-performing assets, which cause the tank failure. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. Formulation amount of investment policies and co-ordinate and planned efforts depends upon the growth of not only a particular bank but also of a society. Seen in this light, the study of investment practices of Everest Bank and Bank of Kathmandu assumes special importance. In today's completion market, it has become increasingly important for banks to know about investment practices to get success in competition. The 1844 A.D. it becomes a first central bank in the word.

### **1.1.1 Commercial Banks and Investment Plan**

Commercial banks are an entity, which accepts deposits and makes short-term loans enterprises, regardless of the scope of its other services. (American Institution of Banking, 1972; 345-346)

Commercial banks are major financial institutions, which occupy quite an important place in the frame work of every company. Commercial banks render numerous services to their customer in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus, commercial banks have become the heart of financial system.

Commercial bank deals with people's money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit the banks can't afford to lock up their funds in assets that are not early realizable. The depositor's confidence could be second only if the bank is Asia to meet to meet the demand for cash promptly and fully. The banks have to keep adequate cash for this purpose. Cash is an idle asset and hence the banker can not afford to keep a large portion of his assets in the bank. Therefore the banker has to distribute his assets in such a way that the can have adequate profits without sacrificing liquidity.

Commercial banks must mobilize its deposits and marketable sector. Then only it can earn more profit as well as it should be second and be converted into cash when ever needed. But commercial banks have to pay due consideration while formulating investment plan regarding loan and investment. Investment plan is one facet of the over all spectrum of policies that guide banks investment operations. A healthy development of any bank depends heavily upon its investment plan. A sound and viable investment plan assets both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. Commercial bank should be careful while reforming the credit creation function. The banks should never invest its funds in those securities,

which are subject to too much depreciation and fluctuation because a little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who many earn millions in a minute. Emphasizing upon this H.D. cross stated, “The investment plan should be carefully analyzed,” (Crosse H. D.963) so they must invest their funds where they gain maximum profit.

Commercial banks must follow the rules and regulations as well as different directions issued by the central bank, ministry of finance, ministry of law and other regulatory bodies while mobilizing its funds. So the bank should invest its funds in legal securities only. Diana McNughton in her research paper “Banking institutions in developing markets” states that, investment policy should incorporate several elements such as regulatory environment, the availability of funds, the reflection of risk, loan portfolio balance and term structure of the liabilities. (McNughton, Diana, 1994) Thus commercial banks should incorporate several elements while making investment plan. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial banks investment are fully considered while making investment decisions

## **1.2 Focus of the Study**

The study of investment practices in banking sector provides required information to the management of the banks which helps them to take correct decision and timely action when plans, policies and strategies are being made and liquidity or growth ratio etc. can be obtained. Similar information is required to the concerned banks for selecting the proper sectors for their investment and other benefit as well. Banks have to carry out their activities in this competitive world against risk and uncertainties. They however, are not the game of chance or fate but are the result of competence, skill and wisdom. So, investment activities can create an image or good will if handled with sagacity or destroy them if mishandled.

The proper mobilization of fund always ensures good return and helps to sustain the institution. That also encourages the investors with financial rewards and the government will generate and increase the revenues. Investment policy, therefore, is the most

important tool for the economic development of the country. A better investment policy yields more profitability or sustainability in the face of risks and uncertainties. It rewards directly or indirectly the people inside its sphere.

Depositors, too, can choose the best banks or financial institutions of their convenience and interest. The study helps the government to formulate rules and policy and implements them in the favor of nation interest.

The study of financial position has an intermediate effect on all those involved in financial activities directly or indirectly. The government, depositors, shareholders, managers; general public and even the researcher feel the need of this study indiscriminately for the information and knowledge necessary to them. Depositors, too, can choose the best or apparent banks or financial institutions of their convenience and interest. Moreover, the study helps the government to formulate rules and policy and implements them in the favor of nation interest. The study might be somewhat limited because it is concerned in only two banks i.e. NIC & NIB.

### **1.3 Statement of the Problem**

Nepal being a developing country is trying to embark upon the path of economic development by economic growth rate and development depends upon various factors. However economists are now convinced that capital formation and its proper utilization play a prominent role.

However, the cause of decline of Nepal's economic crisis is not because of lack of resume but instead it is because of improper utilization of available resources the economic growth of under developed country is widely depends upon the utilization of available economic development and self economic reliance are the most in today's world .These can only be achieved through the accelerate of investment and capital formation in the country. Management liquidity and investment portfolio has become vital in a commercial banking business. Every commercial bank is therefore concentrating on investment management. The earning prices per share are same of the two commercial bank but market price is different. both bank has good reputation in

market. They are searching areas that carry feature of investment and side by side can safeguard the research has done to find out what is the fact between these bank. Thus the present study will make a modest attempt to analyze investment pattern of NIC & NIB. The problems specially related to investment function of joint venture commercial banks of Nepal have been presented. The research questions of the research are as follows

- ) Are they maintaining sufficient liquidity position?
- ) Are they both bank's fund mobilization & investment pattern more effective and efficient?
- ) What is the relationship between investment and loan, advances with total deposits and total net profit?
- ) Does the degree of success in investment strategy successful to utilize its available fund of Bank
- ) What is the comparative position of commercial banks on fund mobilization and investment policy?

#### **1.4. Objectives of the Study**

The purpose of the study is to analyze and examine the investment pattern of commercial banks i.e. NIC & NIB. The main objectives of the study are as follows:

- ) To examine relationship between total investments, deposits, loans and advances net profit and asset and compare them
- ) To evaluate the liquidity, asset management, efficiency, profitability and risk portion of NIC & NIB.
- ) To analyze the deposit utilization trend and its projection for five years of NIC & NIB.
- ) To make a comparative study on fund mobilization and investment practices of the selected banks.

#### **1.5 Significant of the Study**

This research study may provide important information for the policy makers. It carries a special significance to the credit managers or executives an organization to take better investment practices for the smooth operation.

Specially, this study will be supportive to the respective companies' management to examine the condition of investment practices

The main strategy of every commercial bank is to establish the better creditability position, which has directly impact the profitability position. Besides, it helps to build positive attitude and perception on customer that helps to make the organizational success in terms of better transaction, better turnover, and better profitability. Due to all these, investment practices in NIC & NIB. can be considered to be much significant

### **1.6 Limitation of Study**

This study is held within the following limitations & constraints. They are,

- ) Among the several joint venture banks in Nepal, this study has chosen only two joint venture banks. The study deals merely with NIC & NIB. the conclusion derived from the study may or may not be applicable to other commercial banks.
- ) The study is based specially on secondary data like annual reports of the banks, review, journals, unpublished as well as published thesis works and other published articles and reports.
- ) The balance sheet, profit and loss account and accompanying notes have been basically considered as the subjects matters of the study and they are assumed to be correct and true.
- ) Whole study will be based on the data of five years period 2003 /04 to 2007/ 08.

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

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

**Chapter-I: Introduction**

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

**Chapter-II: Review of literature**

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

**Chapter-III: Research Methodology**

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

**Chapter-IV: Presentation and Analysis of data**

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

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

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

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researcher can be conducted or done. In other words it's just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. This review is focus on the financial position of commercial bank. It helps to find out already discovered things. Review of relevant literature implies putting new spectacle in old eyes to think in new way by posting the problem with new data and information to see that what results are derived.

The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc.

We study the review of literature in dividing two headings:

- Conceptual Review
- Review of related Studies

#### **2.1 Conceptual Review**

Commercial bank deals with other people's money. They have to ways of keeping their assets liquid so that they could meet the demands of their customers. In their anxiety to make profit, the banks can't afford to lock to up their funds in assets, which are not easily realizable. The depositors confidence could be secured only if the bank is able to meet the demand for cash is an idle assets and hence the banker cannot afford to keep a large portion of his assets in the form of cash. Cash bring in no income to bank. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity (Grolier Incorporated, 1984)

A commercial bank is business organization that receives and holds deposits of fund form others, makes loans or extends credits and transfer funds by written order of deposits (Grolier Incorporated, 1984).

Commercial bank is a corporation, which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services (American institute of Banking, 1972:345).

Commercial banks, as financial institutions, perform a number of internal functions. Among them, providing credit is considered as most important one. in the words of H. D. Crosse ( 1963), Commercial Banks bring into being the most important ingredient of the money supply, demand deposits through the creation of credit in the form of loan and investments.”

Commercial Bank Act 1974AD (2031BS) defined, “A commercial bank is one which exchange money, deposits money, accepts deposits, grant loans and performs commercial banking functions which is not a bank meant for co-operative , agriculture, industries or such specific purpose.”

This act has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short-term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount bills for exchange, promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customers provided that they are paid for their services.

### **2.1.1 Banking Risks**

Normally, Banks confront different kinds of risks, which are categorized as follows:

**Credit risk:** Credit risk arises whenever another party enters into an obligation to make payment or deliver value to the bank. This type of risk is mostly associated with the lending.

**Liquidity Risk:** Liquidity risk arises when bank itself fail to meet its obligation. The bank required to make payments to the different parties at different times, when they fall due to other parties, which is the liquidity risk.

**Yield Risk:** It is the risk that bank's assets may generate less income than expense generated by its liabilities.

**Operational Risk:** the risk is failure in the banks procedures or controls, whether from external or as a result of error or fraud within the institution is the operational risk.

**Market Risk:** the risk of loss resulting from movements in the market price of financial instrument in which the bank has a position is the market risk. Such instruments include bonds, equities, foreign exchange and associated derivative products.

**Ownership/Management Risk:** The risk that shareholders, directors or senior management be unfit for their respective positions or dishonest.

### **2.1.2 Features of Sound Lending and Investment Policy**

The income and profit of the bank depends upon its lending procedures, lending policy and investment of its different securities. The greater the credit created by bank, the higher will be the profitability. A sound lending and investment policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial saving of a background country like Nepal. Some necessities for sound lending and investment policies, which must be considered by the commercial banks, can be explained as under:

## **Profitability**

A commercial bank can minimize its volume of wealth through maximization of return on their investment and lending. So, they must invest funds where they can gain maximum profit. The profit of commercial banks depends on the interest rate, volume of loan, its time period and nature of investment its different securities.

## **MAST Principle**

The bank should never invest its funds in those securities, which are too volatile j. e., which are subject to too much depreciation and fluctuation because a little difference may cause a great loss. It must not invest its funds in to speculative businessman who may be bankrupt at once and who may earn millions in a minute also. Security means adequate collateral having good value, which can be easily sold if required at any point of time. The bank should accept that type of securities, which are commercial, durable and marketable having fair market value. For this purpose “MAST” should be applied while reaching an investment decision, where MAST stands for,

M = Marketability

A = Ascertain ability

S = Stability

T =Transferability

## **Liquidity**

Liquidity is the ability of a form to satisfy its short-term obligation when they become due for payment. People money at the bank in different account with that the bank will repay their money when they need. To maintain such confidence of the depositors\, the bank must keep this point in mind while investing its excess funds in different securities, so that it can meet current or short – term obligation when they become due for payment.

## **Purpose of Loan**

From the view point of security, a banker should be known that why a customer is in need of loan. If a borrower misuses the loan granted by the bank, it can never repay and

bank will possess heavy bad debts. Therefore in order to avoid this situation each and every bank should demand and examine all the essential detailed information about the scheme of the project or activities, before lending.

### **Diversification**

A bank should not lay all its eggs on the same basket. This saying is very important to the bank and it should always be careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average because if securities of a company are deprived, there may be appreciation in the securities of other companies. In this way the loss can be minimized or recovered,

### **Tangibility**

Though it may be considered that tangible property does not yield an income apart from direct satisfaction of possession of property, many times, intangible securities have lost their value due to price level inflation. A commercial bank should prefer tangible security to intangible one.

### **Legality**

Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directives issued by the central bank. (Nepal Rastra Bank), Ministry of finance, Ministry of law and other relevant authorities. While mobilizing its funds.

### **National Interest**

In addition to its own profitability the bank should also consider the national interest. Even though the bank cannot get maximum return from such investment, it should carry out its obligation toward the society and the country. The bank is required to invest on such sectors as per the Government and Nepal Rastra Bank's instruction. Investment on government bonds, priority and deprived sector lending are the examples of such investments.

## **2.2 Review of Related Books and Studies**

### **2.2.1 Review of Books**

The banks are such types of institutions, which deal in money and substitute for money. They deal with deposit, credit, and credit instruments. Good circulation of credit is very much important for financial institutions and banks. \Unsteady and unevenly flow of credit harms the economy and the profitability commercial banks. Thus, to collect fund and utilize it in good investments is the prime objective of commercial banks. Diverse and safe investment of fund is the question of stability and existence of the bans. Investment and profitability of different authors of books and papers are summarized in the section below;

Singh (1986) has defined investment as "Investment is the employment of funds with the aim of achieving additional income or growth in value. The essential quality of an investment is that it involves waiting for a reward." As per Dr. Preeti Singh, the investment is the key to achieve addition income for the growth of banks.

Sharpe, Alexander and Bailey (1998) define investment in this way" Investment, in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value." In the view of them investment is venture that the return is uncertain. So they have presented their view that bank should look for the sage and riskier investment.

Reilly (1986) defines investment as. "An investment may be defined as current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the funds are committed, for the expected ate of inflation and also for the uncertainty involved in the future flow of the funds."

From the above definitions, it is clear that an investment means to trade current funds some expected future stream of payments of benefits, which will exceed the current outlay by an amount of return or interest that will compensate the investor. The return interest is expected because of uncertainty involved in expected future cash flows. An investment (credit or other investment) is the most important function of commercial

banks. It is the long term commitment of bank in the uncertain and risky environment. It is a very challenging task of commercial banks. So a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investible funds. Investment management of a bank is guided by the investment policy adopted by the bank.

Investment policies can be varied bank to bank. Few banks accept higher risk investment and other are more conservative for their investment decision. The investment policy of the bank helps the investment function of the bank to efficient and profitable by inherent risk. Various authors have expressed their view regarding investment policies of commercial banks, then formulation and implementation differently.

Singh and Singh(1983) define investment policy in this word, " The investment ( credit) policies of banks are conditioned, to great extent by the national policy framework, every banker has to apply his own judgment for arriving at credit decision, keeping, of course, his bank's credit policy also in mind." As per the above definition, government and central bank have to make a sound policy about the investment policies of commercial banks. They further state," The field of investment is more challenging as it offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly during recent years, the credit function has become more complex."

Baxley (1978) express his views as. "Investment policy fixes responsibility for the investment disposition of the banks assets in terms of allotting funds for investment and loan, and establishing responsibility for day to day management of those assets". It is assumed that management should be responsible for the investment decision of banks.

Emphasizing the importance of investment policy, Crosse (1963) states," Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practice are essential

in a bank to perform its credit creating functions effectively and minimize the risk inherent in any extension of credit.”

He further adds, the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing interest rate policy.

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a generous profit as well as it should be secured and can be converted in to cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will be able to repay the loan. Project or business proposal must be carefully scrutinized. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum exposure to risk, which ultimately leads the bank to provide secured loans and investment.

### **2.3 Review of Relevant Act**

There is various acts of the study, which those basically involved in this section; the review of acts framework (environment) under which those basically involved in this section; the review act, environment has significant impact on the commercial banks establishment, their mobilization and utilization of resources. All the commercial banks have to perform to the act, provisions specified in the commercial banks have to conform to the act, previous specified in the commercial Bank Act 2031(1964 A.D.) and the rules and regulation to facilitated the smooth running of commercial banks. The preamble of Nepal Bank Act 2031 clearly states the need of commercial banks in Nepal, In the absence of any bank in Nepal the therefore, with the objective of fulfilling that need by providing services to the people and for the betterment of the country, this law is hereby promulgated for the establishment of the bank its operation.

Central Bank NRB has established a legal framework by formulating various rules and regulation to mobilize or invest the deposit of the bank in different sectors of the different parts of the nation, to prevent them from the financial problems. This directive must have direct or indirect impact while making decisions. Those rules and regulation are discussed which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CCR. Loan loss provision, capital adequacy ratio, interest spread, productive sector investment. Commercial bank is directly related to the fact that how much fund must be collected as paid up capital while establishing the bank at certain place of the nation, how much fund is needed to expand the branch and counters, but we discuss only those which are related to investment function of the commercial bank. The provisions established by the NRB in the form of prudential norms are as follows:

**i Provision for investment in productive sector:**

Being a developing country, Nepal needs to develop its infrastructure and other primary productive sectors like agricultural, industrial, etc. NRB has directed commercial banks to extent at least 40% of its credit to productive sector.

**ii Provision for investment in priority sector:**

NRB has directed commercial banks to extent least 12% of its total outstanding credit to priority sector. Commercial bank's credit to deprived sector is also a part of priority sector. Credit to agriculture, cottage and small industries, services business (Computer, Tourism) and other business

| <b>Fiscal year</b> | <b>Percentage</b>    |
|--------------------|----------------------|
| 2002/03            | 7% of total loan     |
| 2003/04            | 6% of total loan     |
| 2004/05            | 4% of total loan     |
| 2005/06            | 2% of total loan     |
| 2006/07            | 2% of total loan     |
| 2007/08            | 0 % ( not necessary) |

**iii. Provision for investment in deprived sector:**

The deprived sector credit limit is determined by NRB from 0.25% to 3% of the total outstanding credit from bank to bank. Investment in share capital of rural Development banks, advances of Rural Development Banks and other development banks engaged in poverty alleviation programs advances to co-operative, non-government organizations and small farmer co- operative approved by NRB for carrying out banking transaction are included under deprived sector credit program. Commercial banks are required to disburse credit to the deprived sector at the following stipulated ratio:

**Table 1.1**  
**Provision for Investment in Deprived Sector**

| <b>Name of the Bank</b>           | <b>Required Deprived sector lending as % of total outstanding credit</b> |
|-----------------------------------|--|
| NIBL, NBL, RBB, NABIL, SCBNL, HBL | 3%   |
| BOK, EBL, NSBFBL, NBBL,           | 2.5%   |
| NBBLL                             | 1.75%  |
| LBL, NICBL                        | 0.75%  |
| Other new Bank                    | 0.25%  |

Source: [www.nrb.org.np](http://www.nrb.org.np)

**i. Directive Regarding interest spread rate:**

NRB has directed the commercial banks to limit its interest rates spread with the maximum of 5% interest rates spread is the difference between the interests charged on loan advances and the interest paid to the depositors.

Weighted interest rate is calculated as under:

$$\text{WALR} = \frac{\text{interest Income for 6 months}}{\text{Average Earning Assets Outstanding on the month end of 6 months}}$$

**ii. Directives regarding Capital Adequacy Funds (CAR)**

All commercial banks are directed to maintain the minimum capital fund on the basis of risk weighted assets j. e. CAR in the following ratio given below:

**Table 1.2**  
**Directives Regarding Capital Adequacy Funds (CAR)**

| Time Table      | Car of their Weighted Assets |                       |
|-----------------|------------------------------|-----------------------|
|                 | Core Capital                 | Supplementary Capital |
| FY 0 FY 058/059 | 4.5%                         | 9%                    |
| FY 059/060      | 5%                           | 10%                   |
| FY 060/061      | 6%                           | 12%                   |

Source: [www.nrb.org.np](http://www.nrb.org.np)

Where, Core capital includes paid up Capital, Share premium, Non-Redeemable preference share, General reserve fund and accumulated loss/profit. Supplementary Capital includes General loans provision, exchange equalization reserve, hybrid Capital Instruments, Subordinated term debt and free reserves.

As per the directives, there are two types of the total Risk Weighted Asset. They are:

- a. Risk weighted on Balance Sheet Assets**
- b. Risk Weighted Off Balance Sheet Assets**

For the purpose of calculation of Capital Fund, the On- Balance Sheet Assets are divided as follows with assignment of separate risk weight age. Accordingly, for determining the Total Risk Weighted Assets, the amount as exhibited in the balance sheet shall be multiplied by their respective risk weight and then added together.

#### **2.7.4 Review of Thesis**

Shahi, (1999) has conducted his study entitled, “Investment Policy of the commercial Banks in Nepal.(A Comparative Study of Nepal Bank Ltd. and Joint Venture Banks).” The researcher’s main objectives of study was to study the fund mobilization and investment policy with respect to fee based off balance sheet transaction and fund based

on balance sheet transaction and to evaluate growth ratios of loan and advances and total investment with respective growth rate of total deposits and net profit.

Though his research Mr. Shahi has found that the liquidity position of Nepal Bank Ltd. is comparatively than that of the JVBs. NBL is comparatively less successful in on balance sheet as well as off balance sheet operations than that of other JVBs. It has not followed any definite policy with regard to the management of its asset. Similarly profitability position of NBL is comparatively not better than that of other JVBs. Growth ratio of NIBL is lower than that of JVBs.

He has recommended that to get success itself and to encourage financial and economic development of the country through industrialization and commercialization. Commercial Banks must mobilize its funds in different sectors such as purchasing of share and debentures of other financial and non-financial companies. He has recommended that banks should make continuous efforts to explore new competitive and high yielding investment opportunities to optimize its investment portfolio. He has pointed out the loan default in commercial bank is a result of various factors j. e. political influence lack of the entrepreneurship attitude. He has also on balance sheet operations. He has also suggested enacting loan recovery act to enhance the recovery of loan.

His study is based on investment on policy of Nepal Bank Ltd. He has compared Nepal Bank Ltd. with other JVBs (NABIL, NGBL and NIBL). It would not be responsible to quote good or bad about the investment policy of Nepal bank Ltd. Only by comparing it with other three banks. Since NBL is a semi govt. bank with huge branches (211 branches). This bank is obviously different from the JVBs as it is some how effected by governmental interference and in exposure to the global market unlike the other commercial banks, which has made joint venture with foreign banks.

Thapa, (1999) has conducted her study entitled “a Comparative Study on Investment policy on Nepal Bangladesh Bank Ltd. and Other Joint Venture Banks (Nepal Arab Bank Ltd. and Grindlays Bank Ltd). The Researcher’s main objective of study was to examine

the fund mobilization and investment policy of NBBL through off –balance sheet activities in comparison to other two banks and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposits and net profit. Through research, Ms. Thapa has found that NBBL is not in better position regarding its on-balance as well as off-balance sheet activities in compare to NABIL and NGBL and it does not seem to follow any definite policy regarding the management of its assets. The researcher has stated that NBBL has maintained high growth rates on comparison to other banks through it is not successful to make enough investment and NBBL is successful in increasing its source of funds and its mobilization.

She has concluded that the position of NBBL in regards to utilization of the funds to earn profits is not better in comparison to NABIL and NGBL. NBBL has collected fund in. interest rate in various deposits, comparatively higher cost and is paying 6%- 7.75% interest rate in various deposits. Further NBBL does not seem to have adequate recovery rate.

She has compared Nepal Bangladesh Bank Ltd. (NBBL) with other JVBs (NABIL and NGBL). His study is based on five years periods from 1994/95 to 1998/99. It would not be reasonable to analyze investment policy of any bank as success or unsucces by study only five year's data.

Tuladhar, (1999), conducted his study entitles “A study on investment policy of Nepal Grindlays Bank Ltd. in Comparison to Other Joint Venture Banks (NABIL and HBL).” The researcher’s main objective of study was to evaluate liquidity. Assets management, efficiency, profitability, and risk position of NGBL and HBL and to examine the fund mobilization and investment policy of NGBL through off-balance sheet and on- balance sheet activities in comparison to the other banks.

Through his research, Mr. Tuladhar has found that NGBL has been successful to maintain in the best way both liquidity position and their consistency among three banks. NGBL has successfully maintained and manages assets towards different income

generating activities. Income from loan and advances and total investment is the main income source of NGBL and it can affect the bank's net profit. Profitability position of NGBL is better than NABIL and HBL.

The researcher has concluded that joint venture bank of Nepal are not effectively informative to their clients. These banks have given first priority on education sector while making investment. The poverty stricken and deprived sectors are given second priority. His study found that reason behind not providing banking facilities to the rural areas is that these banks were profit oriented only.

He has performed a comparison on investment policy of NGBL with NABIL and HBL. NGBL and NABIL are successfully operating from more than years ago. More studies have been taken only two banks to compare the investment policy of NGBL. There are altogether 13 commercial banks operating in Nepal. It would not be reasonable to make decision about the condition of investment policy of NGBL only by comparing it which two other banks only. He has performed empirical study also; one cannot make decision on the basis of the view of 100 customers. There is lack of study on various risks in investment of commercial banks study.

Khadka, (2000) has conducted his study entitled "A study on investment policy of NABIL in comparison to Other Joint Venture Banks in Nepal". The main objectives of the study was to evaluate the liquidity, asset management, efficiency, profitability and risk position of NABIL in comparison to other JVBs and to study the fund mobilization and investment policy with respect to fee based off balance sheet transaction and fund based on balance sheet transaction and fund based on balance sheet transaction.

The researcher has found that liquidity position of NABIL has more portion current assets as loan and advances but less portion as investment on government securities. NABIL is comparatively less successful in on balance sheet operation as well as off-balance sheet operations than that of other JVBs. Profitability position of NABIL is comparatively not better than of other JVBs. NABIL is more successful in deposit

mobilization but failure to maintain high growth rate of profit in compare to NGBL and NIBL.

He has suggested the JVBs to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors, and customers. He has strongly recommended NABIL to utilize its risk assets and shareholders fund to gain higher profit margin and reduce its expenses and collect cheaper fund for more portability. He has recommended investing its fund in different sectors of investment and administrating various deposits scheme, house building deposit scheme etc. He has recommended following liberal lending policy and investment more percentage of total deposit as loan and advances.

He has compared investment policy of Nepal Arab Bank Ltd with Nepal Grindlays Banks Ltd. and Nepal Indosuez Bank Ltd. his study based on five years period from 1992 to 1996. He has taken only two banks to compare the investment policy of NABIL with NGBL and NIBL among 13 commercial bank of Nepal. It would not be reasonable to quote investment policy of NABIL as good or bad by comparing it with only two banks. The study is silent about the investment opportunities in Nepalese market.

He has not explained his idea of liberal lending policy though he has recommended NABIL to adopt liberal lending policy. He has explained how to reduce cost as well.

Gautam, (2001) has conducted her study entitled “Investment Analysis of the Finance Companies in Context of Nepal.” The researcher has found that the investment in govt. securities of the finance companies is decreasing. Major source of finance companies is utilized as loan and advances. Use of fund towards the hire purchase loan is decreasing in the finance companies and investment on housing loan is more.

She has recommended that the overall investment policy of the finance companies should be concentrated on productive sector such as business and industry loan rather than consumer goods such as higher purchase and housing plan. This would contribute on the capital formulation for overall national development. Further, she has said that the credit

monitoring wind should be made strong enough to ensure timely cash inflow from credit granted. She has analyzed the investment of various finance companies of Nepal. She has only taken 20 finance companies. Currently there are altogether 49 finance companies in Nepal.

Shrestha, (2002) in his study concluded that NRB has to play more active role to enhance the operation of commercial banks. Strengthening and institutionalization of the commercial banks is very important to have a meaning relationship between commercial banks and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade off by linking credit to timely repayment schedules, avoiding imperfections, allowing flexibility in lending, one window service from NRB, need of a strong supervision and monitoring from NRB, diversity scope of activities of commercial banks, professional culture within commercial banks etc. all these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.

Pandey, (2002) in his study concluded that change in NRB directives has lot of impact on commercial banks activities. Because of new directives, commercial bank has to increase the operational cost and dividends to shareholders and bonus to the employees are scaled down due to decrease in profits of the banks. He also said that the changes in directives would bring prosperity to the shareholders, depositors, employees and the economy to the country as a whole in a long run. The tough time through which the bank is undergoing at present will prevail only for a short period. His suggestion to NRB is that the NRB should issue directives after doing proper homework. NRB must strengthen the functioning of its Credit Information Bureau. NRB should be practical and should issue directives applicable in the context of Nepal and not only to meet the international standards. Otherwise complaints from commercial banks may arise. However, in the present context, the commercial banks have to comply such directives and maintain its policies.

Shrestha, (2003) in his thesis stated that raising and utilization of funds are the primary functions of commercial banks. Commercial banks collect a large amount of deposits from general public so in order to protect such deposits capital must be sufficient otherwise the banks will use all the money of depositors in their own interest and depositors will have to suffer loss. NRB being the central bank has to be responsible to give special attention to the interest of depositors. Capital adequacy norm is required to safeguard the money of the depositors as the banks are playing with the money they collected from the depositors.

He also added that depositors are not aware of the fact of the necessity of adequate capital fund to safeguard their deposits. They deposit their money to any banks regardless of adequate capital fund which may endanger safety of their money. Therefore, NRB should initiate awareness programs to make the depositors aware of such fact and think before depositing money in any commercial banks.

He further stated that NRB should consult to the various bank officials before setting or resetting standards on capital adequacy norms. The complaints and criticisms of bank officials should be considered accordingly. Consequently, an optimal standard will ensure which will satisfy almost everyone.

Shrestha, (2003) in her studies “Impact and Implementation of Nepal Rastra Bank’s Guidelines on Commercial Banks: A study of Nabil Bank Ltd and Nepal SBI Bank Ltd” has tried to find out the impact of NRB directives on commercial banks. She has also made effort to find out whether the directives are actually implemented and are being monitored by NRB or not. She has stated that both Nabil and Nepal SBI bank are implementing the NRB directives.

In her study, she find out that all the changes in NRB directives made both positive and negative impacts on the commercial banks. Even though the study is limited to only two sample, it is cleared that new directives issued by NRB make good impact more than bad impact on the various aspects of the banks. It can be seen that the provision has been

changed and the increased provisioning amount has decreased the profitability of commercial banks. Apart from, loan exposure has been cut down to customers due to the borrower limits have been brought down by NRB. Therefore reductions in loan amount result to decrease the interest income from loans, which will decrease the profits of the banks in coming years. Decreasing profitability pushes towards lesser dividends to shareholders and lesser bonus to employees. Not only negative sides but also there are positive sides of new directives. Recently the problems of banks are increasing operating cost and decreasing loan amount resulting decrease in profits of the banks. But it shows it is only for short term because the directives are more effective to protect the banks from bad loans, which protect the banks from bankruptcy as well as protections of deposits of general publics. Increase in capital adequacy ratio strength the banks financial position, loan related provision will made safety of loans except the risk reducing provisions will protect the bank from liquidation. Above all, it can be concluded that newly issued directives are more effective than previous one although it has brought some problems towards banks. To decrease the decreasing profits of the banks, they should research the alternative such like more investments in other business, banks should adopt new technology according to the demand of time and must not depend on only interest income for profits.”

Bhandari, (2004) has conducted in his study entitled “Investment Policy of Commercial Banks with Special Reference to Nepal SBI Bank Ltd.” The researcher’s main objectives of study was to evaluate liquidity, asset management, efficiency, portfolio management, profitability to analyze deposit utilization and its relationship with total investment and net profit of bank as well as to determine growth rate of the bank.

Mr. Bhandari has found that the liquidity position of the NSBI is good enough to meet the short-term obligations. The bank has given priority to invest in risky assets than in risk free assets but the policy does not seem consistent because of the variability of the ratios of risk free assets to total outside assets. The bank does not seem to have proper policy to increase the fee based OBS transaction in comparison to loan and advances. It has stable policy of lending most of its loans to the private sector giving more preference

to the industrial and commercial sectors with increasing trend in industrial sector during the study period but it has given less priority to service sector lending and others. The bank does not have any appropriate specific policy to increase the profitability of the Bank even through there is high growth rate of loans and advances.

He has recommended to look upon new area of lending and investment and to expand its credit in rural economy. Bank should increase investments in government securities, which help to utilize the idle funds to maintain an equilibrium level of risk free and risky assets. He further recommended giving more priority to increase the fee- based OBS transaction to generate more income. Portfolio management strategies should carefully be examined from time to time. The bank is advised to increase the interest free deposits by attracting INGO, Corporate clients, foreign organizations etc by providing them favorable facilities. He has also recommended adopting innovative approach to marketing and formulating new strategies to optimal utilize the modern technology.

Joshi, (2005) has conducted in her study entitled, “Investment Policy of Commercial Bank in Nepal (A comparative study of EBL with NABIL & BOK Ltd).” The main objective of the study was to discuss fund mobilization & investment policy of NABIL and BOK Ltd, to evaluate liquidity, efficiency and profitability, risk position, the growth ratios of loan and advance, total investment with other financial variables.

Through her research Ms. Joshi has found that the liquidity position of EBL is comparatively better than NABIL and BOK. EBL is comparatively average or in between successful in compared to NABIL and BOK. Total interest earned to total outside assets of EBL is lowest at all. But overall analysis of profitability ratios, EBL is average profitable in comparison to other compared banks.

She has recommended mobilizing its idle cash and bank balance in profitable sector as loan & advances. Banks should invest of its fund in share and debenture of different companies. He has strongly recommended following consistent liberal lending policy and investing more and more percentage of total deposit in loan and advance, minimum more

stability on the investment policy. Bank should fix minimum level of bank balance. He has also suggested adopting innovative approach to marketing and formulating new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

She has just compared EBL with NABIL and BOK, based on only 5 years period which would not be reasonable to analyze investment policy of any bank as success or unsuccessful.

Gurung, (2006) explored in his research “lending policy and recovery management of Standard Chartered Bank Nepal Ltd and Nabil bank Ltd” has found out the following result.

The deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continue.

Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and Nabil has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%.

This ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and Nabil respectively.

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at he future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of Nabil, which is proved by the trend analysis. The correlation of loan loss provision and loan disbursement of Nabil is negative.

The main statement of his problem is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong recovery act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, lending and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

Sedai, (2007) in his dissertation “An analysis on lending policy and strength of Nepal Investment Bank Ltd” highlighted that aggregate performance of NIBL is satisfactory and pushing upward. Lending strength of NIBL in term of exposure of loan and advances is good and appreciable. The contribution made by bank in industrial as well as agriculture sector of the economy is highly appreciable and its bust up towards national prosperity. The ratio of loan and advances to total asset, loan and advance to shareholder’s equity indicate a good performance of NIBL in its lending activities.

Looking at the asset management ratio the performance of NIBL seems good in the area of lending, productivity and impact on national economy. The activity ratio also reflects to the soaring performance of NIBL. The decreasing loss loan provision ratio incate that bank is good enough to judgment in their value customer. The better activity ratio of this bank been a major contributor in managing the lending portfolio according to the demand of the profit oriented business. The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2002/3 and has continued till 2004/5 and the bank has the potentiality to become a leading bank in Nepal.

The recommendations are forwarded according to finding and conclusion. It is recommended that extend their credit and branch in rural area, continue to maintain or further increase the performance, decrease the NPL and make proper loss loan provision,

required proper market analysis, diversify the investment sector etc. finally however, performance of NIBL seems to be good till the date. There are still many opportunities for further growth of the bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial strength, personal integrity and credibility of the borrower of loan disbursement. It should maintain high level of monitoring and control system over the disbursed loan and advances. To create opportunity of business new and attractive lending scheme would be launched to the customer.

The main objective and target of this study is to observe the loan disbursement of Nepal Investment Bank Ltd. its shows the actual lending position, strength and weakness. The specific purpose are study of loan and advances provided to customer, amount loan investing in industrial sector, trend of loan disbursement , process are according to NRB rules & regulation and position of bank and its profitability.

## **CHAPTER- III**

### **RESEARCH METHODOLOGY**

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

#### **3.1 Research Design**

To achieve the objective of this study, comparative and descriptive research designs have been used.

#### **3.2 Sources of Data**

There are two sources of data collection. The research is based on primary as well as secondary source of data. Even though adequate data are collected from secondary sources, which are already used and gathered by others Secondary data are mostly used for this research purpose. So the major sources of secondary data are as follows

Annual Report of concern Bank.

Internet and E-mails.

NRB directives.

Economy survey of Government of Nepal and Ministry of finance.

Newspaper, journals, articles and various magazines.

Dissertation of Central Library of T. U. and Library of Shanker Dev Campus.

#### **3.3 Population and Sample**

The objective of the research is to explore and describe the portfolio management in Nepal from the investor’s point of view. However, with regard to the availability of the

financial information, two are selected purposively from the banking sector, which comprise of nineteen among the listed. The population

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

### **3.4 Data Collection Procedure**

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

### **3.5 Data Analysis Tools**

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

Financial Tools

Statistical Tools

#### **3.5.1 Financial Tools**

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

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

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

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

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

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

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

Investment on Govt. securities to total current assets ratio =

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

**ii) Assets Management Ratios:** Asset management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

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

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

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

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

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

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

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

Investment on Govt. Securities to total working fund =

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

**e.) Total outside Assets to Total Deposits Ratio:** Loans and advances and investment comprise the total outside assets of a bank. This ratio measures how well the deposits liabilities have been mobilized by the bank in income generation. This ratio is computed by dividing total loan and advances and investment by total deposits, which can be stated as under;

$$\text{Total outside assets to total deposits ratio} = \frac{\text{Total outside assets}}{\text{Total deposits}}$$

**f.) Loan and Advances to Total outside Assets Ratio:** This ratio measures the proportion of loans and advances of total outside assets. The proportion between investment and loans and advances measures the management attitude towards more risky assets and lower risky assets. This ratio is computed by dividing loan and advances by total outside assets as under:

$$\text{Loan and advances to total outside assets ratio} = \frac{\text{Loan and advances}}{\text{Total outside assets}}$$

**g.) Investment on Government Securities to Total outside Assets Ratio:** This ratio measures the proportion of the bank's investment in risky and risk free areas. This ratio is computed by dividing investment on government securities by total outside assets as under;

Investment on Govt. Securities to total outside assets ratio =

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

**h.) Total outside Assets to Total Assets Ratio:** Loans & advances and investment are total outside assets of commercial banks. This ratio is calculated by dividing total outside assets which can be presented as under;

$$\text{Total outside assets to total assets ratio} = \frac{\text{Total outside assets}}{\text{Total assets}}$$

This is the proportion of assets employed by the bank for the purpose of income generation. This ratio shows the ability of the bank to utilize the funds into income generating assets.

**iii) Activity Ratios:**

Activity ratio measures the performance efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity of an enterprise to utilize available funds, particularly short-term funds. These ratios are used to determine the efficiency, quality and the contribution of loan and advances in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds.

**a.) Loan Loss Provision to Total Loans and Advances Ratio:** This ratio describes the quality of assets that a bank is holding. Nepal Rastriya Bank has directed the commercial banks to classify its loans and advances into the category of pass, sub-standard, doubtful and loss on the basis of the maturity of principal to make the provision of 1, 25, 50, and 100 percentages respectively. The provision for loan loss reflects the increasing probability of non-performing loans in the volume of total loans and advances. This ratio is calculated by

dividing the loan loss provision by total loans and advances as presented here under;

$$\text{Loan loss provision to total loans and advances ratio} = \frac{\text{Total loan loss provision}}{\text{Loans and advances}}$$

**b.) Non-Performing Loans to Total Loans and Advances Ratio:** This ratio measures the proportion of non- performing loans on the total volume of loans and advances. This reflects the quantity of quality assets that the bank has. Higher ratio reflects the poor performance of bank in mobilizing loans and advances and bad recovery rate and vice- versa. This ratio is computed by dividing the non-performing loans by total loans and advances as under;

Non-performing loans to total loans & advances ratio =

$$\frac{\text{Total non - performing loans}}{\text{Total loans \& advances}}$$

**iv) Profitability Ratios:**

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

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

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

**b.) Total Interest Earned to Total outside Assets Ratio:** This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn

interest. This ratio is calculated by dividing total interest earned by total outside assets and can be mentioned as under;

$$\text{Total interest earned to total outside assets ratio} = \frac{\text{Total interest earned}}{\text{Total outside assets}}$$

The numerator includes total interest income from loans and advances and investment where as the denominator comprises loan and advances, bills purchased and discounted and all type investment.

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

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

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

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

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

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

**f.) Total Income to Total Expenses Ratio:** The comparison between total income and expenses measures the productivity of expenses in generating income. The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is the indication of higher productivity of expenses and vice-versa. This ratio is computed by dividing total income by total expenses presented as;

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

**g.) Total Income to Total Working Fund Ratio:** This ratio measures how efficiently the assets of a business are utilized to generate income. It also measures the quality of assets in income generation. This ratio is calculated by dividing total income by total assets as stated here under;

$$\text{Total income to total working fund ratio:} \frac{\text{Total income}}{\text{Total working fund}}$$

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

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

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

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

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

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

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

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

**k.) Earnings per Share (EPS):** EPS refers to net profit divided by total numbers of share outstanding. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as;

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

### **3.6 Statistical Tools**

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

#### **i) Mean:**

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

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

Where,

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

$\sum X$  = Summation of the values

N = No. of Observations

### ii) Coefficient of variation:

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

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

### iii) Measures of Correlation:

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

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

$$\text{Where, } \sum x = \sum (X - \bar{X})^2$$

$$\sum y = \sum (Y - \bar{Y})^2$$

$\dagger_1$  = Standard series of X

$\dagger_2$  = Standard series of Y

N = Number of pairs of Observations

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

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

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

$$y = a + bx$$

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

## **CHAPTER - IV**

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

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

#### **4.1 Financial Analysis**

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

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

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

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

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

#### 4.1.1.1 Liquidity Ratio

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

#### A) Current Ratio

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

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

| Name of Banks | Fiscal Year |         |         |         |         |      |      |      |
|---------------|-------------|---------|---------|---------|---------|------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean | S.D. | C.V. |
| NIC           | 2.11        | 2.35    | 1.79    | 1.62    | 1.57    | 1.89 | 0.33 | 0.18 |
| NIB           | 2.037       | 2.51    | 2.22    | 2.17    | 1.014   | 1.99 | 0.57 | 0.29 |

*Source: Appendix -1*

Above table shows the current ratio of selected commercial banks during the study period. The current ratio of NIC bank is in decreasing trend except in 2004/05 and NIB is also in decreasing trend except in 2004/05 In general, it can be said that all the banks have sound ability to meet their short- term obligations. In the case of NIC current ratio has high ratio in 2003/04, 2004/05 and 2007/08. In an average, liquidity position of NIB is greater than NIC i.e.  $1.99 > 1.89$  due to high mean ratio. So, NIB is sound in meeting short-term obligation than NIC. However, NIC has sound in meeting short-term obligation if we see latest data. Likewise, S. D. and C.V. of NIC is less than NIB i.e.  $0.33 <$

0.57 and  $0.18 < 0.29$ . It can be said that current ratio of NIC is more consistent than NIB.

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

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

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

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

| Name of Banks | Fiscal Year |         |         |         |         | Mean  | S.D. | C.V. |
|---------------|-------------|---------|---------|---------|---------|-------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 |       |      |      |
| NIC           | 6.39        | 16.19   | 8.55    | 5.96    | 9.11    | 9.24  | 4.11 | 0.45 |
| NIB           | 10.65       | 9.4     | 12.34   | 9.97    | 10.89   | 10.65 | 1.11 | 0.10 |

*Source: Appendix - 2*

The above Table No. 4.2 reveals that the Cash and Bank Balance to Total Deposit Ratio of NIC and NIB are in fluctuating trend. The highest ratio of NIC is 16.19% in FY 2004/05 and lowest is 5.96% in FY 2006/07. Similarly, the highest ratio of NIB is 10.89% in FY 2007/08 and lowers in 9.40 in 2004/05.

The mean ratio of NIC and NIB are 9.24% and 10.65% respectively. NIB has higher ratio than the NIC, which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of NIC is 0.45 times and NIB is 0.10 times. S.D. of NIB is lower than the NIC

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

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

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

Following the states the cash and bank balance to current assets NIC and NIB during the study period.

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

| Name of Banks | Fiscal Year |         |         |         |         |       |       |       |
|---------------|-------------|---------|---------|---------|---------|-------|-------|-------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean  | S.D.  | C.V.  |
| NIC           | 6.40        | 16.37   | 9.38    | 6.66    | 10.39   | 9.84  | 4.03  | 0.41  |
| NIB           | 10.81       | 9.56    | 12.17   | 10.65   | 11.78   | 10.99 | 0.010 | 0.093 |

*Source:* Appendix - 3

The above table reveals that cash and bank balance to current assets ratio of NIC and NIB are in fluctuating trend. The mean ratio of NIC and NIB is 9.84% and 10.99% respectively. The higher mean ratio shows NIB's liquidity position is better than that of NIC. Moreover the .S.D and C.V. of NIC is higher than NIB. The higher C.V. of NIC indicates that it has more inconsistency in the ratios in comparison to NIB

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

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

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

**Table No. 4.4**  
**Investment on Government Securities to Current Assets Ratio**

| Name of Banks | Fiscal Year |         |         |         |         |       |      |      |
|---------------|-------------|---------|---------|---------|---------|-------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean  | S.D. | C.V. |
| NIC           | 24.05       | 19.34   | 22.00   | 12.26   | 13.47   | 18.22 | 5.19 | 0.28 |
| NIB           | 17.64       | 13.90   | 13.14   | 14.20   | 9.90    | 13.76 | 2.76 | 0.20 |

*Source: Appendix - 4*

The table 4.4 shows investment on government securities to current assets ratio of NIC and NIB. Both Banks has fluctuating type ratios. The table shows the highest ratio of NIC is 24.05% in FY 2003/04 and lowest is 12.26% in FY 2006/07. In the same way, the highest ratio of NIB is 17.64% in FY 2004/05 and lowest is 9.90% in FY 2007/08.

The mean ratio of NIC is 18.22 percent, which is higher than the mean ratio of NIB 13.76 percent. It means NIC has invested more money in risk free assets than that of NIB. In another words NIB has emphases on more loan and advances and other short-term investment than investment in govt. securities. Similarly, S.D. is 5.19 and 2.76 and C.V is

0.28 and 0.20 of NIC and NIB respectively. The higher C.V. of NIC shows the more inconsistency in the ratios with compare to NIB.

#### 4.1.1.2 Assets Management Ratio

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

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

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

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

| Name of Banks | Fiscal Year |         |         |         |         | Mean  | S.D. | C.V.  |
|---------------|-------------|---------|---------|---------|---------|-------|------|-------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 |       |      |       |
| NIC           | 69.20       | 75.49   | 75.93   | 88.81   | 86.09   | 79.10 | 8.13 | 0.10  |
| NIB           | 63.7        | 73.3    | 69.9    | 72.5    | 79.9    | 71.8  | 5.90 | 0.082 |

*Source: Appendix -5*

The above table shows that the loan & advances to total deposit ratio of NIC is in increasing trend except in 2007/08 and NIB has also is in increasing trend except in 2005/06. NIC has higher ratio than that of NIB in all fiscal years. When we see mean ratio NIC has higher ratio. It indicates the better mobilization of deposit by NIC from the view point of mean. The mean of NIC and NIB are 79.10% and 71.80% respectively. So NIC has higher ratio than that of NIB. It reveals that the deposit of NIC is quickly converted in to loan and advances to earn income. The bank will be able to better

mobilization of collected deposit if there is above 70% to 90% of loan and advances to total deposit according to NRB. So in all of the year the both banks have met the NRB requirement or it has utilized its deposit to provide loan except 2003/04. The S.D. and C.V of NIC is 8.13, 0.10 similarly NIB has 5.90, 0.082.

**B) Total Investment to Total Deposit Ratio**

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

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

| Name of Banks | Fiscal Year |         |         |         |         | Mean  | S.D. | C.V. |
|---------------|-------------|---------|---------|---------|---------|-------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 |       |      |      |
| NIC           | 34.21       | 25.20   | 28.29   | 15.89   | 17.67   | 24.25 | 7.58 | 0.31 |
| NIB           | 33.52       | 27.60   | 29.60   | 26.57   | 19.97   | 27.45 | 4.95 | 0.18 |

*Source: Appendix - 6*

The above table shows that total investment to total deposit ratio of NIC and NIB. NIC has fluctuating trend total investment to total deposit ratio whereas NIB has decreasing trend except in fiscal year 2005/06. Higher ratio of NIC is 34.21% percent in FY 2003/04 and lowest ratio is 15.89% percent in FY 2006/07 in the same way the highest ratio of NIB 33.52% percent in FY 2003/04 and lowest ratio is 19.97% in FY 2007/08. Investment volume of NIC is lower than that of NIB because more funds of NIC were used in profitable loans to achieve optimum mix of interest earning assets.

The mean of the ratio of NIC and NIB are 24.25% and 27.45% respectively so NIB has higher ratio. It signifies NIB has successfully allocated its deposit in investment portfolio

to get higher investment return. The S.D and C.V. of NIC is 7.58 and 0.31 and NIB has 4.95 and 0.18 respectively.

**C) Loan & Advances to Total Assets Ratio**

A commercial bank’s working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan & advances to total assets of NIC and NIB as follows.

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

| Name of Banks | Fiscal Year |         |         |         |         |       |      |      |
|---------------|-------------|---------|---------|---------|---------|-------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean  | S.D. | C.V. |
| NIC           | 59.96       | 62.76   | 64.10   | 76.56   | 73.92   | 67.46 | 7.32 | 0.11 |
| NIB           | 54.51       | 63.77   | 61.78   | 64.4    | 70.82   | 63.02 | 5.86 | 0.09 |

*Source: Appendix - 7*

The above table shows the loan & advances to total assets ratio of NIC is in increasing trend except in 2007/08 and NIB is also in increasing trend except in 2005/06 during the study period. While observing their ratios; NIC is better mobilizing of fund as loan and advances. After seeing mean ratio it seems NIC is a little bit successful in generating higher in comparison of NIB.

The mean of NIC and NIB are 67.46% and 63.02% respectively. So NIC has higher ratio than that of NIB. It reveals that in total assets, NIC has high proportion of loan and advances. NIC has utilized its total assets more efficiently in the form of loan & advances. The higher C.V. of NIC states that it has less uniformity in these ratios throughout the study period than that of NIB. S.D. and C.V. of NIC and NIB have 7.32, 5.86 and 0.11 and 0.09 respectively.

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

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

**Table No. 4.8**

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

| Name of Banks | Fiscal Year |         |         |         |         |       |      |      |
|---------------|-------------|---------|---------|---------|---------|-------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean  | S.D. | C.V. |
| NIC           | 20.80       | 15.91   | 16.92   | 9.45    | 10.14   | 14.64 | 4.79 | 0.33 |
| NIB           | 14.86       | 11.89   | 11.83   | 11.80   | 8.12    | 11.70 | 2.39 | 0.21 |

*Source:* Appendix - 8

Above table shows that the investment on government treasury bills to Total assets of NIC is in fluctuating trend and NIB is in decreasing trend. The highest ratio of NIC is 20.80% in 2003/04 and NIB is 14.86% in 2003/04. And the lowest ratio of NIC and NIB are 9.45% in 2005/06 and 8.12% in 2007/08 respectively.

From the table we notice that mean ratio of NIC and NIB is 14.64% and 11.70% respectively. NIC has higher ratio in every year and mean too. It means NIC has invested more money in risk free assets than that of NIB. In another words NIB has emphases on more loan and advances and other short-term investment than investment in govt. securities. There is more inconsistent in the ratio of NIC during the study period, which is indicated by higher C.V. of NIC.

#### 4.1.1.3 Profitability Ratio

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

Profitability ratios are the best indicators of overall efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of NIC and NIB.

#### A) Return on Loan & advances

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

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

| Name of Banks | Fiscal Year |         |         |         |         |      |      |      |
|---------------|-------------|---------|---------|---------|---------|------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean | S.D. | C.V. |
| NIC           | 1.92        | 2.41    | 1.45    | 1.77    | 2.16    | 1.94 | 0.37 | 0.19 |
| NIB           | 2.08        | 2.22    | 2.66    | 2.82    | 2.53    | 2.46 | 0.31 | 0.12 |

*Source:* Appendix - 9

Above table shows that return on loan and advances ratio of NIC is in fluctuating trend NIB is in increasing trend except in 2007/08. The highest ratio of NIC is 2.41% in the year 2004/2005 and lowest ratio 1.45% in year 2005/2006. The mean ratio is 1.94%. Whereas highest ratio of NIB is 2.82% in year 2006/2007 and lowest ratio is 2.08% in 2003/2004. The mean ratio is 2.46%. NIB bank shows the good earning capacity in loan and advances whereas NIC show poor earning capacity in form of loan

and advances when we compare ratio of each other. However if we see overall ratio both banks have normal earning capacity.

From the table we notice that NIB has higher Ratios in all year except in 2004/05 and mean too. It can be concluded that NIB bank has utilized the loan and advance for the profit generation purpose in proper way.

### **B) Return on Total Assets**

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

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

| Name of Banks | Fiscal Year |         |         |         |         |      |      |      |
|---------------|-------------|---------|---------|---------|---------|------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean | S.D. | C.V. |
| NIC           | 1.15        | 1.52    | 0.93    | 1.36    | 1.60    | 1.31 | 0.27 | 0.21 |
| NIB           | 1.13        | 1.42    | 1.64    | 1.82    | 1.79    | 1.56 | 0.29 | 0.18 |

*Source:* Appendix - 10

Above table shows the Return on Total Assets of NIC and NIB. NIC has increasing trend except in 2005/06. Whereas NIB has also increasing trend except in 2007/08. NIB seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 1.56% of total assets in an average which is higher than that of NIC (i.e. 1.56% > 1.31). NIB has also higher ratio in succeeding three years.

Where as S.D. and C.V .of NIC and NIB are 0.27, 0.21 and 0.29 and 0.18 respectively. Higher C.V of NIC shows that it has relatively high incontinences in the ratios.

### **C) Return on Equity**

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and there by, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It

reflects, the extend to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of NIC and NIB during the study period.

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

| Name of Banks | Fiscal Year |         |         |         |         |       |      |      |
|---------------|-------------|---------|---------|---------|---------|-------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean  | S.D. | C.V. |
| NIC           | 11.00       | 16.63   | 12.60   | 17.26   | 18.65   | 15.23 | 3.26 | 0.21 |
| NIB           | 20.94       | 19.67   | 24.76   | 26.70   | 25.91   | 23.60 | 3.11 | 0.13 |

*Source:* Appendix - 11

The above listed table shows Return on Equity Ratio of NIC and NIB. Above calculated statistic indicate that NIC has increasing trend except in 2005/06 and NIB has fluctuating trend of return on equity ratio NIB has higher ratios in each year and it has also higher mean ratio (i.e.23.60%>15.23%)

Despite stiff competition and an adverse macro economic environment, NIB is currently generating higher ROE in comparison with NIC. In brief, it signifies that the shareholders of NIB are getting higher return but in case of NIC, they are getting lesser. It can be concluded that NIB has better utilized the equity for the profit generation. It proves to be a good strength of NIB in attracting future investment also while NIC shows its weakness regarding efficient utilization of its owner's equity in comparison with NIB. NIC has relatively more inconsistency through out the study period because it's S.D. and C.V is higher.

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

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

**Table No. 4.12**

**Total Interest Earned to Total Assets Ratio**

| Name of Banks | Fiscal Year |         |         |         |         |      |      |      |
|---------------|-------------|---------|---------|---------|---------|------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean | S.D. | C.V. |
| NIC           | 6.11        | 6.09    | 5.59    | 6.21    | 6.11    | 6.02 | 0.25 | 0.04 |
| NIB           | 5.43        | 5.30    | 5.50    | 5.74    | 5.65    | 5.52 | 0.21 | 0.03 |

*Source:* Appendix -12

They both have increased total interest earned during studied period. Despite the higher Total assets and interest earned in NIB, it seems less conscious about managing its assets in order to earn more interest ratio. Both banks show the fluctuating trend of the interest earned ratio. NIC has average ratio 6.02% whereas NIB has maintained average ratio 5.52%. NIC has higher ratio in each year. The mean ratio of NIC is more than that of NIB. In comparison, NIC seems effective in earning interest to some extent than that of NIB. Moreover, NIC also has higher inconstancies in the ratios during the study period.

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

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

**Table No. 4.13**

**Total Interest Earned To Total outside Assets Ratio**

| Name of Banks | Fiscal Year |         |         |         |         |      |      |      |
|---------------|-------------|---------|---------|---------|---------|------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean | S.D. | C.V. |
| NIC           | 6.82        | 7.28    | 6.35    | 6.89    | 6.86    | 6.84 | 0.33 | 0.05 |
| NIB           | 6.53        | 6.04    | 6.24    | 6.53    | 6.39    | 6.35 | 0.21 | 0.03 |

*Source:* Appendix - 13

Above table shows the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of both banks is in fluctuating trend. The highest ratio of NIC is 7.28 percent in 2004/05 and lowest ratio is 6.35 in 2005/06 and similarly the highest ratio of NIB is 6.53 percent in 2003/04 and 2006/07 and lowest ratio 6.04 percent is in 2004/05 of. The mean ratio of NIC and NIB are 6.84% and 6.35% respectively. Here NIC seems to have more efficiency in generating total interest through well utilizations of outside assets than that of NIC. But NIC has relatively inconsistent in returns as it has higher C.V than that of NIB.

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

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

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

| Name of Banks | Fiscal Year |         |         |         |         | Mean   | S.D.  | C.V.  |
|---------------|-------------|---------|---------|---------|---------|--------|-------|-------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 |        |       |       |
| NIC           | 155.73      | 156.44  | 184.21  | 176.64  | 170.48  | 168.70 | 12.50 | 0.07  |
| NIB           | 226.44      | 183.29  | 171.45  | 184.95  | 190.97  | 191.42 | 20.82 | 0.109 |

*Source:* Appendix 14

Above table shows Interest Earned to Operating Income Ratio of NIC and NIB. Both banks has fluctuating ratio during study period. NIB has greater share of total interest earn in its total operating income except in 2005/06 and mean too The mean ratio of NIC and NIB are 168.70 % and 191.42% respectively. NIB has higher ratio, it indicates the

high contribution in operating income made by lending and investing activities (core banking activity).NIC has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is not good for long run but in short run it is not so bad. Thus, from short-term view, NIB is in good condition but from long-term view, NIC is in good condition a little bit. In overall, NIC has managed a little bit sound interest earned to operating income ratio.

The S.D. and C.V of NIC is 12.50, 0.07 similarly NIB has 20.92, 0.109. It indicates NIB has relatively inconsistent in interest earned to total operating income as it has higher C.V than that of NIB.

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

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

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

| Name of Banks | Fiscal Year |         |         |         |         |      |      |       |
|---------------|-------------|---------|---------|---------|---------|------|------|-------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean | S.D. | C.V.  |
| NIC           | 3.09        | 3.01    | 3.28    | 3.61    | 3.32    | 3.26 | 0.23 | 0.07  |
| NIB           | 2.42        | 2.16    | 2.30    | 2.48    | 2.55    | 2.38 | 0.15 | 0.065 |

*Source:* Appendix -15

Both banks show fluctuating trend. NIC has average ratio of 3.26% and NIB has average ratio 2.38. The highest ratio of NIC is 3.61% in the year 2006/ 2007 and lowest ratio 3.01% in year 2004/2005. Whereas highest ratio of NIB is 2.55% in year 2007/08 and lowest ratio is 2.16% in 2004/2005. The C. V. of NIC is a little

bit greater than the NIB it indicate high risk and insignificant of NIC rather than NIB. And it shows that NIB is better for getting cheaper fund.

#### **4.1.1.4 Risk Ratio**

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

##### **(A) Credit Risk Ratio**

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

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

**Table No. 4.16**  
**NPL to total loan and advances**

| Name of<br>Banks | Fiscal Year |         |         |         |         |      |      |      |
|------------------|-------------|---------|---------|---------|---------|------|------|------|
|                  | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean | S.D. | C.V. |
| NIC              | 4.12        | 3.94    | 2.70    | 1.13    | 0.87    | 2.55 | 1.52 | 0.60 |
| NIB              | 2.47        | 2.69    | 2.07    | 2.37    | 1.12    | 2.15 | 0.61 | 0.29 |

*Source:* Appendix -16

Above table shows that NPL to total loan and advances of NIC is in decreasing trend except in 2005/06 and NIB is in decreasing trend except in 2004/05 and 2006/07. Decreasing trend is the good sign of the efficient credit management. NIC seems effective in latest two years and NIB seems effective in beginning three years. From mean point of view, non-performing loan to total loan and advances ratio of NIC and NIB are 1.58 % and 2.15% respectively during the study period. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. However, in comparison, NIB has efficient operating of credit management than that of NIC from the mean point of view. However if we see ratios in latest years NIC has efficient operating of credit management than that of NIB.

**(B) Total loan loss provision to NPL:**

The provision held to non-performing assets ratio shows the proportion of loan loss provision to non-performing assets of the banks. Every bank should have to make provision for the loan to minimize the risk of not recovering the loan from the customer on time. Thus, this ratio measures up to what extent of risk inherent in NPL is covered by the total loan loss provision. From this ratio it can be concluded that which banks make sage guard for the future contingencies. Higher ratio indicates that the banks are safeguard against future contingencies. Higher ratio indicates that the banks are safeguard against future contingencies that may

create due to non-performing loan. Thus, higher ratio shows better financial position of banks and lower ratio shows weak in financial position

**Table No. 4.17**  
**Total provision to NPL**

| Name of Banks | Fiscal Year |         |         |         |         |        |       |      |
|---------------|-------------|---------|---------|---------|---------|--------|-------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean   | S.D.  | C.V. |
| NIC           | 124.12      | 106.58  | 137.10  | 185.14  | 204.40  | 151.47 | 41.55 | 0.27 |
| NIB           | 113.70      | 116.46  | 147.51  | 114.38  | 172.17  | 132.84 | 26.16 | 0.20 |

*Source: Appendix - 17*

The above table presents the ratio of total provision held to total non-performing assets of NIC and NIB for 5 consecutive years. NIC are 124.12%, 106.58%, 137.10%, 185.14% and 204.40% in fiscal year 2003/4, 2004/5, 2005/6, 2006/7 and 2007/8 respectively. NIB are 113.70%, 116.46%, 147.51%, 114.38% and 172.17% in fiscal years 2003/4, 2004/5, 2005/6, 2006/7 and 2007/8 respectively. the highest ratio is 204.40% in 2007/08 and lowest ratio is 106.58% in year 2004/05 of NIC. The highest ratio is 172.17% in 2007/08 and lowest ratio is 114.38% in year 2006/07 of NIB. The average mean ratio of NIC and NIB are 151.47% and 132.84% respectively. The S.D and C.V. of NIC and NIB are 41.55, 26.16 and 0.27, 0.20 respectively. It shows NIC has greater variability in the ratios

The ratio of NIC has significantly high in comparison with NIB bank and it does portray that NIC has adequate provision against non-performing loan. It means that NIC try to maintain the higher ratio for the safeguard of loan loss against future contingencies that may create due to non-performing loan. On the other hand NIB has least safeguard of loan losses against future contingencies that may create due to non-performing loan.

**(c) Liquidity Risk Ratio: -**

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

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

**Table No: 4.18**

**Liquidity Risk Ratio**

| Name of Banks | Fiscal Year |         |         |         |         |       |      |      |
|---------------|-------------|---------|---------|---------|---------|-------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean  | S.D. | C.V. |
| NIC           | 6.39        | 16.19   | 8.55    | 5.96    | 9.11    | 9.24  | 4.11 | 0.45 |
| NIB           | 10.65       | 9.4     | 12.34   | 9.97    | 10.9    | 10.65 | 1.11 | 0.10 |

*Source: Appendix - 18*

Cash and Bank Balance to Total Deposit Ratio of NIC and NIB are in fluctuating trend. The highest ratio of NIC is 16.19% in FY 2004/05 and lowest is 5.96% in FY 2006/07. Similarly, the highest ratio of NIB is 10.89% in FY 2007/08 and lowers in 9.40 in 2004/05.

The mean ratio of NIC and NIB are 9.24% and 10.65% respectively. NIB has higher ratio than the NIC, which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of NIC is 0.45 times and NIB is 0.10 times. S.D. of NIB is lower than the NIC

The above analysis has to conclude that the cash and bank balance position of NIB with respect to NIC is better in order to serve its customer's deposits. It implies the better liquidity position of NIB from the viewpoint of depositor demand. In contrast a high ratio

of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds income generating areas.

**(D) Asset Risk Ratio: -**

Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

**Table No. 4.19**  
**Asset Risk Ratio**

| Name of Banks | Fiscal Year |         |         |         |         |      |      |      |
|---------------|-------------|---------|---------|---------|---------|------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean | S.D. | C.V. |
| NIC           | 2.75        | 2.95    | 1.97    | 0.96    | 0.72    | 1.87 | 1.01 | 0.54 |
| NIB           | 1.61        | 1.95    | 1.45    | 1.68    | 0.89    | 1.52 | 0.39 | 0.25 |

*Source:* Appendix - 19

The above table shows the Asset risk ratio of NIC and NIB. The analysis shows that NIC has credit risk ratio is in decreasing trend except in 2004/05 and NIB have the credit risk ratio in fluctuating trend. NIC has highest and lowest ratio of 2.95 and 0.72 in the year 2004/05 and 2007/08 respectively. Similarly NIB has the highest and lowest ratio of 1.95 and 0.89 in the year 2004/05 and 2007/08 respectively. The mean ratio of NIC is higher than that of NIB (i.e.  $1.87 > 1.52$ ). The S.D. and C.V. of NIC is higher than that of NIB ( $1.01 > 0.39$  and  $0.54 > 0.25$ ). While observing mean ratio, NIB has lower credit risk whereas when we see latest data, NIC has lower credit risk. NIC has been improving it to minimize credit risk in the succeeding years than that of NIB.

#### 4.1.1.6 Other Ratios

##### A) Earning Per Share

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it doesn't reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

**Table No. 4.20**  
**Earning Per Share**

| Name of Banks | Fiscal Year |         |         |         |         |       |      |      |
|---------------|-------------|---------|---------|---------|---------|-------|------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean  | S.D. | C.V. |
| NIC           | 13.65       | 22.75   | 16.10   | 24.01   | 25.75   | 20.45 | 5.27 | 0.26 |
| NIB           | 51.70       | 39.50   | 59.35   | 62.57   | 57.87   | 54.20 | 9.12 | 0.17 |

*Source:* Appendix - 20

Above table shows that earning price per share of NIC and NIB. NIC has increasing trend of EPS except in 2005/06 and NIB has fluctuating trend of EPS. While observing their ratios in overall; NIB is better mobilizing its resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too. It is quite satisfying to state that NIB has been able to maximize shareholder wealth from the view point of EPS. The C.V of NIC is higher than NIB; it indicates that there is inconsistency in earning per share of NIC than that of NIB.

##### B) Dividend per Share including bonus share

Shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, and dividend so; each firm must announce the total dividend and dividend per Share, which shows the position of the firm.

A firm wants to distribute dividend to its shareholder if a firm suppose the insufficient investment opportunities and sector. Sometimes, it does not distribute dividend and sometime issues bonus shares. On the other hand, shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, divisible profit or proposed dividend or declared dividend. So, each firm must announce the total dividend and dividend per share which show the position of the firm.

**Table No. 4.21**  
**Dividend per Share including bonus share**

| Name of Banks | Fiscal Year |         |         |         |         | Mean  | S.D.  | C.V. |
|---------------|-------------|---------|---------|---------|---------|-------|-------|------|
|               | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 |       |       |      |
| NIC           | 0           | 30      | 10.53   | 21.05   | 21.05   | 16.53 | 11.53 | 0.70 |
| NIB           | 15          | 12.25   | 55.46   | 30      | 40.83   | 27.71 | 22.10 | 0.80 |

*Source: Appendix - 21*

The above statistics shows the dividend per share of NIB has higher than that of NIC in each year except in 2004/05. NIC has also higher mean (i.e. 27.71 > 16.53), it has higher variability in dividends during the study period.

it can be concluded NIB has adopted the policy of paying high amount in the form of dividends where as NIC is trying to capitalized its earnings by keeping it in the form of retained earnings.

### **C) Market Price per Share**

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

**Table No. 4.22**  
**Market price per share (in Rs)**

| Name of<br>Banks | Fiscal Year |         |         |         |         |         |        |      |
|------------------|-------------|---------|---------|---------|---------|---------|--------|------|
|                  | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean    | S.D.   | C.V. |
| NIC              | 218         | 366     | 496     | 950     | 1284    | 655.60  | 429.66 | 0.66 |
| NIB              | 940         | 800     | 1260    | 1729    | 2450    | 1435.80 | 669.98 | 0.47 |

*Source:* Appendix - 22

This table shows market price of the share of NIC and NIB. Both banks have increasing trend of Market price. It indicates better performance of company and high expectation by shareholder. Average mean price of NIB is greater than that of NIC (i.e. 1435.80 > 655.60). It indicates that shareholder of NIB are getting higher price. The C.V. of NIB is lower it indicates that NIC has inconsistent in its market price.

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

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

**Table No. 4.23**  
**Price Earning Ratio**

| Name of<br>Banks | Fiscal Year |         |         |         |         |       |       |      |
|------------------|-------------|---------|---------|---------|---------|-------|-------|------|
|                  | 2003/04     | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Mean  | S.D.  | C.V. |
| NIC              | 15.97       | 16.09   | 30.81   | 39.56   | 49.86   | 30.46 | 14.80 | 0.49 |
| NIB              | 18.18       | 20.25   | 21.23   | 27.63   | 42.33   | 25.93 | 9.83  | 0.38 |

*Source:* Appendix - 23

Above table shows that price-earning ratio earning of NIC and NIB are in increasing trend. From the mean point of view, mean ratio of the NIC and NIB are 30.46 and 25.93 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 30.46 in NIC and Rs 25.93 in NIB. Looking the mean ratio we conclude that in short run, investor of NIC are getting better profitability because they are selling their shares in high price although EPS of NIC is lower in comparison than that of NIB. But from the long term view and sustainable fair price, investor of NIB will get better profitability and they will be in safe side in comparison with NIC as low ratio is preferable for fair and sustainable market price.

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

## **4.2 Statistical Analysis**

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

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

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

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

Deposit have played vary important role in performance of a commercial banks and similarly loan & advances are very important to mobilize the collected deposits. Co-

efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan & advances are dependent variable (Y). The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not.

**Table No. 4.24**  
**Correlation between Deposit and Loan & Advances**

| Name of Banks | Evaluation Criteria |                |         |         |
|---------------|---------------------|----------------|---------|---------|
|               | r                   | R <sup>2</sup> | P.Er.   | 6 P.Er. |
| NIC           | 0.993               | 0.986          | 0.00422 | 0.0253  |
| NIB           | 0.997               | 0.994          | 0.0018  | 0.011   |

*Source: BY SPSS Data Editor*

From the above table, it is found that coefficient of correlation between deposits and loan & advances of NIC and NIB is 0.993 and 0.997. It is shows that both have the highly positive relationship between these two variables. It refers that deposit and loan & advances of NIC and NIB move together very closely. Moreover, the coefficient of determination of NIC is 0.986. It means 98.6 percent of variation in loan & advances has been explained by deposit. Similarly, value of coefficient of determination of NIB is 0.994. It refers that 99.4 percent variance in loan & advances are affected by total deposit. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er. In other words, there is significant relationship between deposits and loan & advances.

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

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

The following Table No. 4.30 shows the coefficient correlation between deposits and total investments i.e. r, P. Er., 6 P. Er. and coefficient of determination ( $R^2$ ) of NIC and NIB during the study period.

**Table No. 4.25**  
**Correlation between Deposit and Total Investment**

| Name of Banks | Evaluation Criteria |       |        |         |
|---------------|---------------------|-------|--------|---------|
|               | r                   | $R^2$ | P.Er.  | 6 P.Er. |
| NIC           | 0.515               | 0.265 | 0.222  | 1.329   |
| NIB           | 0.928               | 0.861 | 0.0419 | 0.251   |

*Source: BY SPSS Data Editor*

From the above table, the researcher found that the coefficient of correlation between total deposit and total investment of NIC is 0.515 It shows the moderate degree positive correlation. In addition, coefficient of determination of NIC is 0.265 It means only 26.5 percent of total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P.Er. It refers that there is insignificant relationship between total deposit and total investment of NIC.

Similarly, there is high degree correlation positive coefficient between total deposit and total investment of NIB, which is indicator by correlation coefficient of 0.928. The value of coefficient of determination is found 0.861 this refers that 86.10 percent of the variation in total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of NIB

From the above analysis, the conclusion can be drawn in the case of NIB; it has high degree positive correlation. It indicates that it has successfully mobilized its deposit to provide investment. Whereas NIC has not mobilized its deposit for investment as increment in its deposit.

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

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of NIC and NIB during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination. The following table shows the 'r', R<sup>2</sup>, P.Er. and 6 P. Er. between those variables of NIC and NIB for the study period.

**Table No. 4.26**  
**Correlation between Loan and advance and Net profit**

| Name of Banks | Evaluation Criterions |                |        |         |
|---------------|-----------------------|----------------|--------|---------|
|               | r                     | R <sup>2</sup> | P.Er.  | 6 P.Er. |
| NIC           | 0.935                 | 0.874          | 0.038  | 0.228   |
| NIB           | 0.989                 | 0.978          | 0.0066 | 0.0396  |

*Source: Through SPSS Data Editor*

Above table shows correlation coefficient between, Loan and advance and net profit is 0.935 of NIC. It refers that there is positive correlation between these two variables. Here, 87.4 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.874 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. Likewise NIB has also high degree positive correlation i.e. 0.989 between Loan and advance and net profit. The coefficient of determination R<sup>2</sup> is 0.978, which indicates that 97.80 percent variability in net profit is explained by Loan and advance. Moreover, higher correlation coefficient than 6P.Er. Shows that the relationship between Loan and advance and net profit is significant for NIB. In conclusion, NIB has more significant relationship between Loan and advance and net profit than that of NIC.

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

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

**Table No. 4.27**  
**Correlation between Total Investment and Net Profit**

| Name of Banks | Evaluation Criterions |                |       |         |
|---------------|-----------------------|----------------|-------|---------|
|               | r                     | R <sup>2</sup> | P.Er. | 6 P.Er. |
| NIC           | 0.271                 | 0.073          | 0.280 | 1.67    |
| NIB           | 0.949                 | 0.901          | 0.030 | 0.18    |

*Source: Through SPSS Data Editor*

Above table shows correlation coefficient between total investment and net profit of NIC is 0.271 which implies there is low degree positive correlation between total investment and net profit. In addition, coefficient of determination of NIC is 0.073. It means only 7.3 percent of Profit is contribute by total investment. Obviously, this correlation is insignificant at all due to coefficient of correlation is less than 6P.Error. On the other hand NIB has higher positive correlation between total investment and net profit i.e. 0.949. The coefficient of determination of NIB is 0.901. It means 90.10 percent of Profit is contributed by total investment. This relationship is significant as its correlation coefficient is higher than 6 P.Er.

Thus it can be concluded that the degree of relationship between total investment and net profit of NIC is poor than the NIB. This correlation coefficient indicates that the NIC has poor performed in order to generate net profit through investment.

#### 4.2.2 Trend Analysis

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

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

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

$$Y = a + bx$$

Where,

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

X = deviation from some convenient time periods.

Let trend line be

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

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

Here,

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

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

NIB

NIC

$$a = 20729.48$$

$$a = 8661.346$$

$$b = 5608.893$$

$$b = 1970.327$$

Where as

$$Y_c = 20729.48 + 5608.893 X \text{ NIB}$$

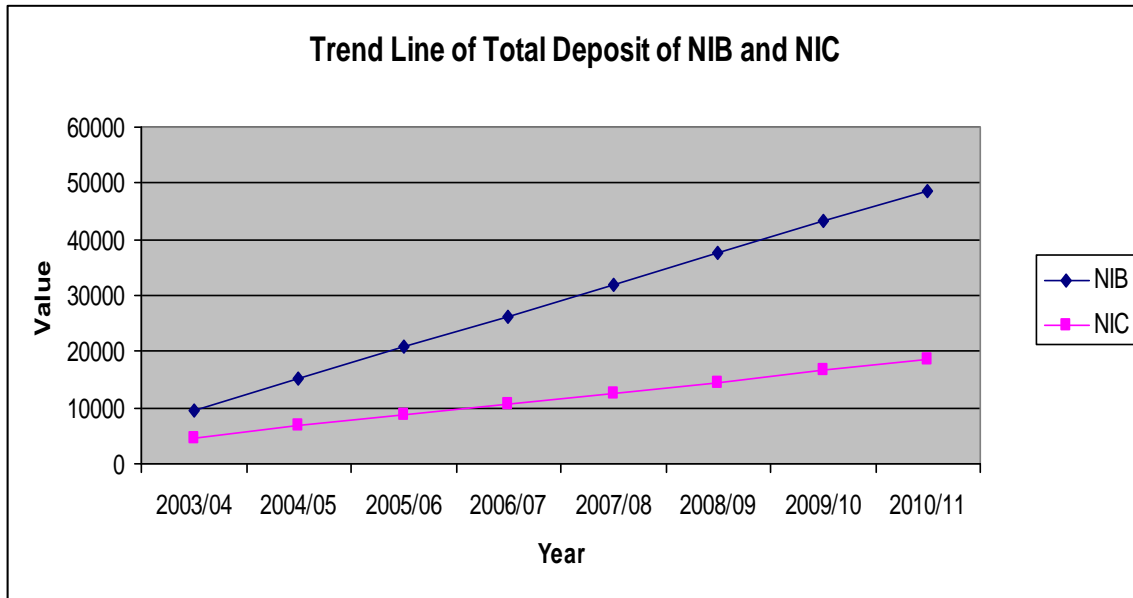
$$Y_c = 8661.346 + 1970.327 X \text{ NIC}$$

**Table No. 4.28**

| Trend analysis of Total Deposit of NIB and NIC |         |         |
|--|---------|---------|
| Year(x)  | NIB     | NIC     |
| 2003/04  | 9511.69 | 4720.69 |
| 2004/05  | 15120.6 | 6691.02 |
| 2005/06  | 20729.5 | 8661.35 |
| 2006/07  | 26338.4 | 10631.7 |
| 2007/08  | 31947.3 | 12602   |
| 2008/09  | 37556.2 | 14572.3 |
| 2009/10  | 43165.1 | 16542.7 |
| 2010/11  | 48773.9 | 18513   |

*Source: Annul Report of Concern Bank*

**Figure No 4.1**



Above table and figure shows that total deposit of NIB and NIC. Both Banks is in increasing trend. The rate of increment of total deposit for NIB seems to be higher than

that of NIC. The increasing trend of total deposit of NIB is more aggressive and high rather than NIC. It indicates NIB has more prospect of collecting Total deposit. The trend analysis has projected deposit amount in fiscal year FY 2008/09 to FY 2010/11. From the above trend analysis, it is clear that NIB has higher position in collecting deposit than NIC.

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

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

$Y = a + bx$

Where,

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

X = deviation from some convenient time periods.

Let trend line be

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

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

Here,

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

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

NIB

NIC

$a = 15253.6$

$a = 7026.978$

$b = 4769.68$

$b = 1963.677$

$Y_c = 15253.6 + 4769.68 X \text{ NIB}$

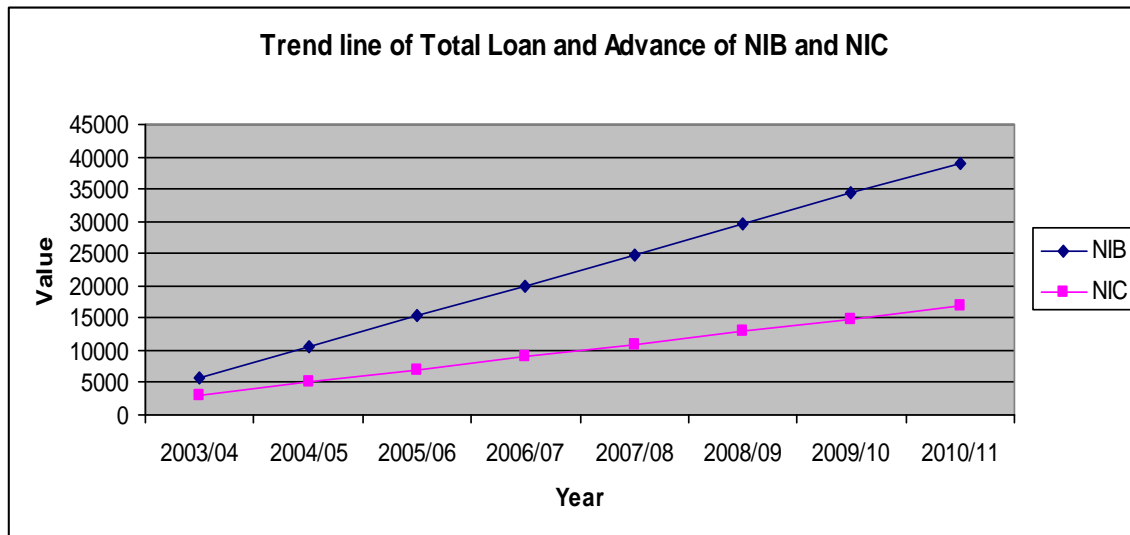
$Y_c = 7026.978 + 1963.677 X \text{ NIC}$

**Table No. 4.29**

| Trend line of Total Loan and Advance of NIB and NIC |         |         |
|---|---------|---------|
| Year(x)   | NIB     | NIC     |
| 2003/04   | 5714.24 | 3099.62 |
| 2004/05   | 10483.9 | 5063.3  |
| 2005/06   | 15253.6 | 7026.98 |
| 2006/07   | 20023.3 | 8990.66 |
| 2007/08   | 24793   | 10954.3 |
| 2008/09   | 29562.6 | 12918   |
| 2009/10   | 34332.3 | 14881.7 |
| 2010/11   | 39102   | 16845.4 |

Source: Annul Report of Concern Bank

**Figure No 4.2**



Above table depicts that loan & advances of NIB and NIC. Both Banks has in increasing trend. The increasing trend of NIB is higher than NIC. The actual value of loan & advances for NIC is quite fluctuating in relation to NIB. The trend projected for father eight year FY 2007/08 to FY 2010/11 From the above analysis, it is clear that both NIB and NIC is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows, the NIB has highly mobilizing loan & advances than the NIC.

**C) Trend Analysis of Total Investment**

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

$Y = a + bx$

Where,

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

X = deviation from some convenient time periods.

Let trend line be

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

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

Here,

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

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

NIB

NIC

$a = 5356.94$

$a = 1944.896$

$b = 860.53$

$b = 112.808$

$Y_c = 5356.94 + 860.53 X \text{ of NIB}$

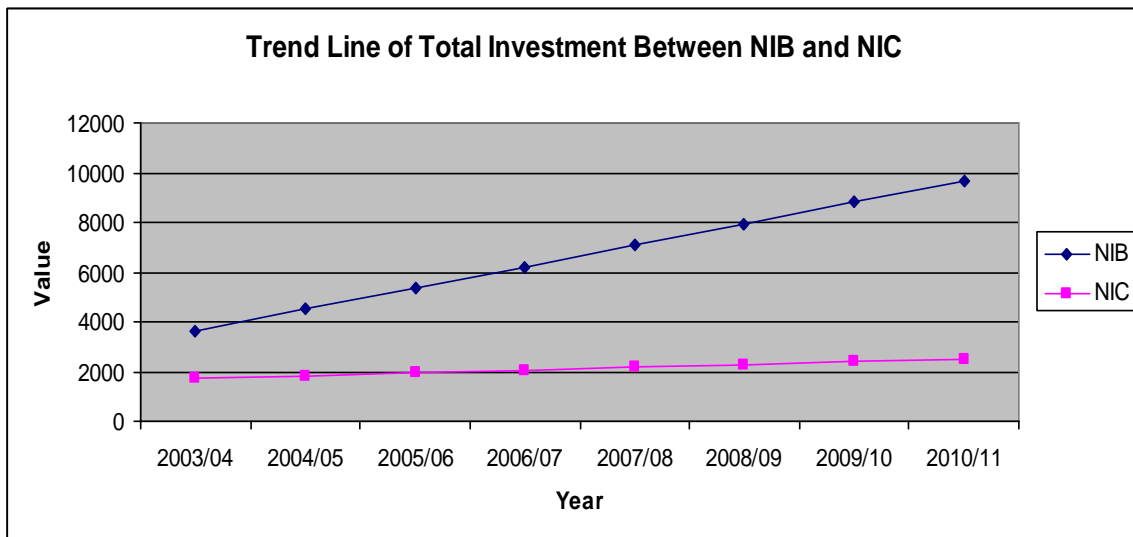
$Y_c = 1944.896 + 112.808 X \text{ NIC}$

**Table No. 4.30**

| Trend Line of Total Investment Between NIB and NIC |         |         |
|--|---------|---------|
| Year(x)  | NIB     | NIC     |
| 2003/04  | 3635.88 | 1719.28 |
| 2004/05  | 4496.41 | 1832.09 |
| 2005/06  | 5356.94 | 1944.9  |
| 2006/07  | 6217.47 | 2057.7  |
| 2007/08  | 7078    | 2170.51 |
| 2008/09  | 7938.53 | 2283.32 |
| 2009/10  | 8799.06 | 2396.13 |
| 2010/11  | 9659.59 | 2508.94 |

*Source: Annul Report of Concern Bank*

**Figure No 4.3**



Above table shows the Trend of Total Investment between NIB and NIC. Both Bank NIB and NIC have increasing trend in making investment. NIB has high and upward trend of increasing, but NIC has little and moderately increasing trend of total investment. The trend of total investment projected to FY 2010/11. The forecasted trend projected that the NIB has greater increment rate in total investment than the increment rate of NIC. The figure indicates NIB has highly mobilized the total investment rather than NIC.

**D) Trend Analysis of Net Profit**

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

$Y = a + bx$

Where,

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

X = deviation from some convenient time periods.

Let trend line be

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

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

Here,

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

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

NIB

NIC

$a = 386.696$

$a = 136.03$

$b = 135.737$

$b = 39.432$

$Y_c = 386.696 + 135.737 X \text{ NIB}$

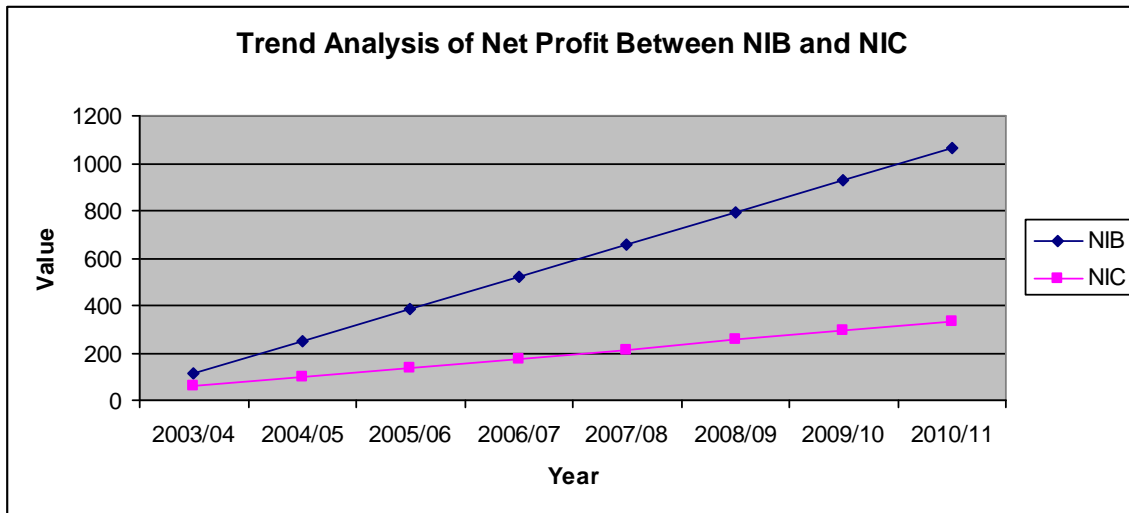
$Y_c = 136.03 + 39.432 X \text{ NIC}$

**Table No. 4.31**

| Trend Analysis of Net Profit Between NIB and NIC |         |         |
|--|---------|---------|
| Year(x)  | NIB     | NIC     |
| 2003/04  | 115.222 | 57.166  |
| 2004/05  | 250.959 | 96.598  |
| 2005/06  | 386.696 | 136.03  |
| 2006/07  | 522.433 | 175.462 |
| 2007/08  | 658.17  | 214.894 |
| 2008/09  | 793.907 | 254.326 |
| 2009/10  | 929.644 | 293.758 |
| 2010/11  | 1065.38 | 333.19  |

*Source: Annul Report of Concern Bank*

**Figure No 4.4**



The above table reveals the trend of Net profit of NIB and NIC. Net profit both bank NIB and NIC forecasted in increasing trend. The trend of increasing value of net profit of NIB is higher and aggressive than NIC. The net profit of NIB and NIC has been increasing every year by Rs.135.737 million and Rs. 39.432 million respectively. The trend of Net profit projected to FY 2010/11 i.e. further three year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, NIB is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of NIB is high than the NIC.

### **4.3 Major Findings**

#### **4.3.1 Financial Analysis**

##### **Liquidity Ratio**

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

- ) Generally banks have to maintain more liquid assets but the current ratios of all banks are below the standard of 2:1. The mean current ratio of NIC is 1.89 and NIB is 1.99 the current ratio of NIB has little higher than NIC. It is indicate better liquidity position of NIB.NIB has met the standard.
- ) Cash and bank balance to total deposit ratio of NIB has higher than NIC i.e. 10.65% >9.24% which indicates that the bank has higher liquidity of NIB as compare to NIC. A high ratio of cash and bank balance may be undesirable which indicates NIB inability to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. But liquidity position is good.
- ) Cash and bank balance to current assets ratio of NIB is higher than NIC i.e. 10.99%. > 9.84%. Regarding the analysis, it can be said that NIB has a better ability to meet daily cash requirements of their customers but it should be noted that NIB has excess cash due to the low investment opportunities.
- ) Investment on government securities to current assets of NIC has higher than NIB i.e. 18.22% > 13.76%. It shows NIC has invested more fund in government securities. NIB has invested little portion in government securities.

Above findings shows that liquidity position of NIB is comparatively better than NIC. Lower liquidity position of NIC shows that the current assets have been utilized in some profit generating sectors, furthermore out of its current assets NIC has invested more fund in risk free assets.

### **Asset Management Ratio**

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

- ) The loan & advances to total deposit ratio of NIC is lower than NIB  $79.10\% < 71.8\%$ . It indicates the better mobilization of deposit by NIC. So, NIC has more efficiently utilizing the outsiders' funds in extending credit for profit generating sectors.
- ) The total investment to total deposit of NIC is much lower than NIB i.e.  $24.25\% > 27.45\%$ . It shows the NIB is mobilizing its funds on investment in various securities efficiently. It can be said that NIB is more successful in utilizing its total deposit by investing in marketable securities and other investment sectors.
- ) The loan & advances to total assets ratio of NIC is greater than NIB i.e.  $70.62\% > 63.02\%$ . It refers NIC has utilized its total assets more efficiently in the form of loan & advances with more risk because it has greater variability in the ratio.
- ) Investment on government securities to total assets ratio of NIC is higher than NIB i.e.  $14.64\% > 11.70\%$ . This indicates that NIC has invested more portions of total assets on government securities. It means NIC has invested more money in risk free assets than that of NIB.

Above findings reveals that the NIC has better utilization of assets in risk free asset i.e. government security and loan sector rather than NIB. On the other hand other hand NIB has invested more portions in investment portfolio out of its total deposit.

## **Profitability Ratio**

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

- ) Return on loan & advances ratio of NIB is higher than that of NIC i.e.  $2.46\% > 1.94\%$ . It refers that NIB has utilized the loan and advance for the profit generation purpose in proper way.
- ) Return on total assets ratio of NIB is slightly higher than NIC i.e.  $1.56 > 1.31\%$ . NIB seems successful in managing and utilizing the available assets in order to generate revenue.
- ) Return on equity of NIB is higher than NIC i.e.  $23.60\% > 15.23\%$  which shows that NIB is more successful to earn high profit through the efficient utilization of its equity capital.
- ) Total interest earned to total assets ratio of NIC is relatively higher than that of NIB i.e.  $6.02\% > 5.52\%$  and It indicates that NIC has efficiently used its total assets to earn higher interest income in comparison to NIB. NIB seems less conscious about managing its assets in order to earn more interest ratio
- ) Total interest earned to total outside assets ratio of NIC is higher than the NIB i.e.  $6.84\% > 6.35\%$ . NIC seems to have more efficiency in generating total interest through well utilizations of outside assets than that of NIB.
- ) Total interest earned to total operating income ratio of NIC is lower than NIB i.e.  $168.70\% < 191.42\%$ . It means the greater portion of total operating income is occupied by total interest for NIB. It reveals NIB has successful mobilizing their fund in interest generating assets. Whereas NIC has generated its operating income through other sources like commission and discount, foreign exchange gains.
- ) Total interest paid to total assets ratio of NIB is lower than NIC i.e.  $2.38\% < 3.26\%$ . It shows that NIB is conscious about borrowing cheaper fund.

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

## **Risk Ratio**

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

- ) The credit risk ratio shows the proportion of no-performing loan in total Loan & Advances. Average credit risk ratio of NIB is lower than NIC i.e.  $2.12\% < 2.55\%$ . NIB has efficient operating of credit management than that of NIC from the mean point of view. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. In the latest years NIC is doing well.
- ) The ratio of total loan loss provision to NPL of NIB has significantly low in comparison with NIC bank and it does portray that NIC has adequate provision against non-performing loan. It means that NIC try to maintain the higher ratio for the safeguard of loan loss against future contingencies that may create due to non-performing loan. On the other hand NIB has least safeguard of loan losses against future contingencies that may create due to non-performing loan.
- ) The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of NIB is greater than that of NIC (i.e.  $10.65\% > 9.24\%$ ). It signifies that NIB has sound liquid fund to make immediate payment to the depositors.
- ) Asset Risk Ratio shows the Asset Risk Ratio of NIC and NIB. The analysis shows that both banks have the Asset Risk Ratio in fluctuating trend. The mean ratio of NIB is lower than that of NIC (i.e.  $1.87\% > 1.52\%$ ). However if we see the latest data credit risk is low in NIC.

Above analysis reveals that both the banks have high interest rate risk which is not desirable for any commercial bank..

## Other Ratios

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

- ) Average earning per share of NIB is much greater than that of NIC i.e. Rs.54.20 > Rs.20.45. NIB is better mobilizing its resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too. The C.V of NIC is higher than NIB; it indicates that there is inconsistency in earning per share.
- ) The dividend per share including bonus share of NIB is high than NIC i.e. 27.71% > 16.53%. It can be concluded NIB has adopted the policy of paying high amount in the form of cash and bonus share whereas NIC is trying to capitalize its earnings by keeping it in the form of retained earnings.
- ) Average market price of the share of NIC is greater than that of NIB i.e. Rs 1435.80 > Rs.655.60. It indicates that shareholders of NIB are getting higher price. It shows NIB has better financial performance than NIC in order to increase market price per share. The C.V. of NIB is lower than NIC it indicates that NIC has little bit inconsistency in its market price.
- ) The mean price-earning ratio of NIC is little higher than that of NIB i.e. 30.46 > 25.93 times. It indicates that for getting Rs 1 as earning, one should invest Rs 30.46 in NIC and Rs 25.93 in NIB. Looking at the mean ratio we conclude that in short run, investors of NIC are getting better profitability because they are selling their shares at high price although EPS of NIC is lower in comparison than that of NIB. But in long run investors of NIB will get high profitability. It is suggested that shareholders of NIC to sell their stock to get high income as low ratio is preferable in the case of price earning ratio.

Above analysis reveals that NIB bank has well in other ratios than NIC. NIB seems better than NIC in many aspects.

### 4.3.2 Statistical Analysis

#### Coefficient of Correlation

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

- ) Both NIC and NIB have high positive co-relation between total deposit and loan & advances because NIC and NIB have 0.993 and 0.997 of co-relation coefficient between deposit and loan & advances. These relationships are significant. This can be regarded as good indication in financial performance for the banks. The correlation coefficient of both bank is significant
- ) There is positive correlation between total deposit and total investment of NIC and NIB. Where as NIC has low degree of positive co-relation i.e.0.515 than NIB i.e. 0.928. NIB has high degree positive correlation where as NIC has moderate degree positive correlation. NIC has insignificant result and NIB has significant.
- ) There is positive correlation between Loan and advance and net profit. Correlation between Loan and advance and net profit of NIC is 0.935 and NIB is 0.989. NIB has high degree of positive co-relation. The relationship between Loan and advance and net profit of NIC and NIB significant.
- ) The degree of relationship between total investment and net profit of NIC is poor than NIB i.e. correlation coefficient between total investment and net profit of NIC and NIB is 0.271 and 0.949 respectively. It refers that NIB is comparatively successful to generate net profit through investment due to higher positive correlation. The relationship between investment and net profit of NIC bank is insignificant due to more and less than 6 P.Er whereas NIB has significant result.
- ) Correlation coefficient of total deposit between NIC and NIB shows high positive correlation i.e. 0.990. The correlation coefficient shows that It refers that total deposit of both banks move in the same direction in this regard. Correlation coefficient is also significant.

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

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

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

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

- ) NIC and NIB have increasing trend in collecting deposit the rate of increment of total deposit for NIB seems to be higher than that of NIC Here NIB has better position in collecting deposit than NIC.
- ) The trend line of loan & advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances. The trend line of loan and advances for NIB seems high growing than NIC. It refers that NIB is more aggressive in mobilizing its loan and advance.
- ) The total investment trend line of NIC and NIB is upward slopping where as NIC has aggressive upward slopping of total investment trend line. It refers that NIB has better increasing trend of total investment than NIC.
- ) The trend line of Net profit for NIC and NIB is upward slopping But NIB has aggressively and NIC has smoothly. The position of NIB is better in order to generate profit than NIC.

Above analysis reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of NIB is higher than the NIC. It indicates better performance of NIB rather than NIC.

## **CHAPTER - V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Summary**

The researcher has identified that research problem and set objectives to solve research problems about financial position of selected commercial banks as described in introduction chapter. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to under take this research more precisely. This section also includes concept of banking, commercial banks, joint venture banks, investment and investment policy.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. This study is mainly conducted on the basis of secondary data collected from annual reports, official report, economic journal, financial statement etc. and authorize web site of Nepal stock exchange, [www.nepalstock.com](http://www.nepalstock.com). The five years financial statement has been examined for the purpose of the study.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists liquidity ratio, assets management ratio, profitability ratio, risk ratio, growth position and other ratios. Other ratio includes EPS, DPS and P.E. ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, trend analysis have been applied to fulfill the objective of this study. The major findings of the study are also included in the final section of the presentation and analysis chapter.

## 5.2 Conclusions

The overall aspect of liquidity position of NIB is comparatively better than NIC. But the investment on government securities to current assets of NIC is higher than NIB.

According to the mean ratio, Assets management aspect of NIC is better than NIB which is justified by higher Mean loan & advances to total deposit ratio, loan & advances to total assets, lower interest earned to operating ratio, higher interest earned to total assets ratio for NIC. It shows NIC is doing well in the latest years. NIC has comparatively more investment in govt securities and NIB has more investment which is less productive however it is low risky as compared with loan and advances.

Overall profitability ratios show that NIB has earned higher profit in relation to every aspects of the bank than NIC.

NIB has better management of loan & advances because of having lower average non performing loan & advances to total loan ratio whereas NIC is successful in making decreasing trend of non performing loan & advances latest years. Interest rate risk of both banks is high which is not desirable by any bank. Comparatively NIC has higher interest rate risk It noted that it is doing well in the latest years.

While observing mean ratio, NIB has lower credit risk whereas when we see latest data, NIC has lower credit risk. NIC has been improving it to minimize credit risk in the succeeding years than that of NIB.

NIC try to maintain the higher ratio for the safeguard of loan loss against future contingencies that may create due to non-performing loan. On the other hand NIB has least safeguard of loan losses against future contingencies that may create due to non-performing loan.

Earning per share, dividend per share and market price per share of is higher for NIB in comparison to NIC. It gives good signal of financial performance of the bank in the market. Price- earning of NIC is higher than NIB which is considered better in security analyzing in order to make investment decision. By seeing price earning ratio it can be concluded that NIC's share is overpriced in comparison with NIB.

Both commercial banks NIC and NIB have positive correlation between deposit and loan & advances, deposit and total investment, total assets and net profit, total investment and net profit. Comparatively NIB has strong relationship between these variables. It is also found that there is positive correlation between total deposit, loan & advances, net profits, total investment of these banks.

Total deposit, loan & advances, net profit of NIC and NIB are in increasing trend. But NIC has decreasing trend of total investment. NIB has higher growth rate of these variables.

From the entire research study, overall all financial performance of NIB is better than NIC. But NIC is also operating smoothly

Similarly, NIC and NIB are adopting passive investment policy. Commercial banks are not providing investment priority to the rural sectors but being a developing country it is very necessary to give investment priority to the rural area. Therefore, the banks should formulate sound investment policies which can minimize interest rate spread and non-performing assets. Good investment policy ensures maximum amount of investment to all sectors with proper utilization.

### **5.3 Recommendations**

On the basis of entire research study, analysis and observation, the following recommendations are given to NIC bank and NIB bank is presented below, which would help to draw some outline and make reforms in the respective banks.

#### **Better Liquidity Position**

Generally banks have to maintained liquid assets. The current ratio of the two banks, NIC and NIB is near about standard liquidity position. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic

planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. However it is recommended to maintain sound liquidity position to both banks by creating current ratio 2:1.

### **Invest More in Government Securities**

Government securities such as Treasury bills, Development bonds, Saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market.. In this research study, it has found that NIB has not made significant amount of fund in Government securities. NIB is recommended to invest more funds in Government securities instead of keeping them idle.

### **Follow liberal Lending Policy**

To get success in competitive banking environment, deposit must be utilized as loan & advances. The largest item of bank assets side is loan & advances. It has been found in the latest years that NIB's loan & advances to total deposit ratio is lower than that of NIC. It means NIB has not properly used their existing fund as loan & advances in the succeeding years. So NIB is recommended to follow liberal lending policy and to invest more deposit in loan & advances in the latest years.

### **Evaluate Investment Opportunities & Identify Possible Risk**

NIC and NIB have a large possible risk because there is large amount of doubtful loan & advances and risky investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

### **Diagnosis the Causes of Increasing Non-performing Assets**

Non-performing assets are higher in NIC according to the mean ratio whereas we see the latest data it is lower in the NIC than that of NIB. The recovery of loan & advances is most challenging job to the bank. So NIB should diagnosis the root cause of increasing

non-performing assets. The bank should try to analyze thoroughly the financial strength of their borrowers before granting loan and advances.

### **Diagnosis the Cause of Decreasing EPS and DPS**

EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the banks. EPS and DPS of NIB are not satisfactory enough in NIC. So it is recommended to diagnosis the cause of lower EPS and DPS.

### **Formulate Sound and Effective Investment Policy**

Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan & advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.

### **Create New Opportunity for Investing Areas**

Last political instability directly affected the economic sector such as hotel & tourism, manufacturing and trading sector. Bank loan & advances is decreasing in this sector. So banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit.

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## APPENDIXES

### 1. Current Ratio

| Year        | NIC                 |                          |                       | NIB                 |                          |                       |
|-------------|---------------------|--------------------------|-----------------------|---------------------|--------------------------|-----------------------|
|             | Current Assets (Rs) | Current Liabilities (Rs) | Current Ratio (Times) | Current Assets (Rs) | Current Liabilities (Rs) | Current Ratio (Times) |
| 2003/2004   | 5135.93             | 2434.67                  | 2.11                  | 11345.74            | 5570.92                  | 2.04                  |
| 2004/2005   | 6174.00             | 2629.00                  | 2.35                  | 14019.52            | 5580.36                  | 2.51                  |
| 2005/2006   | 7983.00             | 4450.00                  | 1.79                  | 19198.42            | 8667.23                  | 2.22                  |
| 2006/2007   | 9002.00             | 5563.00                  | 1.62                  | 22929.11            | 10545.61                 | 2.17                  |
| 2007/2008   | 11476.00            | 7311.00                  | 1.57                  | 31869.62            | 31430.69                 | 1.01                  |
| <b>Mean</b> |                     |                          | 1.89                  |                     |                          | 1.99                  |
| <b>S.D.</b> |                     |                          | 0.33                  |                     |                          | 0.57                  |
| <b>C.V.</b> |                     |                          | 0.18                  |                     |                          | 0.29                  |

### 2. Cash and bank balance to Total Deposit Ratio:

| Year        | NIC                        |                    |           | NIB                        |                    |           |
|-------------|----------------------------|--------------------|-----------|----------------------------|--------------------|-----------|
|             | Cash and Bank Balance (Rs) | Total Deposit (Rs) | Ratio (%) | Cash and Bank Balance (Rs) | Total Deposit (Rs) | Ratio (%) |
| 2003/2004   | 328.61                     | 5146.48            | 6.39      | 1226.92                    | 11524.68           | 10.65     |
| 2004/2005   | 1010.39                    | 6241.38            | 16.19     | 1340.48                    | 14254.57           | 9.4       |
| 2005/2006   | 749.14                     | 8765.95            | 8.55      | 2335.52                    | 18927.31           | 12.34     |
| 2006/2007   | 599.77                     | 10068.23           | 5.96      | 2441.51                    | 24488.856          | 9.97      |
| 2007/2008   | 1192.35                    | 13084.69           | 9.11      | 3754.94                    | 34452              | 10.89     |
| <b>Mean</b> |                            |                    | 9.24      |                            |                    | 10.65     |
| <b>S.D</b>  |                            |                    | 4.11      |                            |                    | 1.11      |
| <b>C.V</b>  |                            |                    | 0.45      |                            |                    | 0.10      |

### 3. Cash and Bank Balance to Current Assets Ratio

| Year        | NIC                        |                     |           | NIB                        |                     |           |
|-------------|----------------------------|---------------------|-----------|----------------------------|---------------------|-----------|
|             | Cash and Bank Balance (Rs) | Current Assets (Rs) | Ratio (%) | Cash and Bank Balance (Rs) | Current Assets (Rs) | Ratio (%) |
| 2003/2004   | 328.61                     | 5135.93             | 6.40      | 1226.92                    | 11345.74            | 10.81     |
| 2004/2005   | 1010.39                    | 6174.00             | 16.37     | 1340.48                    | 14019.52            | 9.56      |
| 2005/2006   | 749.14                     | 7983.00             | 9.38      | 2335.52                    | 19198.42            | 12.17     |
| 2006/2007   | 599.77                     | 9002.00             | 6.66      | 2441.51                    | 22929.11            | 10.65     |
| 2007/2008   | 1192.35                    | 11476.00            | 10.39     | 3754.94                    | 31869.62            | 11.78     |
| <b>Mean</b> |                            |                     | 9.84      |                            |                     | 10.99     |
| <b>S.D</b>  |                            |                     | 4.03      |                            |                     | 1.03      |
| <b>C.V</b>  |                            |                     | 0.41      |                            |                     | 0.09      |

### 4. Investment on Government Securities to Current Assets Ratio

| Year        | NIC                                     |                |           | NIB                                     |                |           |
|-------------|---|----------------|-----------|---|----------------|-----------|
|             | Investment on Government treasury bills | Current Assets | Ratio (%) | Investment on Government treasury bills | Current Assets | Ratio (%) |
| 2003/2004   | 1235.28                                 | 5135.93        | 24.05     | 2001.10                                 | 11345.74       | 17.64     |
| 2004/2005   | 1194.31                                 | 6174.00        | 19.34     | 1948.50                                 | 14019.52       | 13.90     |
| 2005/2006   | 1756.58                                 | 7983.00        | 22.00     | 2522.30                                 | 19198.42       | 13.14     |
| 2006/2007   | 1104.06                                 | 9002.00        | 12.26     | 3256.40                                 | 22929.11       | 14.20     |
| 2007/2008   | 1545.38                                 | 11476.00       | 13.47     | 3155.00                                 | 31869.62       | 9.90      |
| <b>Mean</b> |   |                | 18.28     |   |                | 13.76     |
| <b>S.D.</b> |   |                | 5.19      |   |                | 2.76      |
| <b>C.V.</b> |   |                | 0.28      |   |                | 0.20      |

### 5. Loan and Advance to Total Deposit Ratio

| Year        | NIC                  |                    |           | NIB                  |                    |           |
|-------------|----------------------|--------------------|-----------|----------------------|--------------------|-----------|
|             | Loan & Advances (Rs) | Total Deposit (Rs) | Ratio (%) | Loan & Advances (Rs) | Total Deposit (Rs) | Ratio (%) |
| 2003/2004   | 3561.14              | 5146.48            | 69.20     | 7338.57              | 11524.68           | 63.68     |
| 2004/2005   | 4711.71              | 6241.38            | 75.49     | 10453.16             | 14254.57           | 73.33     |
| 2005/2006   | 6655.96              | 8765.95            | 75.93     | 13178.15             | 18927.31           | 69.63     |
| 2006/2007   | 8941.40              | 10068.23           | 88.81     | 17769.10             | 24488.86           | 72.56     |
| 2007/2008   | 11264.68             | 13084.69           | 86.09     | 27529.31             | 34451.73           | 79.91     |
| <b>Mean</b> |                      |                    | 79.10     |                      |                    | 71.82     |
| <b>S.D.</b> |                      |                    | 8.13      |                      |                    | 5.90      |
| <b>C.V.</b> |                      |                    | 0.10      |                      |                    | 0.08      |

### 6. Total Investment to Total Deposit Ratio

| Year        | NIC                   |                    |           | NIB                   |                    |           |
|-------------|-----------------------|--------------------|-----------|-----------------------|--------------------|-----------|
|             | Total Investment (Rs) | Total Deposit (Rs) | Ratio (%) | Total Investment (Rs) | Total Deposit (Rs) | Ratio (%) |
| 2003/2004   | 1760.72               | 5146.48            | 34.21     | 3862.48               | 11524.68           | 33.51     |
| 2004/2005   | 1572.90               | 6241.38            | 25.20     | 3934.19               | 14254.57           | 27.60     |
| 2005/2006   | 2479.91               | 8765.95            | 28.29     | 5602.87               | 18927.31           | 29.60     |
| 2006/2007   | 1599.48               | 10068.23           | 15.89     | 6505.68               | 24488.86           | 26.57     |
| 2007/2008   | 2311.47               | 13084.69           | 17.67     | 6874.02               | 34451.73           | 19.95     |
| <b>Mean</b> |                       |                    | 24.25     |                       |                    | 27.45     |
| <b>S.D.</b> |                       |                    | 7.58      |                       |                    | 4.96      |
| <b>C.V.</b> |                       |                    | 0.32      |                       |                    | 0.18      |

### 7. Loan & Advances to Total Assets Ratio

| Year        | NIC                  |                   |           | NIB                  |                   |           |
|-------------|----------------------|-------------------|-----------|----------------------|-------------------|-----------|
|             | Loan & Advances (Rs) | Total Assets (Rs) | Ratio (%) | Loan & Advances (Rs) | Total Assets (Rs) | Ratio (%) |
| 2003/2004   | 3561.14              | 5939.37           | 59.96     | 7338.57              | 13463.94          | 54.51     |
| 2004/2005   | 4711.71              | 7508.07           | 62.76     | 10453.16             | 16390.65          | 63.78     |
| 2005/2006   | 6655.96              | 10383.60          | 64.10     | 13178.15             | 21330.14          | 61.78     |
| 2006/2007   | 8941.40              | 11679.34          | 76.56     | 17769.10             | 27590.84          | 64.40     |
| 2007/2008   | 11264.69             | 15238.74          | 73.92     | 27529.31             | 38873.31          | 70.82     |
| <b>Mean</b> |                      |                   | 67.46     |                      |                   | 63.06     |
| <b>S.D.</b> |                      |                   | 7.32      |                      |                   | 5.86      |
| <b>C.V.</b> |                      |                   | 0.11      |                      |                   | 0.09      |

### 8. Investment on Government Securities to Total Assets ratio

| Year        | NIC                                     |             |           | NIB                                     |                   |           |
|-------------|---|-------------|-----------|---|-------------------|-----------|
|             | Investment on Government treasury bills | Total Asset | Ratio (%) | Investment on Government treasury bills | Total Assets (Rs) | Ratio (%) |
| 2003/2004   | 1235.28                                 | 5939.37     | 20.80     | 2001.10                                 | 13463.94          | 14.86     |
| 2004/2005   | 1194.31                                 | 7508.07     | 15.91     | 1948.50                                 | 16390.65          | 11.89     |
| 2005/2006   | 1756.58                                 | 10383.60    | 16.92     | 2522.30                                 | 21330.14          | 11.83     |
| 2006/2007   | 1104.06                                 | 11678.83    | 9.45      | 3256.40                                 | 27590.84          | 11.80     |
| 2007/2008   | 1545.38                                 | 15238.74    | 10.14     | 3155.00                                 | 38873.31          | 8.12      |
| <b>Mean</b> |   |             | 14.64     |   |                   | 11.70     |
| <b>S.D.</b> |   |             | 4.79      |   |                   | 2.39      |
| <b>C.V.</b> |   |             | 0.33      |   |                   | 0.21      |

### 9. Return on Loan & advances

| Year        | NIC            |                 |           | NIB            |                 |           |
|-------------|----------------|-----------------|-----------|----------------|-----------------|-----------|
|             | Net Profit(Rs) | Loan & Advances | Ratio (%) | Net Profit(Rs) | Loan & Advances | Ratio (%) |
| 2003/2004   | 68.26          | 3561.14         | 1.92      | 152.67         | 7338.57         | 2.08      |
| 2004/2005   | 113.76         | 4711.71         | 2.41      | 232.15         | 10453.16        | 2.22      |
| 2005/2006   | 96.59          | 6655.96         | 1.45      | 350.53         | 13178.15        | 2.66      |
| 2006/2007   | 158.48         | 8941.40         | 1.77      | 501.40         | 17286.43        | 2.82      |
| 2007/2008   | 243.06         | 11264.68        | 2.16      | 696.73         | 26996.65        | 2.58      |
| <b>Mean</b> |                |                 | 1.94      |                |                 | 2.47      |
| <b>S.D.</b> |                |                 | 0.37      |                |                 | 0.31      |
| <b>C.V.</b> |                |                 | 0.19      |                |                 | 0.12      |

### 10. Return on Total Assets

| Year        | NIC            |                   |           | NIB            |                   |           |
|-------------|----------------|-------------------|-----------|----------------|-------------------|-----------|
|             | Net Profit(Rs) | Total Assets (Rs) | Ratio (%) | Net Profit(Rs) | Total Assets (Rs) | Ratio (%) |
| 2003/2004   | 68.26          | 5939.37           | 1.15      | 152.67         | 13463.94          | 1.13      |
| 2004/2005   | 113.76         | 7508.07           | 1.52      | 232.15         | 16390.65          | 1.42      |
| 2005/2006   | 96.59          | 10383.60          | 0.93      | 350.53         | 21330.14          | 1.61      |
| 2006/2007   | 158.48         | 11678.83          | 1.36      | 501.40         | 27590.84          | 1.82      |
| 2007/2008   | 243.06         | 15238.74          | 1.60      | 696.73         | 38863.31          | 1.79      |
| <b>Mean</b> |                |                   | 1.31      |                |                   | 1.56      |
| <b>S.D.</b> |                |                   | 0.27      |                |                   | 0.29      |
| <b>C.V.</b> |                |                   | 0.21      |                |                   | 0.18      |

### 11. Return on Equity

| Year        | NIC             |              |                  | NIB             |                           |           |
|-------------|-----------------|--------------|------------------|-----------------|---------------------------|-----------|
|             | Net Profit (Rs) | No. of Share | Rupees Per Share | Net Profit (Rs) | Total Equity Capital (Rs) | Ratio (%) |
| 2003/2004   | 68.26           | 620.40       | 11.00            | 152.67          | 729.05                    | 20.94     |
| 2004/2005   | 113.76          | 684.19       | 16.63            | 232.15          | 1180.17                   | 19.67     |
| 2005/2006   | 96.59           | 766.46       | 12.60            | 350.54          | 1415.44                   | 24.77     |
| 2006/2007   | 158.48          | 917.99       | 17.26            | 501.40          | 1878.12                   | 26.70     |
| 2007/2008   | 243.06          | 1303.43      | 18.65            | 698.67          | 2686.79                   | 26.00     |
| <b>Mean</b> |                 |              | 15.23            |                 |                           | 23.62     |
| <b>S.D.</b> |                 |              | 3.26             |                 |                           | 3.13      |
| <b>C.V.</b> |                 |              | 0.21             |                 |                           | 0.13      |

### 12. Total Interest Earned to Total Assets Ratio

| Year        | NIC                        |                   |           | NIB                        |                   |           |
|-------------|----------------------------|-------------------|-----------|----------------------------|-------------------|-----------|
|             | Total Interest Earned (Rs) | Total Assets (Rs) | Ratio (%) | Total Interest Earned (Rs) | Total Assets (Rs) | Ratio (%) |
| 2003/2004   | 363.04                     | 5939.37           | 6.11      | 731.45                     | 13463.94          | 5.43      |
| 2004/2005   | 457.61                     | 7508.07           | 6.09      | 868.83                     | 16390.65          | 5.30      |
| 2005/2006   | 579.98                     | 10383.60          | 5.59      | 1172.74                    | 21330.14          | 5.50      |
| 2006/2007   | 725.82                     | 11678.83          | 6.21      | 1584.99                    | 27590.84          | 5.74      |
| 2007/2008   | 931.40                     | 15238.74          | 6.11      | 2198.28                    | 38873.31          | 5.65      |
| <b>Mean</b> |                            |                   | 6.02      |                            |                   | 5.53      |
| <b>S.D.</b> |                            |                   | 0.25      |                            |                   | 0.17      |
| <b>C.V.</b> |                            |                   | 0.04      |                            |                   | 0.03      |

### 13. Total Interest Earned To Total outside Assets Ratio

| Year        | NIC                         |                     |           | NIB                         |                   |           |
|-------------|-----------------------------|---------------------|-----------|-----------------------------|-------------------|-----------|
|             | Total Interest Earned ( Rs) | Total outside asset | Ratio (%) | Total Interest Earned ( Rs) | Total Assets (Rs) | Ratio (%) |
| 2003/2004   | 363.04                      | 5321.86             | 6.82      | 731.45                      | 13463.94          | 6.53      |
| 2004/2005   | 457.61                      | 6284.61             | 7.28      | 868.83                      | 16390.65          | 6.04      |
| 2005/2006   | 579.98                      | 9135.87             | 6.35      | 1172.74                     | 21330.14          | 6.24      |
| 2006/2007   | 725.82                      | 10540.88            | 6.89      | 1584.99                     | 27590.84          | 6.53      |
| 2007/2008   | 931.40                      | 13576.15            | 6.86      | 2198.28                     | 38873.31          | 6.39      |
| <b>Mean</b> |                             |                     | 6.84      |                             |                   | 6.35      |
| <b>S.D.</b> |                             |                     | 0.33      |                             |                   | 0.21      |
| <b>C.V.</b> |                             |                     | 0.05      |                             |                   | 0.03      |

### 14. Total interest Earned to Total Operating Income Ratio

| Year        | NIC                  |                  |           | NIB                  |                  |           |
|-------------|----------------------|------------------|-----------|----------------------|------------------|-----------|
|             | Interest Earned( Rs) | Operating Income | Ratio (%) | Interest Earned( Rs) | Operating Income | Ratio (%) |
| 2003/2004   | 363.04               | 233.12           | 155.73    | 731.45               | 587.00           | 226.44    |
| 2004/2005   | 457.61               | 292.51           | 156.44    | 868.83               | 753.89           | 183.29    |
| 2005/2006   | 579.98               | 314.84           | 184.21    | 1172.74              | 595.49           | 171.5     |
| 2006/2007   | 725.82               | 410.91           | 176.64    | 1584.99              | 1246.03          | 184.95    |
| 2007/2008   | 931.40               | 546.34           | 170.48    | 2198.28              | 1649.62          | 190.97    |
| <b>Mean</b> |                      |                  | 168.70    |                      |                  | 191.42    |
| <b>S.D.</b> |                      |                  | 12.50     |                      |                  | 20.82     |
| <b>C.V.</b> |                      |                  | 0.07      |                      |                  | 0.109     |

### 15. Total Interest Paid to Total Assets Ratio

| Year        | NIC                       |                   |           | NIB                       |                   |           |
|-------------|---------------------------|-------------------|-----------|---------------------------|-------------------|-----------|
|             | Total Interest Paid ( Rs) | Total Assets (Rs) | Ratio (%) | Total Interest Paid ( Rs) | Total Assets (Rs) | Ratio (%) |
| 2003/2004   | 183.58                    | 5939.37           | 3.09      | 326.20                    | 13463.94          | 2.42      |
| 2004/2005   | 225.99                    | 7508.07           | 3.01      | 354.55                    | 16390.65          | 2.16      |
| 2005/2006   | 340.22                    | 10383.60          | 3.28      | 490.95                    | 21330.14          | 2.30      |
| 2006/2007   | 421.37                    | 11678.83          | 3.61      | 658.53                    | 27590.84          | 2.39      |
| 2007/2008   | 506.00                    | 15238.74          | 3.32      | 992.16                    | 38873.31          | 2.55      |
| <b>Mean</b> |                           |                   | 3.26      |                           |                   | 2.37      |
| <b>S.D.</b> |                           |                   | 0.23      |                           |                   | 0.15      |
| <b>C.V.</b> |                           |                   | 0.07      |                           |                   | 0.06      |

### 16. Credit Risk Ratio

| Year      | NIC                 |                   |  | NIB                 |                   |  |
|-----------|---------------------|-------------------|--|---------------------|-------------------|--|
|           | Non-performing loan | Loan and advances | Non-performing loan to loan and advances (%) | Non-performing loan | Loan and advances | Non-performing loan to loan and advances (%) |
| 2003/2004 | 146.59              | 3561.14           | 4.12   | 181.26              | 7338.57           | 2.47   |
| 2004/2005 | 185.43              | 4711.71           | 3.94   | 281.19              | 10453.16          | 2.69   |
| 2005/2006 | 179.55              | 6655.96           | 2.70   | 272.79              | 13178.15          | 2.07   |
| 2006/2007 | 101.14              | 8941.40           | 1.13   | 409.69              | 17286.43          | 2.37   |

|             |       |          |      |        |          |      |
|-------------|-------|----------|------|--------|----------|------|
| 2007/2008   | 98.17 | 11264.88 | 0.87 | 309.47 | 26996.65 | 1.15 |
| <b>Mean</b> |       |          | 2.55 |        |          | 2.15 |
| <b>S.D.</b> |       |          | 1.52 |        |          | 0.61 |
| <b>C.V.</b> |       |          | 0.60 |        |          | 0.29 |

#### 17. Total loan loss provision to NPL

| Year        | NIC                 |        |           | NIB                 |        |           |
|-------------|---------------------|--------|-----------|---------------------|--------|-----------|
|             | Loan loss provision | NPL    | Ratio (%) | Loan loss provision | NPL    | Ratio (%) |
| 2003/2004   | 181.95              | 146.59 | 124.12    | 91.09               | 181.26 | 113.70    |
| 2004/2005   | 197.64              | 185.43 | 106.58    | 140.41              | 281.19 | 116.46    |
| 2005/2006   | 246.16              | 179.55 | 137.10    | 103.81              | 272.79 | 147.51    |
| 2006/2007   | 187.25              | 101.14 | 185.14    | 129.72              | 409.69 | 114.38    |
| 2007/2008   | 200.66              | 98.17  | 204.40    | 135.99              | 309.47 | 172.17    |
| <b>Mean</b> |                     |        | 151.47    |                     |        | 132.84    |
| <b>S.D.</b> |                     |        | 41.55     |                     |        | 26.15     |
| <b>C.V.</b> |                     |        | 0.27      |                     |        | 0.20      |

#### 18. Liquidity Risk Ratio

| Year        | NIC                      |                    |           | NIB                      |                    |           |
|-------------|--------------------------|--------------------|-----------|--------------------------|--------------------|-----------|
|             | Cash & Bank Balance (Rs) | Total Deposit (Rs) | Ratio (%) | Cash & Bank Balance (Rs) | Total Deposit (Rs) | Ratio (%) |
| 2003/2004   | 328.61                   | 5146.48            | 6.39      | 1226.92                  | 11524.68           | 10.65     |
| 2004/2005   | 1010.39                  | 6241.38            | 16.19     | 1340.48                  | 14254.57           | 9.40      |
| 2005/2006   | 749.14                   | 8765.95            | 8.55      | 2335.52                  | 18927.31           | 12.34     |
| 2006/2007   | 599.77                   | 10068.23           | 5.96      | 2441.51                  | 24488.86           | 9.97      |
| 2007/2008   | 1192.35                  | 13084.69           | 9.11      | 3754.94                  | 34451.73           | 10.90     |
| <b>Mean</b> |                          |                    | 9.24      |                          |                    | 10.65     |

|      |  |  |      |  |  |      |
|------|--|--|------|--|--|------|
| S.D. |  |  | 4.11 |  |  | 1.11 |
| C.V. |  |  | 0.45 |  |  | 0.10 |

### 19. Asset Risk Ratio:

| Year        | NIC                 |             |   | NIB                 |             |  |
|-------------|---------------------|-------------|---|---------------------|-------------|--|
|             | Non-performing loan | Total Asset | Non-performing asset to Total Asset (%) | Non-performing loan | Total Asset | Non-performing loan to Total Asset (%) |
| 2003/2004   | 146.59              | 5939.37     | 2.75                                    | 181.26              | 13463.94    | 1.61                                   |
| 2004/2005   | 185.43              | 7508.07     | 2.95                                    | 281.19              | 16390.65    | 1.95                                   |
| 2005/2006   | 179.55              | 10383.60    | 1.97                                    | 272.79              | 21330.14    | 1.45                                   |
| 2006/2007   | 101.14              | 11678.83    | 0.96                                    | 409.69              | 27590.84    | 1.68                                   |
| 2007/2008   | 98.17               | 15238.74    | 0.72                                    | 309.47              | 38873.31    | 0.89                                   |
| <b>Mean</b> |                     |             | 1.87                                    |                     |             | 1.52                                   |
| <b>S.D.</b> |                     |             | 1.01                                    |                     |             | 0.39                                   |
| <b>C.V.</b> |                     |             | 0.54                                    |                     |             | 0.25                                   |

### 20. Earning Per Share

| Year | NIC              |               |            | NIB          |                            |           |
|------|------------------|---------------|------------|--------------|----------------------------|-----------|
|      | Profit after tax | No. of common | EPS(in Rs) | Net Profit ( | Total Equity Capital ( Rs) | Ratio (%) |

|             |        | shares |       | Rs)    |        |       |
|-------------|--------|--------|-------|--------|--------|-------|
| 2003/2004   | 68.26  | 5      | 13.65 | 152.67 | 29.53  | 51.7  |
| 2004/2005   | 113.76 | 5      | 22.75 | 232.15 | 58.77  | 39.5  |
| 2005/2006   | 96.59  | 6      | 16.10 | 350.53 | 59.06  | 59.35 |
| 2006/2007   | 158.48 | 6.60   | 24.01 | 501.4  | 80.13  | 62.57 |
| 2007/2008   | 243.06 | 9.44   | 25.75 | 696.73 | 120.39 | 57.89 |
| <b>Mean</b> |        |        | 20.45 |        |        | 54.20 |
| <b>S.D.</b> |        |        | 5.27  |        |        | 9.12  |
| <b>C.V.</b> |        |        | 0.26  |        |        | 0.17  |

## 21. Dividend per Share including bonus share

| Year        | NIC   | NIB   |
|-------------|-------|-------|
|             | DPS   | DPS   |
| 2003/2004   | 0     | 15    |
| 2004/2005   | 30    | 12.25 |
| 2005/2006   | 10.53 | 55.46 |
| 2006/2007   | 21.05 | 30.   |
| 2006/2007   | 21.05 | 40.83 |
| <b>Mean</b> | 16.53 | 27.71 |
| <b>S.D.</b> | 11.52 | 22.10 |
| <b>C.V.</b> | 0.70  | 0.80  |

## 22. Market Price per Share

| Year | NIC | NIB |
|------|-----|-----|
|      | MPS | MPS |

|             |        |         |
|-------------|--------|---------|
| 2003/2004   | 218    | 940     |
| 2004/2005   | 366    | 800     |
| 2005/2006   | 496    | 1260    |
| 2006/2007   | 950    | 1729    |
| 2006/2007   | 1248   | 2450    |
| <b>Mean</b> | 655.60 | 1435.80 |
| <b>S.D.</b> | 429.66 | 669.98  |
| <b>C.V.</b> | 0.66   | 0.47    |

### 23. Price Earning Ratio

| Year        | NIC          |            |                                | NIB          |            |                                |
|-------------|--------------|------------|--------------------------------|--------------|------------|--------------------------------|
|             | EPS (in Rs ) | MPS(in Rs) | Price earning ratio( in times) | EPS (in Rs ) | MPS(in Rs) | Price earning ratio( in times) |
| 2003/2004   | 13.65        | 218        | 15.97                          | 51.7         | 940        | 18.18                          |
| 2004/2005   | 22.75        | 366        | 16.09                          | 39.5         | 800        | 20.25                          |
| 2005/2006   | 16.10        | 496        | 30.81                          | 59.35        | 1260       | 21.23                          |
| 2006/2007   | 24.01        | 950        | 39.56                          | 62.57        | 1729       | 27.63                          |
| 2007/2008   | 25.75        | 1248       | 49.86                          | 57.89        | 2450       | 42.32                          |
| <b>Mean</b> |              |            | 30.46                          |              |            | 25.93                          |
| <b>S.D.</b> |              |            | 14.80                          |              |            | 9.83                           |
| <b>C.V.</b> |              |            | 0.49                           |              |            | 0.38                           |