FINANCIAL PERFORMANCE OF NEPAL BANK LIMITED

NEPAL

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July, 2009

RECOMMENDATION

This is to certify that the thesis

Submitted by

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Entitled

Financial Performance of Nepal Bank Limited (NBL)

has been prepared as approved by this department in the prescribed format of faculty of management. This thesis is forwarded for evaluation.

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VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the

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Financial Performance of Nepal Bank Limited (NBL)

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

Master Degree in Business Studies (MBS)

VIVA-VOCE COMMITTEE

Chairperson, Research Committee: ……………………….

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DECLARATION

I hereby proclaim that the thesis work entitled 'Financial Performance of Nepal Bank Limited' submitted to Balkumari College, faculty of Management, Tribhuvan University is my original work for the partial fulfillment of the requirement for the Master's Degree of Business studies (M.B.S.) under the supervision of Mr. Babu Ram Panthi lecturer (Chair Person Research Committee) of Balkumari College Narayangarh Chitwan.

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Bharatpur, Chitwan

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ABBREVIATIONS

A. D.	-	Anno Domini
AMC	-	Assets Management Company
ANG	-	Austrialia and New Zeeland Banking Group
B.S.	-	Bikram Sambat
C.A.	-	Current Assets
C.R.	-	Current Ratio
C.V.	-	Coefficient of Variation
D/P Ratio	-	Dividend Payout Ratio
DPS	-	Dividend per Share
EBIT	-	Earning Before Interest and Tax
EPS	-	Earning Per Share
F.D.	-	Fixed Deposit
F.Y.	-	Fiscal Year
GDP	-	Gross Domestic Product
HBL	-	Himalayan Bank Limited
IAS	-	International Accounting Standard
J.V.P.	-	Joint Venture Bank
L & A	-	Loan and Advance
NABIL	-	Nepal Arab Bank Limited
NBL	-	Nepal Bank Limited
NGBL	-	Nepal Griendlays Bank Limited.
NPA	-	Non Performing Assets
NPAT	-	Net Profit After Tax
NRB	-	Nepal Rastra Bank
P.E.	-	Probable Error
PBT	-	Profit Before Tax
r	-	Correlation
r^2	-	Coefficient of Determination
RBB	-	Rastriya Banijya Bank
ROE	-	Return on Net worth
Rs.	-	Rupess (Nepali Currency)
S.D.	-	Standard Deviation
T.D.	-	Total Deposit
T.U.	-	Tribhuvan University

CHAPTER-ONE

INTRODUCTION

1.1 General Background:

A Bank is the company that provides financial services. There are a number of banks available and which one to use really comes down to the one with which people feel most comfortable. Their services range from providing a facility to save money to provide loan and provide credit cards and stock market brokering. The word “Bank” is used in the sense of a commercial bank. It is of Germanic Origin though some persons trace its origin to the French word “Banqui” and the Italian word “Banca”. It referred to a bench for kipping, lending and exchanging money or coins in the market place by money lenders and money changers. There was no such as “Banking” before 1640, although the practice of self-keeping and savings flourished in the temple of Babylon as early as 200 B.C. Chanakya in his Arthashastra written in about 300 B.C. mentioned about the existence of powerful guilds of merchant bankers who received deposits, advanced loans and issued hundies. The Jain scriptures mention the names of two Bankers who built the famous Dilwara Temples of Mount Abu during 1197and 1247 A.D.

The first bank called the “Bank of Venice” was established in Venice, Italy in 1157 to Finance the monarch in this war. In bankers of Combardy were famous in England. But the modern banking began with the English goldsmiths only after 1640. The first bank in Nepal “Nepal Bank Ltd.” Started in 1994 B.S. Nepal Rastra Bank (NRB), the central bank of Nepal, was established in 1956 to discharge the Central Banking responsibilities including guiding the development of the embryonic domestic financial sector. Since then, there has been the activities of the domestic financial institutions.

1.1.1 Brief Introduction of Nepal Bank Ltd.

No bank was operated in the country before 1994. No provision was made in the old commercial bank act. which facilitate for private and joint venture banks.

The new commercial bank act 1974 has however made provision to permit foreign banks to operate in the country after the approval of the Nepal Rastra Bank. Govt. of Nepal brought about the reform in financial sector. Hence a number of joint venture banks come into existence. Nepal bank Ltd (NBL) is the first commercial bank, which was establish in 1994 B.S. it is mixed economy bank in its ownership. It was established with an authorized capital of Rs 10 million and paid up capital of Rs 0.842 million. But now it has more than Rs. 1000 million authorized capital. It's issued and paid up capital are 500 million and Rs 380.3 million respectively. In this bank 2976 employees are working now, It has 109 branches including one head office in Kathmandu.

Table No. 1.1

Share Subscription and Capital Structure of NBL

Subscription	% Holding
Government of Nepal	41.8%
General public	49%
Employee	9.2%
Total	**100%**

Sources of www.nepalbank.com.np

1.2 Statement of the Problem

Capital formation and its proper mobilization are the major problems in almost on under developed countries in such countries, the commercial banks have to shoulder more responsibilities in the economic development of the country.

NBL have succeeded to capture a considerable market share of Nepalese financial service industry. Because, NBL has an experience of a long period, professional attitude and computerized services. But at present time, many financial institutions might adversely affect these banks.

Following are the major problem that have been identifying for the purpose of this study.

1. What is financial position of NBL?
2. What is the liquidity position of NBL?
3. What is the relationship of investment, loan and advance with total deposits and net profit?
4. What is the growth & trend of financial position of NBL?

1.3 Objectives of the Study:

The basic objective of this study is to make financial performance of NBL. The following are the specific objectives of this study.

1. To analyze the financial position of NBL.
2. To analyze the liquidity, profitability assets utilization of NBL.
3. To analyze the relationship e.g. investment, loan and advances with deposit and profitability.
4. To analyze the growth and trend of financial position of NBL.

1.4 Significance of the Study

The present study is the critical analysis of financial performance of NBL. The NBL is managed by semi government to provide financial services to the rural and urban population to stimulate income and generate employment in remote and urban areas. This study will find the strength and weakness of the bank by analyzing the opportunities and threats of loan management in the real ground. This study will also be an important support to the management, owner, clients and other interest groups in analyzing the Bank's economic strength and performance efficiency. As it is a well known fact that the commercial Banks can affect the economic condition of the whole country. It will be helpful to the policy maker while formulating the policy regarding NBL and people can understand how benefit it taking by them from the semi government Banks. This study specially evaluates the NPA situation and also provides the ideas in order to control it.

1.5 Limitation of Study

The limitations of this study are as follow:

- This study is mainly confident to financial performance of NBL.
- This study is mostly based on the published financial statement of NBL and Nepal Rastra bank (NRB) along with other related journals, newspapers, magazines bulletins, text books etc.
- The data shown in this study is covers 5 years' study from 2060/61 to 2064/65 time factor is major limitation of this study, because of this study is completed with in a short period of time.

1.6 Organization of the Study

The study of financial performance of NBL is presented in organized form. The whole research report has been divided into five chapter. They are as given below:

1. **Introduction:**

   The first chapter consists of introduction, focus of the study, statement of problem, objectives of the study, significance of the study, research methodology and limitation of this study.

2. **Review of literature:**

   The second chapter is deals conceptual framework, mainly concept of commercial banks, role and functions of commercial banks and review of related past thesis.

3. **Research methodology:**

   The third chapter to research methodology which consists of research design, population and sample, sources and types of data, data collection and processing procedure, population and sample and tools of hypothesis, financial ratio analysis.

4. **Presentation and analysis of data:**

   The forth chapter focuses the presentation and analysis of data. This consists of analysis of ratio relating to deposits credit and investment. Similarly statistical tools such as correlation coefficient, average, standard deviation, coeff. of variation and text of hypothesis are used wherever and whenever to twinkle the research work.

5. **Summary, Recommendation and Conclusion:**

   Lastly, this chapter summarized the whole study and status main finding and after recommendation for the improvement in future to the banks and interested group, Bibliography and appendix will also be shown at the end of the study.

CHAPTER-TWO

REVIEW OF LITERATURE

2.1 Introduction

The first chapter highlighted the concept, problems and objectives of this study. This chapter is basically concerned with review of literature relevant to the financial performance of Nepal Bank Ltd. (NBL). The main purpose of this chapter is to review the available literature on financial performance of financial institutions. Thus, authentic and honest attempts are being made to highlight the gist relating with the concerned topic from various books, newspapers, magazines, research articles as well as past thesis. To ensure the precise, lucid and concrete views about the stated topic, the entire review work is portrayed in the point wise breakdown as given below.

2.2 Conceptual Review:

It encompasses the review of text books and other reference materials such as newspapers, magazines, research articles and journals besides past thesis.

2.2.1 Historical Development of Banking System in Nepal:

The word bank is derived from the Italian word banco which means a bench on which the merchants of Italy put on different types of currencies to show that they transact their business. In French language people used to call it banque and Englishmen did bank.

The history of the modern commercial bank starts from lending and borrowing of money through the gold smiths merchants and the money lenders. First of all the beginning of the modern banking system in the world starts from the bank of Venice which was the first public banking institution established in 1157. It inspire other countries too to open banking institution like the bank of Barcelona (established in 1410); the bank of Genoa (in 1407), the bank of Amsterdam established in Holland (in 1607). The bank of Amsterdam occupied a very important role in 17th century. Similarly, Banque de Frenqe was founded in 1800. In 1850 the national park of Belgium came into existence.

Due to the lack of past historical records on banking it is quite impossible to give a correct chronological history of development of bank in Nepal. However the history of the development of banking and currency in Nepal dates back to the fifth century i.e. in the Lichhavi period when the first coin were minted it is known from the history that Guna Kama Dev Rebuitt Kathmandu in 723 B.S. with public borrowing. After 97 years a merchant Shankhadhar interpreted Nepali Sambat by clearing the public debt these instances reveal that money lending was prevalent even before 8th Century.

Development of banking and currencies in Nepal became more consistent after the Gorkha conquest in 1768 B.S. the first Rana Prime Minister Shree Jang Bahadur brought the diplomatic relation of Nepal with the western world especially with Britain. One of his younger brother Rannadip Singh got interested in the problem. Tejarath Adda was established in 1980 it used to lend the public the money on security of gold silver and other precious metals.

Nepal Bank Ltd. the first commercial bank of Nepal was established in 1937 A.D. (30th Kartik 1994) as a semi government organization which solved to the great extent the problem of commercial banking in Nepal. It replaces Tejarath Adda. In this way Nepalese banking history has begun systematically. At that time this bank had Rs. 10 million authorized capital and Rs. 0.842 million paid up capital private shareholders had majority ownership of this bank. Government had very insignificant amount of share till 1051 ad govt. of Nepal held control over the bank management by increasing its share up to 51% of the, total share capital in 1952.

Nepal Rastra Bank was established in 1956 A.D. under the Nepal Rastra Bank Act. 1955. It marked another milestone in the history of the banking development in Nepal Rastriya Banijya Bank was established on 23, 1966 A.D. under a special Charter Ac, Rastriaya Banijya Bank Act 1965. It was set up in the public sector with Rs. 10 million authorized capitla and Rs. 2.5 million paid up capital. In Nepal, the establishment of agriculture development bank was another significant achievement. It was set up in 1968 A.D. with an authorized capital of Rs. 50 million.

Government introduced financial sector reforms in 1980s through structural adjustment policy. Govt. of Nepal allowed private sector (both domestic and foreign) to enter into the banking business to bring about the competition among financial institution and increase the foreign investment. As the result of the Nepal Arab Bank Ltd. (NABIL) was established in 1984 this bank as the first joint venture bank (JVB) of the country, was established with a view to encourage efficient banking services which is a preconditioned for the economic development industrialization and growth of the country. It is registered under the company act 2021 and executes its work in accordance with commercial bank act 2031. It commenced the operation on 12 July 1984 with Rs. 100 million authorized capita, Rs. 50 million issued Capital and Rs. 30 million paid up capital national bank of Bangladesh financial institution of Nepal and general people have 50%, 20% and 30% share in this bank respectively.

Nepal Indosuez Bank Ltd. (NIBL) was established in 1986 with a joint ownership of Indosuez Bank of Paris (50%) Rastriya Banijya Bank (15%) National Insurance Corporation (15%) and Nepalese general people (20%). It was registered on 21 January 1986 and commenced operation on 27 February 1986 with Rs. 120 million authorized capital Rs. 60 million issued capital and Rs. 30 million paid up capital.

Nepal Griendlays Bank Ltd.(NGBL) now call standard charted bank is the sixth commercial bank in Nepal and the third joint venture bank. It was established and aperated in 1987 with an authorized capital of Rs 100 million issued capital of Rs 50 million and paid up capital of Rs 50% paid up capital has shared by Griendlays bank. London 85% by Nepal bank Ltd. And Remaining 15% by general public This is executed under the direction of Australia and New Zeeland banking group (ANG)

No foreign bank was operated in the country before 1984 there was no provision made in the commercial bank act 2031 that facilitates the entry or the foreign banks into the financial system of Nepal. How ever, it has permitted foreign banks to operate in the country by obtaining the approval of Nepal Rastra Bank. The number of joint venture banks grew dramatically with the introduction of liberal and market oriented economic policy.

Himalayan Bank Ltd. (20% share owned by Habiib Bank Pakistan) was established under the Company Act 1964 in 1992 A.D. (2049 B.S.). Its operation started from 1993, February with the paid up capital Rs. 60 million. Its joint venture partner is Habib Bank Ltd. Pakistan.

Nepal Everest Bank Ltd. (20% Shares owned by the Punjab National Bank of India) started its operation in 2051 B.S. It entered into joint venture with Punjab National Bank India in January 1997 only.

Nepal SBI Bank Ltd. (50% share owned by State Bank of India) is a joint venture between employees provident fund and State Bank of India. The initial paid up capital of the Bank was Rs. 119.95 million in 2050 B.S.

Nepal Bangladesh Bank Ltd. (50% share owned by International Finance Investment of Commercial Bank Ltd. Dhaka) was established in 2051 B.S. in technical collaboration with I.F.C.I. Bank of Bangladesh.

Bank of Kathmandu Ltd. (50% share owned by the Siam Commercial Bank Thailand) who established as a joint venture with Syam Bank of Thailand during the year 2051.

Concept of Commercial Bank:

Commercial banks are that financial institutions which deal in accepting deposit of persons and institutions and giving loans against securities. They provide working capital needs of trade, industry even to agriculture sector. More ever, commercial banks also provide technical and administrative assistance to industries, trades and business enterprises.

The American Institute of Banking has laid down the four major function of the commercial bank such as receiving and handling deposits, handling payments for its clients, making loans and investments and creating money by extension of credit. Commercial banks are one, which exchanges money deposit, accepts deposit, grants loan and performs commercial banking functions.

Under the Nepal commercial bank act 2031 B.S. that has been defined and emphasized about commercial banks they provide short term and long term loan whenever necessary for trade and commerce. They accept deposit from the public and provide loans in different forms they purchase and discount the bills of exchange, promissory notes and exchange foreign currency.

Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loan to business enterprises, regardless of the scope of its other services". A Commercial banker is a dealer in money and substitute for money such as cheques, bills of exchange. It also provides variety of financial service. Principally, commercial banks accept deposits and provide loans, primary to business firms commercial banks pool together the savings of the community under different account that seems they help in capital formation.

Function of Commercial Bank

Commercial bank perform a variety of functions which can be divided as

i) Accepting Deposits

ii) Advancing loans

iii) Credit creations

iv) Financing foreign trade

v) Agency services and

vi) Miscellaneous services

2.3 Conceptual Framework of Financial Analysis

Financial analysis as a part of the financial management is the main indicator of the success or failure of the firm. The focus of the financial analysis is on key figures contained in the financial statements and the significant relationships that exit between them.

These are different persons/institutions that affect are affected by the decision of the firm financial condition of business firm should be sound from the pointing view of shareholders debenture holders financial institutions and nation as whole The future of analysis will differ depending on the interest of different group for example trade creditor are interested in long term solving and survival. So, a financial analysis is undertaken by outsiders, creditors and investors and also by the firm itself. Thus the various parties according to the particular interest of the analyst undertaken the type of financial analysis Management of the firm is generally interested in every aspect of the financial analysis because they have overall responsibility of maintaining efficient and effective utilization of resources financial analysis is concerned with weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss a/c. [Pandey, 1991, P-109]. Financial analysis may be of two typing vertical analysis and horizontal analysis When financial statement like a balance sheet of a profit and loss account at a certain period only are analyzed the analysis is called vertical analysis. In horizontal analysis a series of statement relating to a number of years are reviewed and analyzed. It is also known as dynamic analysis because it measured the change of position or trend of the business over a number of years this study is based on horizontal analysis. There are three steps in financial analysis.

1. Selection of the information relevant to the decision under Consideration from the total information.
2. Arrangement of the selected information in way to highlighted significant relationships and
3. Interoperation and drawing of interferences and conclusions.

In brief financial analysis is the process of selection relation and evaluation.

Ratio Analysis

Ratio analysis invades the methods of calculating and interoperating financial ratios to asses the firms performance and status11 of the various method of financial statements analysis Ratio analysis is the powerful tool of financial analysis A ratio is designed as the indicated quotient of two mathematical expression and the relationship between two items (Variables this type of relationship can be expressed as

(i) Percentages

(ii) Fraction and

(iii) Proportion of numbers.

The ratio analysis includes a wide range of examination from a specific aspect of a division or unit to the overall firm. The main objective of ratio analysis is to examine various aspects of business and make sure that the opportunity results have not deviated from the stated norms specifically the objectives of a ratio analysis are to examine a)Liquidity Position b) Operating efficiently c) Financial leverage d) earning power and e) Market value of the firm. We can calculate different ratios to examine each of these aspects however as to which aspect to examine and which ratios to calculate depends on the concern of analysts based on the different opportunity and financial aspect and used for their examination ratios are classified in the following five series.

A) Liquidity Ratio To examine liquidity position

B) Profitability Ratio To examine the earning power

C) Achieving (Utilization) Ratio To examine efficiency and utilization position

D) Leverage Ratio To examine long term financial condition and debt servicing capacity

E) Miscellaneous Ratios the ratios calculated on the basis of grouping and regrouping.

2.4 Review of Related Studies:

It covers review of past studies conducted by other researcher such as review of thesis, research articles and project reports.

2.4.1 Review of Articles

In this section efforts have been mode to examine and review of some relate actives in different economics journals World Bank discussion paper, magazines, Newspaper and other related books

Bhisma Raj Dhunguna in his article "Why asset Management Company" is considered the best option to resolve the it on performing loan problem". [Dhungana, 2058] Pointed the best options to resolve the non performing loan (NPCLS) summaries are as follows.

A high level of NPLS can be regarded as a serious burden to the financial system and to the economy as well it is because the NPL in the banking system does not generate adequate revenues for the bank readers the profitability and it ultimately may lead to the failure the bank. High level NPL is also the early symptom of bank failure. There might have to may reasons behind increasing the NPL at the higher levels. Sometimes it arises due to the external faction factors such as decrease in the market value of the collector’s deterioration in the borrower’s repayment capacity and economic slow down. Sometimes, it is caused by the borrower’s misconduct and sometimes by the weakness in internal management assertors such as, improper credit appraisal system, lack of credit or risk management practices e.g. the bank, credit extend to non-viable projectors and effective credit monitoring and supervision system. If we observe the scenario in the Nepalese context many studies have pointed vat that the second type of forces have contributed a lot to move up the NPL level to this stage.

If these NPLS were not resolved in time, these would be inherent direct or indirect ways in the economy. The financial institution may become distrusted with additional efforts required to mange these problem loans. In this situation, Banks may loose sight of their core activities In light of the possibility of huge write offers on loans losers, credit risk will be calculated at the higher side cost of credit producers will be high. As a result Banks will not be willing to lend and the process of financial intermediation may be affected. This will result in slowdown in the economic growth. Due to lack of credit access to productive units of the economy, considering these facts, this will have the cost of NPL should be kept at the minimum level and the distressed loans should be managed by the specialized institutions such as AMCs.

Basically, there are two approaches available to deal NPL problems. The first is the traditional option, which allows banks to handle the NPL in its own way especially through recovery unit. The second option is to adopt the Assets Management Company (AMC) root.

The traditional option focuses on continuing negotiation with the borrowers to restructure the loans into a separate loan recovery unit with in the bank. This unit gives to priority to the loan recovery. In some cases, banks may be in the better position to resolve NPLs as these have international advantage through their existing loan standing advantages through their existing loan. Standing relationship with their clients, they can work with their borrowers who have a better understanding of the true value of the assets and compelling them to pay back the loan. But this approach does not work for all types of loans. The traditional option is especially useful in dealing with same business loans or consumer loans where the personal touch is adopted and the borrower may not feel heavy burden in paying back to loans. The high value of these small loans also makes the AMC route ineffective in terms of time and cost associated in depositing it.

Traditional approach of resolving bad loans does not work in a crisis situation and in big loans. In these situations timely and decisive action is required to avert a failure of an entity. So long the market for the product and services exist, any business or industry can be revived through adequate and appropriate support.

The distraction of managing NPLs especially during a crisis situation could result in financial institutions not focusing on their core activities and as such financial intermediation in the economy could break down. It will result in credit crunch situation causing an adverse impact on the overall economic growth. Hence, the establishment of AMCs seems as the only realistic option when the financial sector recovery is the underlying objective in the financial system where financial institutions fail to resolve the NPL problem through their own efforts. As in the most of the countries, Nepalese financial system is largely dominated by the banking sector. The banking sector is severely affected by the NPL problem. It is estimated that the NPL of the Nepalese banking system is around 16 percent. Therefore, there is no doubt that it has a serous implication on economic performance of the country. It will be the eclipse in the development of financial soundness in the economy, if not controlled in time. However, traditional or AMC root can be practiced to get recovery from that sickness of the financially system, the AMC root may be more effective approach to get quick recovery as it has been experienced around the world .

Narayan Pd. Paudel (Baisakh 14, 2053), in his article "Financial Statement Analysis: An Approach to Evaluate Bank's Performance" painted that, traditionally banks act as a financial intermediaries to channel funds from excess units in the economy to effected units resulting from the globalization of financial markets, financial innovations and world wide liberations of capital markets, banking business has been growing through rapid and profound structural changes. These factors have the greatest implications on the analysis of bank financial statements. On like other non-banking financial companies, commercial banks to not produce any physical goods. They produce loans and financial innovations to facilitate trade transactions. Because special role they play in the economy, the concerned authorities heavily regulate them. Analysis of bank financial statement is different from that of other companies due to the special nature of assets and liabilities structure of the banking industry.

The major current developments in financial reporting as a result of changes in banking industries are greater public disclosure and standardization of accounting policies. Traditionally banks have been subject to lesser standards of disclosure than other companies. International accounting standards had been issued IAS 30 disclosure in the financial statements of banks and similar financial institutions. This was made operative after 1st January 1991. Balance sheet, profit and loss account and the accompanying notes are the most widely used aspects financial statement of a bank. We need to understand to major characteristics of bank's balance sheet and profit and loss account. The bank's balance sheet is composed of financial claims of liabilities in the form of deposits and as assets in the form of loans. Fixed assets account for a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as balance sheet items. Interest received on loans/advances and investment and paid on deposit liabilities are the major component of profit and loss account. The other source of income are fee, commission discount and services charges.

The uses of financial statement of a bank is relevant, reliable and comparable information can be achieved from it which information can be achieved from it which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. Banks regulating bodies stock analysis bank, shareholders, directors and government needs different uses of financial statements. In order to meet an interest in analyzing the bank financial statement of bank, the IAS 30 requires specific disclosures on accounting policies. In our context the disclosure requirement of a bank's financial statements has been expressly laid town in the concerned act. Commercial Banking Act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public. The purpose of the financial statement depends on the needs of the user. The bank regulations seek to analyze to financial statements from safety and in stable painting view and there by protecting the economic interest depositors and general public, however the bank analyses from shareholder's point of view. The principle objectives of the analyzing financial statements are to identity:

- Financial adoptability (Liquidity)
- Financial performance (Profitability) and
- Financial position of the bank (slovenly)

Most of the users of financial statements are interested in accessing the bank's overall performances i.e.; profitability which is affected by the following factors.

- The structure of balance sheet and profit and loss account,
- Operating efficiency and internal manager system
- Managerial decisions taken by the top management regarding interest rate, exchange rate, landing policies etc.
- Environmental changes (technology, government, competition, economy)

Ratio analysis also helps in identifying the working characteristics of a problem of banks some of these characteristics are as follows:

- Lower average ratio of capital to total assets and to risk assets.
- Higher ratio of borrowings to shareholders trend.
- Higher ratio loan to total assets.
- Higher ratio of volatile liabilities to total income
- Lower ratio of ROA and ROE

Financial statements can give a good insight into financial health and perform leg a bank, one should pear in mind that such analysis does not guarantee or totally prevent bank failure or crisis because of miss-management and fraud. The health of a bank basically lies in the hands of its management. [Poudel, 2053 B.S.]

2.4.2 Review of Past Thesis:

Past thesis relating to loan of which are considered as relevant to this study is reviewed herein:

Pradhan (1980) has done "A study on investment policy of Nepal Bank Ltd." The objective of this study was to evaluate the lending policy and to find out the ways to encourage the bank lending. This stud has covered only five FYs 2028/029 through 2033/034 he has used Karl Pearson's coefficient of correlation, ratio analysis and percentage analysis in this study. He conceded the positive relationship between deposits and loans and advances. But the same was not in a proportionate manner, greater increase in deposit led to little increase in loan demand. The bank had invested only 3% of its total investment in the priority sector. Which was lower than the percentage (7%) imposed by Nepal Rastra Bank.

Miss. Sulochanna Musaju (1988) carried out a study on "An appraisal of financial performance and cost behavior of Dairy Development Corporation (DDC). Her main findings were that the liquidity ratio indicates on inconsistency in the working capital policy of the corporation. The earning from the operation is not adequate to meet the interest obligation and long term solvencies of the corporation do not make sound the assets turnover ratio. The performance of DDC was not satisfactory. The addition in the assets could not increase the sales adequately. The operating performance of the corporation was not satisfactory and the enterprises could not earn the profits. All of about indicates serious deficiency in the financial management of the corporation.

Adhikari (1993) has done a study on evaluation of the financial performance of Nepal Bank limited. The objectives of the study was to evaluate the financial performance of Nepal Bank Limited. This study has been limited to the fiscal year 2038/39 through 2046/47. The loan to deposit return on capital return on net worth per share vs market price per share. He concluded that bank had not managed investment portfolio efficiency. Operational efficiency was not satisfactory. Nothing was satisfactory except liquidity position of Nepal Bank Limited during the study period.

Maha Prasad Mainaly (1999) has studied on "An Evaluation of Loan Distribution and Collection of Agricultural Development Bank". His research objectives are as follow:

i) To study the target of loan disbursement and collection

ii) To examine the achievement of purpose wise, term wise and development region wise loan disbursement outstanding and collection.

iii) To analyze the relationship between targeted and achievement of loan recovery.

iv) To provide suggestions to ADB/N on the basis of finding.

The adopted research methodologies under his research are as follows:

- This study is merely concerned with the primary and secondary data and it based on published and presented data for the loan disbursement and collection ADB/N.
- Descriptive analysis and statistical tools analysis are research designed used by him. He defines descriptive analysis as, "It is difficult go study he principle causes arising from borrow's side and quantity them to relation to the weak repayment performance of ADB/N's loan disbursement. So that some of the causes are studied in help of descriptive analysis.

He states statistical analysis as, "This study is to see the trend situation of loan disbursement and collection" and he further adds, in order to see the trend of loan disbursement and collection. The Karl Person's coefficient of correlation is used to analyze the relationship between loan disbursement and collection.

His study says that both primary and secondary data are collected. Primary data is collected from farmers of Birendra Nagar VDC (Chitwan), who have taken loan from ADB/N. Secondary data is collected from ADB/N in various forms.

Primary data is gathered from questionnaire sent to loan taken farmers of ADB/N whereas journal, publication, planning and project department of ADB/N are sources of secondary data.

Loan disbursement and collection data for ADB/N are the population of the study whereas data for five years (fiscal years) from 1991/92 to 1995/096 are taken as simply for study for study purpose. Collected data are arranged and tabulated there after descriptive studies are made in case of primary date and statistical tools analysis is used for secondary data. Karl Person's Coefficient of correlation, test of hypothesis (i.e. F test and T test and median are used under statistical tools analysis)

Under F-test, there sets of hypothesis are tested. There is Null hypothesis (H_0) have assumed no vital difference among development region from loan disbursement, loan outstanding and loan collection respectively side by side vice verse as alternative hypothesis (H_1).
Like wise t-test comprise two sets of hypothesis. Two Null hypotheses have assumed no vital difference between the ratios of targeted loan disbursement and actual loan distribution cum no vital difference between mean ratios of targeted loan collection and actual loan collection. Side by side vice verse as alternative hypothesis (H_1).

Major Finding are:-

i) Though targeted loan disbursement and collection are increasing, targeted loan collection of the bank is increasing at decline rate.

ii) According to correlation coefficient it is found that there is significant relationship between the achievement of loan disbursement and collection i.e. r=0.98 (where, P.E.=0.012) This explain that increase in loan disbursement increases the collection.

iii) Both actual loan outstanding and loan collection have increasing trend however collection of loan is found fluctuated over the period. This collection is significant between them. i.e. r= 0.099 (where, P.E.= 0.006)

iv) Finding from purpose wise actual loan disbursement, outstanding and collection are increasing and their correlation are significant incase of cereal and cash crop purpose, live stock purpose where as fluctuating in case of go down and cold purpose, farm machine and irrigation purpose, horticulture and agro forestry product purpose, Biogas purpose and etc.

Mr. Bedananda Dahal (2005) has done a study on financial performance and investment activities of Agricultural Development Bank Limited in Nepal. The Objective of the study was to identify the financial position and investment activities of the bank and analyze the growth of trend of financial strength (condition) and provide valuable suggestion on the base of major finding. The study was covered the five years of period from 2054/055 to 2059/060. He has used many statistical tools like trend analysis, mean, standard deviation and coefficient of variance. From his study he found that the performance of ADBL is satisfactory than other government banks.

Mr. Lal Bahadur Rana (2005) has done a study on "Financial Performance and Investment Policy of Himalayan Bank Limited and Bank of Kathmandu Limited." The objective of the study was to identify the financial position of both these banks and en-light the share holders, financial agencies stock exchanges and stock traders as well as its customer, depositors and debtors. And he found that the in comparison Himalayan Bank Ltd. performance was better than Bank of Kathmandu in terms of liquidity, activity, profitability, capital structure, invisibility and risk.

Miss. Chadani Neupane (2008) has done a study on “Financial Analysis of Agricultural development Bank Limited.” The objective of the study was to analyzed the liquidity, profitability assets utilized and risk of ADBL, to analyze the investment position and collection of principal and interest of ADBL, to analyze the relationship eg. Investment, loan and advances with deposit and profitability and to analyze the growth and trend increase in expenditure of the bank decreases the overall profit of the organization.

CHAPTER-THREE

RESEARCH METHODOLOGY

A sound research stud needs to follow a proper methodology in order to achieve predetermined objectives. A systematic methodology is considered as inevitable for true fair, better and superior consequences. In fact, research is a scientific inquiry about certain phenomenon or object. Research methodology refers in the various sequential steps to be adopted by a researcher in studying a problem with a certain objective in view. It is way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically It includes the various steps that are generally adopted by a researcher in studying his/her research problem along with logic behind them (Kothari, 2001:39) The basic objective of this study is to examine and to analyze the loan management (i.e. loan disbursement and recovery) of NBL during study period (From F.Y 2060/061 to 2064/065) and to provide recommendation for their financial improvement. Research design nature and sources of data, population and sample data, collection procedure.

3.1 Research Design

A research design is purely and simply the frame work or plan for a study that guide the collection and analysis of the data. Basically the research design has two purposes. The first purpose is to answer the research question or test the research hypothesis. The second purpose of a research design is to control variance the descriptive and analytical research design have been used for the study but this study is mainly based on the secondary data. So, analytical research tools are the major tools of the study.

3.2. Source and Nature of Data:

This study is mainly based on secondary data. So the data are extracted mainly from the following secondary sources.

i) Financial Statement of NBL.
ii) Annual Reports of NBL.
iii) Banking and financial statistics published by Rastra Bank.

In addition to above source, supporting data and information have been collected from other secondary sources like newspaper, periodicals and bulletins, moreover qualitative information has been collected from the personnel of concerned bank.

3.3 Population and Sample

This is the study of NBL on Financial Performance so, it is a case study on Financial Performance of NBL.

3.4 Data Collection Procedure:

This study is based on secondary data so, the use of secondary data is much more extensive. The required secondary data have been extracted from different sources mentioned in 3-3 some of the information has been acquired from the official records of concerned banks. Frequent visits were paid to the head office (HO) of NBL. Bhugol Park, Baneshower, Kathmandu and central office and western regional office of Nepal Restra Bank in order to collect the required data for this study. The annual reports and audited financial statements of selected banks were collected from the HO of respective banks, banking and financial statics were collected from the central office of NRB.

During the visit to the Head Office of selected banks and central office of NRB, discussions with the bank officials were held in order to explore the qualitative information on the performance of the banks.

3.5. Data Processing:

For the purpose of study, necessary data have been collected from the published documents audited financial statements and annual reports of selected banks. The qualitative and supporting information have been collected through the interaction with the concern officials of the selected banks. First of all necessary data extracted from the published documents, annual reports and audited financial statements were recorded in master sheet manually. Then data were entered into the spreadsheet to work out the financial ratios and prepare the necessary figures finally.

3.6. Method of Data Analysis:

Any analytical tools can be used in solving the problem of the study. For the purpose of the study, all calculated primary as well as secondary data are arranged, scanned, tabulated under various heads and then after descriptive cum statistical analysis have been carried out to en light the study.

Mean, standard deviation, correlation, coefficient of variation are being calculated under statistical analysis. "Financial analysis is the stating point for making plans before using any sophisticated forecasting and budgeting procedure." (Pandey, 1999, P-108) Hence, ratio analysis is used under financial analysis to attain the result after tabulating the data.

3.6.1 Financial Tools:

Ratio analysis:

A ratio is a quotient of two mathematical expressions. Establishment of quantitative relation of data by the financial statement is called ratio analysis. In other words, a financial ratio is the mathematical expression of relationship of two accounting figures. It helps in taking decision since it helps to establish relationship among various ratios and interpretation there on. Inter-firm comparison between past and present rates for the same firm gives enormous and fruitful results to test the financial performance. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firms financial performance a single ratio in itself does not indicate favorable condition. It should be compared with some standard.

There are various rates in this study only the ratios relived to the study are calculated and analyzed.

3.6.1.1 Liquidity Ratios:

"Liquidity refers to pay one hand on cash when it needed without having to sell long term assets at loss in unfavorable market." Inadequate liquidity will result turn oil in confidence of creditors and excess liquidity is also not sound since fund are held idle and there is no earning firm's liquidity position would be demand as good if it were able to meet its short-term obligation whenever they become due. The liquidity ratios are particularly useful in credit analysis by bank and others suppliers of short term loan. Hence Liquidity is the ability on an asset. To be the converted into cash without price concession. (Van Horne and Woliz, 1996, P- 128)

The following Liquidity ratios have been calculated in order to exhibit the liquidity position of the "NBL."

(i) Current Ratio:

It provokes about the short term solvency of the firms. It established the relationship between current assets and current liquidities of which is expressed as;-

$$\text{Current Ratio} = \frac{\textit{Current Assets}}{\textit{Current Libialities}}$$

Current assets are those asserts, which can converted into cash within a year and so it includes cash and bank balance investment in treasury bills ,bills purchased and discounted customer acceptance liabilities denote current account deposit, saving account deposits margin deposits, bills payable, call deposit, bank overdraft, intra bank reconciliation account, provisions, customer's acceptance liabilities and so on.

For many forms of business 2:1 is considered to be an adequate ratio. A higher ratio indicates better liquidity position. However a very high current ratio many indicate requirements and poor credit management in terms of over expanded account receivable. If the current ratio is less than 2:1 the solvency position of the firm is not good.

(ii) Cash and Bank Balance to Total Deposit Ratio:-

This Ratio points the Banks capacity to cover their deposits like current, calls, saving and margin. A higher Ratio is performed since finance company is able to cover deposits. It can be expressed as:

$$\text{Cash and Bank Balance to total Deposit Ratio} = \frac{\textit{Cash And Bank Balance}}{\textit{Total Deposit}}$$

iii) Cash and Bank Balance to Current Assets Ratio:

Cash and bank balance are the most liquid assets. This ratio represents the liquidity capacity of the firm. Higher ratio shows the better ability of the firm to meet the daily cash requirements of the customer. But high ratio is not so preferred to the firm because the firm has to manage cash and bank balance to current assets ratio, in such manner that the firm may not be paid interest on deposits and may not have liquidity crisis.

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\textit{Cash And Bank Balance}}{\textit{CurrentAssets}}$$

iv) Current Assets to Total Deposit Ratio:

This ratio shows the relationship between current assets and total deposits excluding fixed deposits, which indicates the availability of current assets to pay out non-fixed deposits. The following table shows the current assets, total deposit, ratio and its mean.

$$\text{Current Assets to Total Deposit Ratio} = \frac{\textit{CurrentAssets}}{\textit{TotalDeposit}}$$

v) Mandatory Balance Ratio

Ratio obtained by keeping balance of NRB and total deposits and borrowing as numerator and denominator is known as mandatory balance ratio. Its ideal standard prescribed by NRB under directives to finance company's (2058 B.S.)

$$\text{Mandatory Balance Ratio} = \frac{\textit{BalanceWithNRB}}{\textit{TotalDeposit}}$$

3.6.1.2 Capital Structure Ratio

The leverage ratio examines long-term solvency of the firm. The long term creditors would judge the soundness of a firm on the basis of the long term financial strength measured in term of its ability to pay the interest regularly as well as to repay the installment of the principal on due dates or in a lamp sum at the time of maturity. From above it is clear that capital structure ratios are calculated to reflect the long term financial solvency of a firm. The following ratios are calculated under it.

i) Total Debt to Total Assets:

It examines the relationship between borrowed funds and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. It is computed as:

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

ii) Total Debt to Equity Ratio:

It examines the relationship between borrowed funds and owner's capital (i.e. Shareholders' equity). It is the ratio of the amount invested by outsiders to the amount invested by the owners of the business. A higher ratio shows the large share of financing by the creditors than that of owners. It indicates the margin of safety to the owners. A Creditors prefer low debt-equity ratio. A low debt-equity ratio implies larger safely margin for creditors.

$$\text{Debt -equity ratio} = \frac{Total\ Debt}{Shareholder's\ Equity}$$

The shareholders equity includes paid up capital, share premium, reserve fund, dividend equalization fund, profit and loss account, other reserves and funds. Likewise total debt, long term and short term debt.

iii) Interest Coverage Ratio:

It indicates the firms ability to cover interest charges. It is also identified as time interest earned ratio. The ratio measures the debt servicing capacity of a firm in so far as fixed on long-term loan is concerned. It is computed as:

$$\text{Interest Coverage Ratio} = \frac{EBIT}{Interest\ Expenses}$$

Higher interest coverage ratio is preferable to the creditors since it gives more assurance to them. However, too high ratio may imply unused debt capacity. In constraint, a low ratio is danger that the firm is using excessive debt and does not have the ability to offer assured payment of interest to the creditors.

3.6.1.3 Profitability Ratios:

Profit is paramount factor for firms expansion and diversification sufficient amount of profit is to be earned by every company for successful day-today operations cum long-run survival in the competitive environment. The operating efficiency and its ability to ensure adequate return to its shareholders (investors) ultimately depend upon the profit earned by it. Profitability denotes the value created by the use of resources is more than the total of the input resources. A higher profitability ratio represents as symbol of good management and vice-versa.

Some if the important profitability ratios used here as follows.

(i) Net profit to Total Assets Ratio (Return on Total Assets ROA)

It measures the profitability of fund invested in the bank assets. It is computed by dividing profit by total assets excusing profit and loss account (i.e. debt side). Higher ratio is preferable since it has more operating efficiency of the firm and vice versa. It is expressed as:

$$\text{Net Profit to Total Ratio} = \frac{NEt\ \mathrm{Pr}\,ofit}{Total\ Assets}$$

ii) Net Profit after Tax to Total Operating Income Ratio:

This ratio measures the relation between net profit or net loss and total operating income. This ratio represents the tax amount or tax ratio with total operating income. It is calculated as:

$$\text{NPAT to OI} = \frac{NPAT}{TotalOperatingIncome}$$

iii) Net Profit to Total Deposit Ratio

Deposits are disbursed as loans and advances to public in generating revenue. It measures the internal rate of return from the utilization of total assets. Higher ratio represents the effective utilization of total deposit by the Bank. It is computed as:

$$\text{Net Profit to Total Deposit Ratio} = \frac{Net\ POrofit\ After\ Tax}{Total\ Deposit}$$

iv) Interest Income on Investment to Total Income Ratio

This ratio shows the relation between total interest income on investment and total income of firm. In the financial institution, like bank interest income. It is a vital source of earning. Total income includes the interest income on loans too. Interest income on loans to total income ratio refers how is the condition of interest income on loan to the total income. The formula of it is given below.

Total Interest Income on Investment to Total Income Ratio =

$$\frac{Total\ Interest\ on\ Investment}{Total\ Income}$$

v) Operating Self-sufficiently Ratio:

This ratio shows bank's income (interest) with respect to the operating cost. It is the preparation of efficiency i.e. income comparison with operating cost. This can be presented as, (Higher the ratio shows bank can earn more than cost)

$$\text{Operating Self-sufficiency Ratio} = \frac{Total\ Income}{Operating\ Cost}$$

Where,

Operating Cost = Administrative expenses, interest expanses, indirect interest expenses, loan loss provision etc.

vi) Net Profit to Net Worth or Return on Equity (ROE)

Net worth denotes the owner's claim in the assets of the bank's remain after subtracting total external liabilities from total assets here, total assets represent all the assets beside accumulated loss and intangible assets. The ratio exhibits the rate of return (Net Profit) earned on Net worth (or shareholders fund or equity) Its computation is to be done as:

$$\text{Return of Net Worth} = \frac{Net\ POrofit\ After\ Tax}{Total\ \mathrm{Pr}\,ofit}$$

Net Worth = Total assets - External liabilities

Higher ratio represent higher efficiency in utilizing its available resources.

vii) Interest Earned to Total Assets:

It measures the relationship between interest earned and total assets. A higher ratio is considered as significant measure to gauge interest earning efficiency of the firm in relation to the total assets. It is computed by dividing interest earned to total assets. It is found out as follows:

Interest Earned to Total Assets = $\frac{\textit{Total Income}}{\textit{Total Assets}}$

3.6.1.4 Operating Ratio

i) Total Operating Expenses to Total Assets Ratio:

Total operating expenses to total assets ratio measures the relationship between the total operating expenses and total asses. This ratio can be calculated by using the following formula.

Total operating expenses to total assets ratio = $\frac{\textit{Total Operating Expenses}}{\textit{Total Assets}}$

Where,

Total operating expenses = Office expenses, staff expenses, interest expenses and other expenses

ii) Total Operating Income to Total Assets Ratio:

This ratio is calculated to find out the ratio of operating income with total assets of financial institution. Total operating income represents total interest income on investment and other income. Higher ratio is better for the firm. This ratio is calculated by using following formula.

Total Operating Income to Total Assets Ratio = $\frac{\textit{Total Operating Income}}{\textit{Total Assets}}$

iii) Total Operating expenses to total Operating Income Ratio:

This ratio shows the relationship between total operating expenses and total operating income. This ratio finds how interrelationship is between the operational expenses to operational income. The formula of it is given below,

$$\text{Operating Expenses to Total Income Ratio} = \frac{Total Operating Expenses}{Total Operating Income}$$

iv) Interest Paid on Total Deposit to Total Expenses Ratio:

This ratio shows the relationship between interest expenses on deposit and total expenses of financial institution. A total expense refers to their sustainability of every financial institution. We all know that less expense represents the viability of the organization and deposit is the main source of fund collection. This ratio can be measured by using the following formula.

$$\text{Interest Paid on Total Deposit to Total Expenses Ratio} = \frac{Intrest\ Paid\ on\ Total\ Deposit}{Total\ Expenses}$$

v) Interest Paid on Borrowing to Total Expenses Ratio:

This ratio shows the relationship between interest paid on total debt and total borrowing. Borrowing is the important source of fund collection i.e., capital structure. It is paid with interest after certain maturity period. This ratio can be calculated by using the following formula.

$$\text{Interest Paid on Borrowing to Total Expenses Ratio} = \frac{Interest\ Paid\ on\ Borrowings}{Total\ Expenses}$$

vi) Interest Expenses to Interest Income Ratio:

This ratio measures the utilization of outsider's fund for investment activities. This ratio can be calculated by using the following formula.

$$\text{Interest Expenses to Interest Income Ratio} = \frac{\textit{Interest Income}}{\textit{Interest Expenses}}$$

Higher ratio indicates that the bank has to paid higher amount of interest on liabilities relating to interest income and vice-versa.

3.6.1.5 Activity Ratios:

Activity or turnover ratios are also called efficiency ratios. There ratios measure the degree of effectiveness in using the resources of the firm. The higher ratio denotes the efficiency of management in utilizing its resources and vice versa.

The following ratios are used analyze the effectiveness of the activities of concerned bank.

i) Loan and Advance to Total Deposit Ratio:

It measures the banks' success in utilizing the outsider's funds for generating profit. It explains how quickly total collected funds are converted into loan and advances. It is shown as:

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\textit{Loans and Advance}}{\textit{Total Deposit}}$$

Higher ratio is favorable since it flashes out of the efficiency of the bank in term of making effective loan and advances.

i**i) Loan and Advances to Fixed Deposit Ratio:**

It measures how many times the amount is used in loans and advances against fixed deposit. Fixed deposits are interest bearing long term obligations where as loans and advances are major sources of investment in generating income for commercial banks. It is calculated as:

$$\text{Loan and Advances to Fixed Deposits} = \frac{\text{Loan and Advances}}{\text{Fixed Deposits}}$$

Higher ratio indicates effective utilization of fixed deposit into loans and advances.

iii) Loans and Advances to Saving Deposits:

It measures the ability of bank in mobilizing saving deposits funds into loans and advances. Saving deposit is interest bearing short-term obligation as well as the main source of investment in loan and advances for generating income. A higher ratio is preferable in its case too. It is computed as:

$$\text{Loan and Advances to Saving Deposit Ratio} = \frac{\text{Lans and Advances}}{\text{Saving Depoist}}$$

iv) Loan and Advances to Total Assets Ratio:

It measures the ability in mobilizing total assets into loans and advances for generating income. A higher ratio is considered as an adequate symbol for effective utilization of total assts of Bank to loan and advances of which creates opportunity to earn more and more.

It is calculated as:

$$\text{Loan and Advances to Total Asset Ratio} = \frac{\text{Lans and Advances}}{\text{Total Assets}}$$

v) Performing Loan to Total assets Ratio:

It tells the percent of performing loan on total assets. It is useful to know the fact whether the good loan is increasing or not. We can generate more earning by increasing good loan and reducing bad and inferior loan. It teaches us to invest sources of fund only on good loan (i.e. profitable venture). It is computed as:

$$\text{Performing Assets Ratio} = \frac{Perfor\min g\ Assets}{Total\ Assets}$$

3.6.2 Statistical Tools:

For supporting the study, statistical tools such as mean (average), standard deviation, coefficient of variation, correlation and hypothesis are used in this study.

3.6.2.1 Arithmetic Mean (Average)

"Average are statistical constants which enables us to comprehend in a single effort the significance of the whole. (Bowley, and Gupta, 2000, p-35). Arithmetic mean represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\overline{X} = \frac{\Sigma x}{N}$$

Where,

$\overline{X}$	=	Mean value of Arithmetic Mean
N	=	Number of Observations
ΣX	=	Sum of observations.

3.6.2.2 Standard Deviation (S.D.)

The standard deviation measures the absolute dispersion. The greater the amount of dispersion greater the standard deviation. 'Karl Person Introduced the concept of standard deviation and is denoted by the small reek Letter " σ " (read as sigma).

The formulas to calculate the S.D. is given below.

$$\sigma = \frac{\Sigma d^2}{n}$$

Where,

σ = Standard deviation

Σd^2 = Sum of the square deviation

n = Number of items

This topic has been presented following relationship

1. Correlation between Loan and Advances and Interest
2. Correlation between Loan and Advances and Total Deposit
3. Correlation between Performing Loan and Total Loan
4. Correlation between Loan and Advances to Total Assets.

3.6.2.3 Coefficient of Variation (C.V.)

Standard deviation is an absolute measure of dispersion. The relative measured of dispersion based on standard deviation is known as coefficient of variation. The coefficient of variation is the relative measure of dispersion, comparable across distribution which is defined as the ratio of the standard deviation to the means expressed in percent. The small value of C.V. means high degree of consistency in the observed distribution and vice versa. The coefficient of variation (C.V.) is given by following formula and this gives the percentage.

$$\text{C.V.} = \frac{\sigma}{\overline{X}} \times 100$$

Where,

$\overline{X}$ = Mean

σ = Standard Deviation

C.V. = Coefficient of Variation

3.6.2.4 Correlation (r)

Correlation is an analysis of the covariance between two or more variable and it deals to determine the degree of relationship between the variables. Correlation just says the degree of relationship between two or more variables increase or decrease in one cause increase or decrease in another then such variables are correlated variable. The reliability of the value of coefficient of correlation is measured by probable error the correlation coefficient between two variables describes the degree of relationship between those two variables. It interprets whether two or more variables are correlated positively or negatively.

This tools analysis relationship between those variable of the bank which are helpful to make appropriate credit management policy regarding deposit collation, investment and profit maximization. The Karl person coefficient of correlation (r) is given by the formula.

$$rxy = \frac{N\Sigma xy - \Sigma x\Sigma y}{\sqrt{N\Sigma x^2 - (\Sigma x)^2}\sqrt{N\Sigma y^2 - (\Sigma y)^2}}$$

Where,

rxy = Correlation between x and y

NΣxy = product of No of observation and sum of product of x and y.

ΣxΣy = Product of Sum x and Sum y

3.6.2.5 Coefficient of Determination (R^2)

It explains the variation percent derived in dependent variable due to the any one specified variable. It denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

3.6.2.6 Trend Analysis:

Trend analysis is one of the most useful statistical tools. In financial statement analysis, the direction of change over period of years is crucial important. Trend analysis of ratios indicates the direction of change. This kind of analysis is particularly applicable to the items it profit and loss account. It is a significant tool of horizontal financial analysis. It is a dynamic method to indicate the change and deviation in items of financial statements. Trend analysis helps to identify the controllable in terms of given period and future forecast can be made for on going concern.

This statistical tools in making a comparative study of the financial statements of number of years. It describes the average relationship between two series where the one series relates to time and other series to the value of a variable. It is generally shows that the line of the best-fit or straight line is obtained or not. The line of the best fit describes the changes in a given series accompanying a unit change in time. Another word, it gives the best possible mean values of dependent variable for a given of independent variable. In this study trend analysis is used as time series analysis based on time. For the calculation of time series by following equation formula.

$$Yc = a + bx$$

Where,

Yc= The estimated value of y for given value of x obtained from the line of regression of y on x.

a= constant value

b= slop of the trend line

x = Independent variable

a = $\bar{y} - b\bar{x}$

$$b = \frac{N\Sigma xy - \Sigma x\Sigma y}{N\Sigma x^2 - (\Sigma x)^2}$$

Where, Σy = sum of the observation in series y

Σxy= sum of the observation in series x & y

Σx^2 = sum of the square of the observation in series x

This topic has been presented following:

- ➞ Trend analysis of loan and advances
- ➞ Trend analysis of investment
- ➞ Trend analysis of net profit
- ➞ Trend analysis of total deposit
- ➞ Trend analysis of loan loss provision
- ➞ Trend analysis of bank commission and discount

CHAPTER-FOUR

PRESENTAION AND ANALYSIS OF DATA

The major objective of this study is to have a correct insight about financial performance of NBL. The data collected for the study have been depicted in tabular form analyzed with the help of ratio analysis, pictorial and diagrammatic presentation, trend analysis, correlation, arithmetic mean, standard deviation, coefficient of variation analysis is being conducted for five year period (i.e. from 2060/061to 2064/065).

4.1 Financial Analysis

Analysis of origination through all major five types of ratios provides view about the overall performance of the organization. Hence all the ratios are analyzed here giving more places to financial related ratios.

Various financial ratios related to the investment management and the fund mobilization are presented and discussed to evaluate and analyze the performance of NBL. Some important financial ratios are only calculated here for fund mobilization and investment policy. 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 is widely used and important tool of financial analysis. Ratio analysis shows the mathematical relationship between two accounting figures. Interest result about company’s financial performance can be found out by using ratio analysis. It helps to analyze the financial strength and weakness of the banks. From the help of ratio analysis, the qualitative judgment can be done regarding financial state of a firm. It is also concerned without output and credit decision.

A) Liquidity Ratio:

Liquidity ratios are applied to measure the ability of the banks to meet short-term obligation. Nepal Bank Limited must maintain its satisfactory liquidity position to satisfy the credit needs of community, to meet demands for deposit with drawls, pay maturity obligation in time and convert non-cash assets to cash to satisfy immediate needs without loss to bank and consequent input on long-run profit. The liquidity ratios are analyzed as follows:

i) Current Ratio:

This ratio measures the liquidity position of the bank. It indicates the ability of bank to meet the current liquidity.

Table No. 4.1

Current Ratio

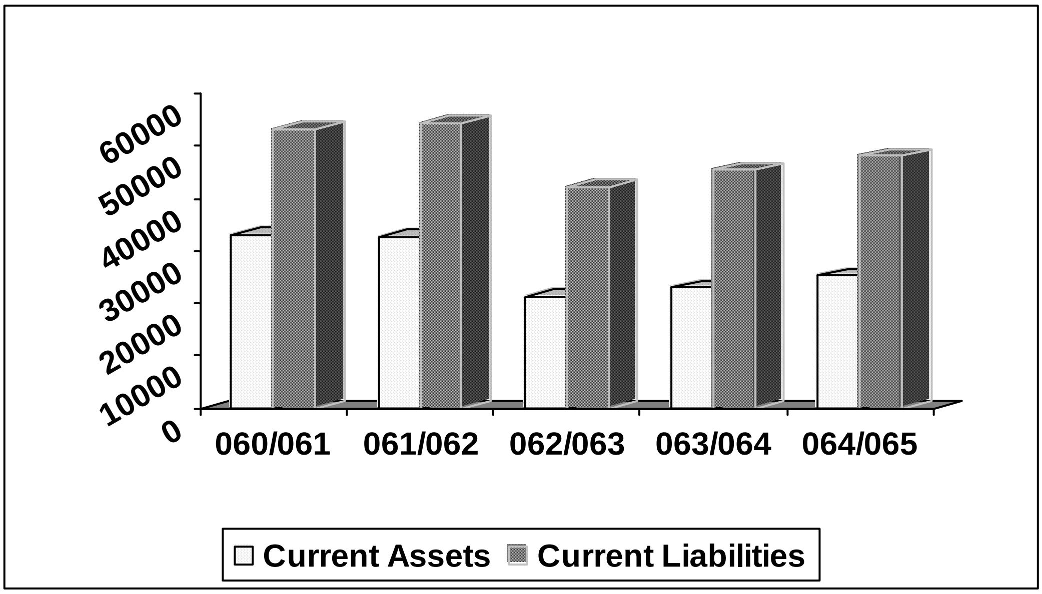
Rs. in Million

Year	Current Assets	Current Liabilities	Current Ratios
060/061	32962	53177	0.62
061/062	32659	54471	0.60
062/063	21237	42220	0.50
063/064	22983	45506	0.51
064/065	25275	48062	052
Average			0.55
Standard Deviation (S.D.)			0.0497
Coefficient of Variation (C.V.)			0.0904

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.1

Current Ratio



Source: Table No. 4.1

The above table clearly shown that the current ratio of NBL is always below the standard i.e. 2:1. It has ranged between maximum of 62% in FY 060/061 and minimum of 50% times in FY 060/061 and the average ratio is 55% over the study period. C.V. is not very high so there is less fluctuation. This shows that the bank is supposed to trying to increase its liquidity position to meet its current obligations.

The above analysis helps to conclude that the current ratio of NBL is below than normal ratio. But it can't say that the liquidity position of NBL is not good because this ratio only indicates the quantity and not the quality of assets and it doesn't explains the types of current assets.

ii) Cash and Bank Balance to Total Deposit Ratio:

This ratio measures the ability of bank to meet future withdrawals of deposits. Higher ratio shows the greater ability of the bank to meet the demand of customers on their deposits. The following table shows the cash and bank balance to total deposit ratio.

Table No. 4.2

Cash and Bank Balance to Total Deposit

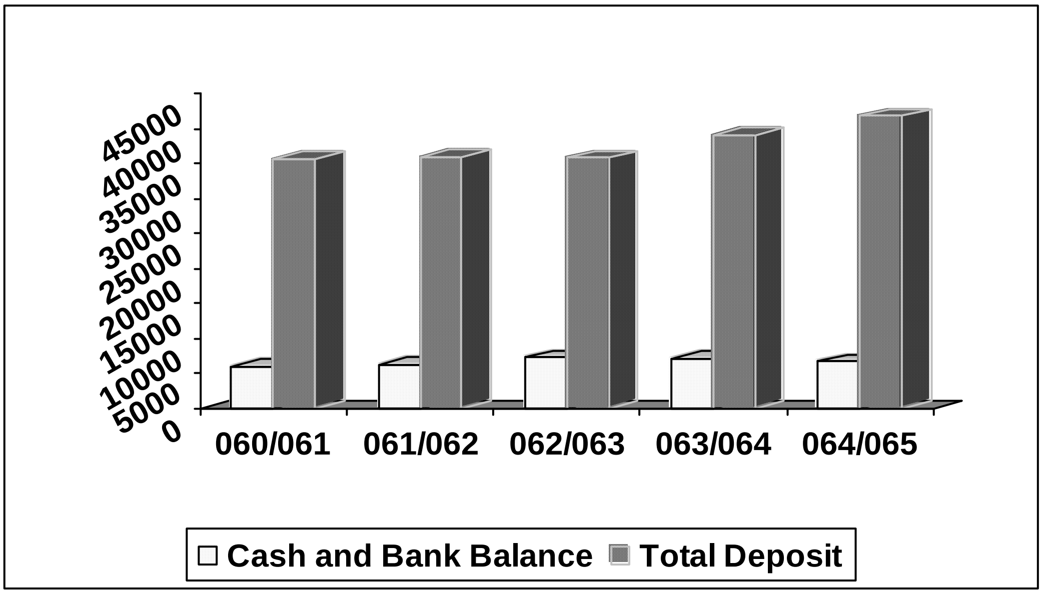
Rs. in Million

Year	Cash and Bank Balance	Total Deposit	Current Ratios
060/061	5861	35735	0.164
061/062	6159	35934	0.1714
062/063	7174	35830	0.20
063/064	7117	39014	0.1824
064/065	6617	41829	0.1581
Average			0.1751
Standard Deviation (S.D.)			0.0163
Coefficient of Variation (C.V.)			0.0930

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.2

Cash and Bank Balance to Total Deposit



Source: Table No. 4.2

The above table shows the cash and bank balance to total deposit of NBL. It shows the ratio is increasing up to FY 060/061 to FY 062/063 and decreasing trend in research period the highest ratio is 20% and lowest is 15.81% in FY 062/063 and FY 064/065 respectively. The mean ratio is 17.51%.

iii) Cash and Bank Balance to Current Assets Ratio:

Cash and bank balance are the most liquid assets. This ratio represents the liquidity capacity of the firm. Higher ratio shows the better ability of the firm to meet the daily cash requirements of the customer. But high ratio is not so preferred to the firm because the firm has to manage cash and bank balance to current assets ratio, in such manner that the firm may not be paid interest on deposits and may not have liquidity crisis.

The cash & Bank balance to current assets of NBL for the period 2060/61 to 2064/065 can be presented as:

Table No. 4.3

Cash and Bank Balance to Current Assets Ratio

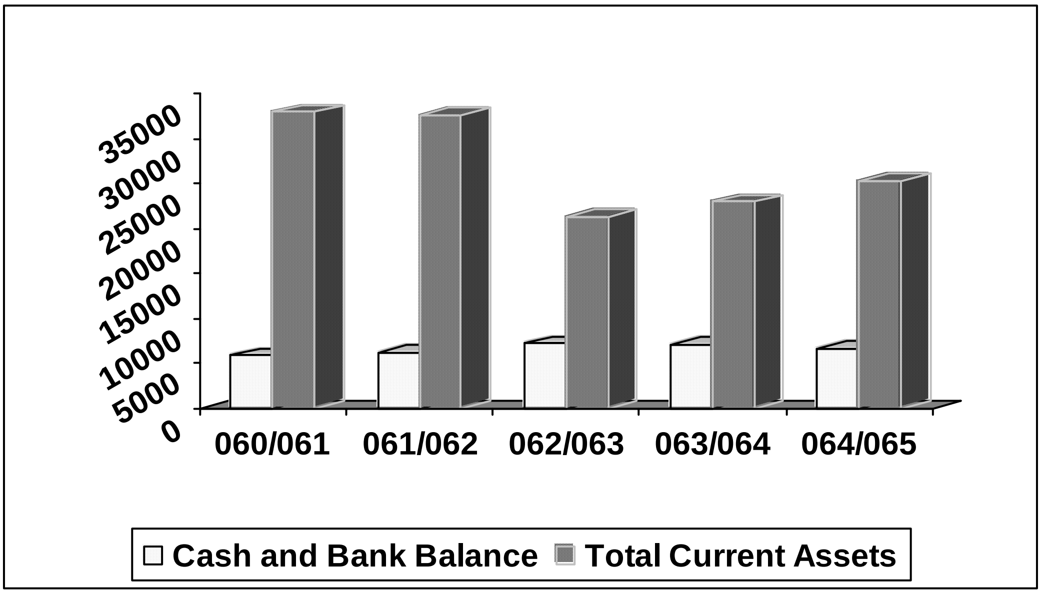
Rs in Million

Year	Cash & Bank Balance	Current Assets	Ratio
060/061	5861	32962	0.1778
061/062	6159	32659	0.1886
062/063	7174	21237	0.3378
063/064	7117	22983	0.3097
064/065	6617	25275	0.2618
Average			0.2551
Standard Deviation (S.D.)			0.0634
Coefficient of Variation (C.V.)			0.2485

Source: Annual Report of NBL (Year 2060/061 to 064/065)

Figure No. 4.3

Cash and Bank Balance to Current Assets Ratio



Source: Table No. 4.3

The above table shows that cash and bank balance to current assets of NBL is increasing trend in FY 060/061 to FY 062/063 and then the researcher found to decreasing trend upto research period. The highest ratio is 33.78% in FY 062/063 and lowest ratio is 17.78% in FY 060/061. The average ratio is 25.51%.

iv) Current Assets to Total Deposit Ratio:

This ratio shows the relationship between current assets and total deposits excluding fixed deposits, which indicates the availability of current assets to pay out non-fixed deposits. The following table shows the current assets, total deposit, ratio and its mean.

Table No. 4.4

Current Assets to Total Deposit Ratio

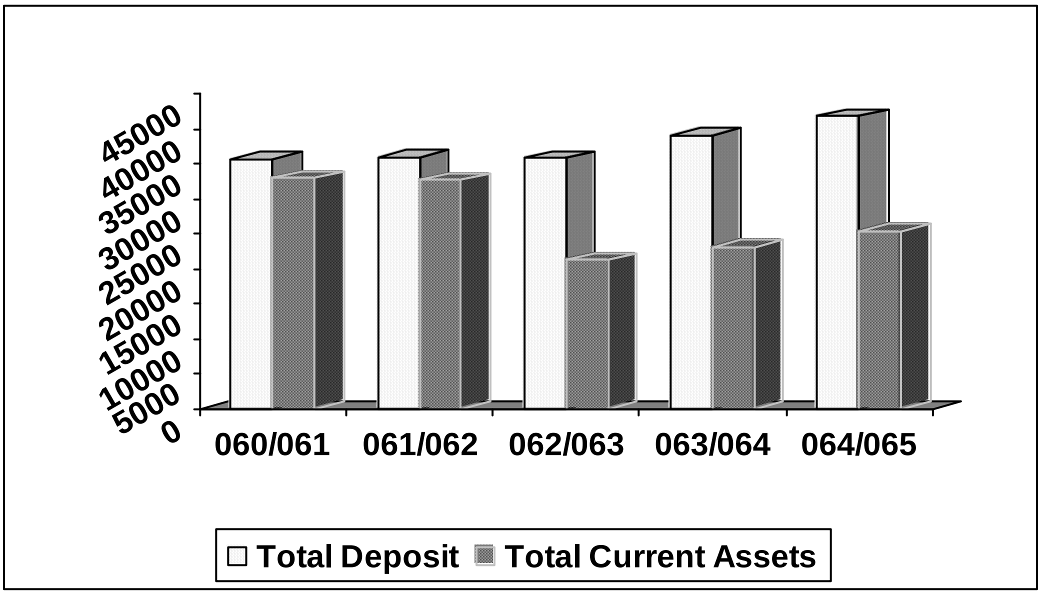
(in Rs. 00000)

Year	Ratio	Current Assets	Total Deposit
2060/61	0.9224	32962	35735
2061/62	0.9088	32659	35934
2062/63	0.5927	21237	35829
063/064	0.5890	22983	39014
064/065	0.6042	25275	41829
Average			0.7234
S.D.			0.1576
C.V.			0.2190

Source: Annual Report of NBL (Year 2060/061 to 064/065)

Figure No. 4.4

Current Assets to Total Deposit Ratio



Source: Table No. 4.4

The above table shows that current assets to total deposit ratio of NBL. The above table shows the fluctuating trend in ratio. The highest ratio is 92.24% in FY 060/061 and lowest one is 58.90% in FY 063/064. The average ratio is 72.34%.

v) Mandatory Balance Ratio

Ratio obtained by keeping balance of NRB and total deposits and borrowing as numerator and denominator is known as mandatory balance ratio.

Table No. 4.5
Mandatory Balance Ratio

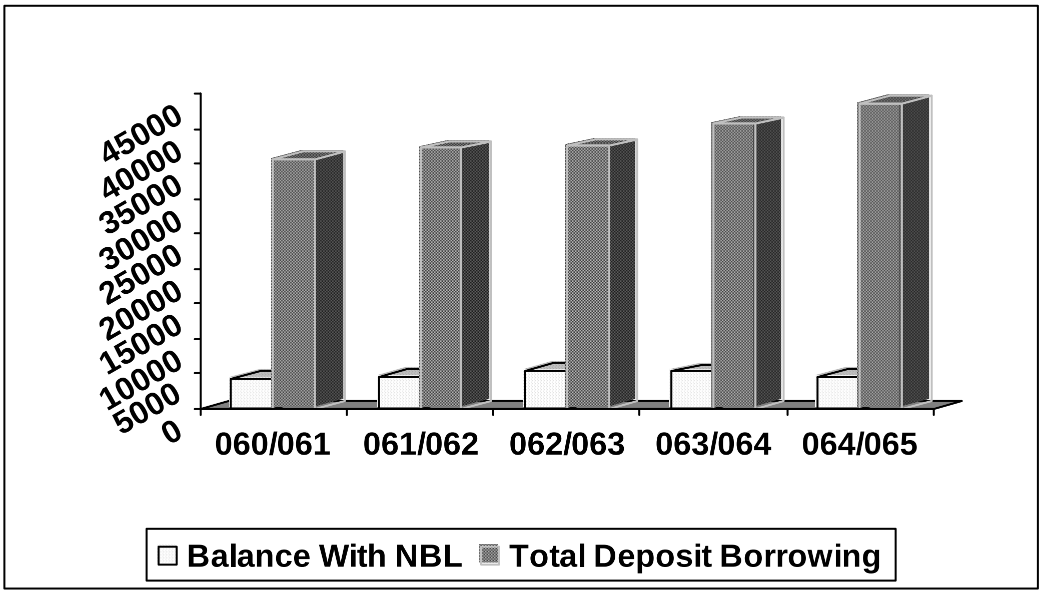
Rs in Million

Year	Balance at NRB	Total Deposit & Borrowing	Ratio
060/061	4232	35735	0.1184
061/062	4509	37181	0.1213
062/063	5354	37547	0.1425
063/064	5225	40619	0.1286
064/065	4431	43649	0.1015
Average			0.1225
Standard Deviation (S.D.)			0.176
Coefficient of Variation (C.V.)			0.1442

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.5

Mandatory Balance Ratio



Source: Table No. 4.5

According to above table NBL has the following mandatory balance ratio during the study period is 11.84%, 12.13%, 14.25%, 12.86% and 10.15% respectively over research period from this above analysis NBL's manufactory ratio is over than 1%.

B) Capital Structure Ratio:

The capital structure ratio examines long-term solvency of the firm. The long term creditors would judge the soundness of a firm on the basis of the long term financial strength measured in term of its ability to pay the interest regularly as well as to repay the installment of the principal on due dates or in a lamp sum at the time of maturity. From above it is clear that capital structure ratios are calculated to reflect the long term financial solvency of a firm. The following ratios are calculated under it.

i) Total Debt to Total Assets Ratio:

It examines the relationship between borrowed funds and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. Higher the debt ratio higher financial risk as well as increasing claims of outsider in total assets. Conventionally a ratio of 1:2 is considered satisfactory.

Table No. 4.6

Debt to Total Assets Ratio

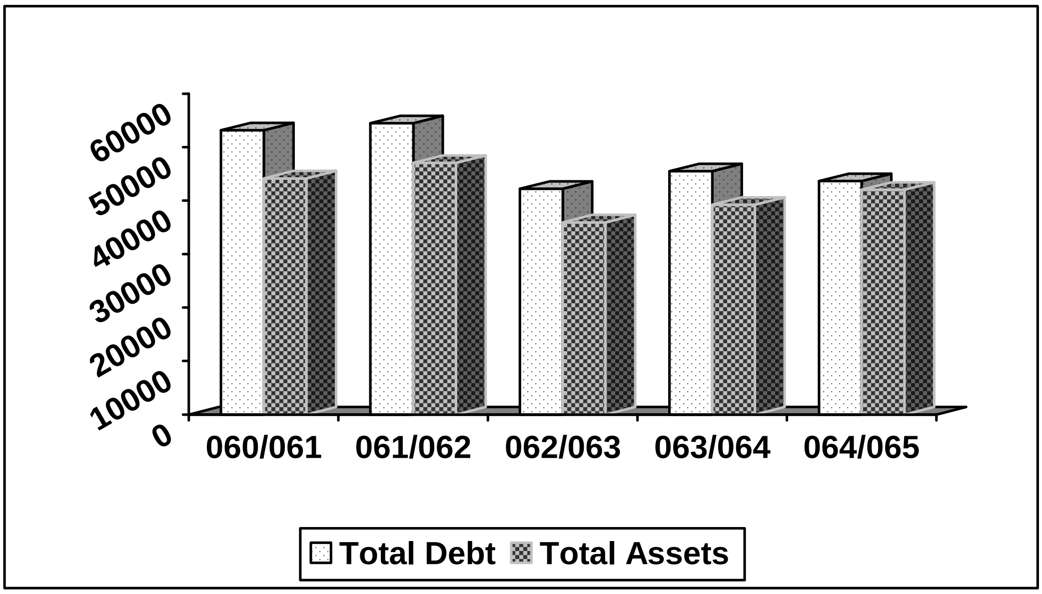
Rs in Million

Year	Ratio	Total Debt	Total Assets
060/061	1.20	53176	44162
061/062	1.16	54471	47045
062/063	1.18	42220	35918
063/064	1.16	45506	39259
064/065	1.04	43650	42053
Average	1.15		

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.6

Total Debt to Total Assets Ratio



Source: Table No. 4.6

The above table shows that debt financing of NBL is excessively high or in other words they have excessively geared capital structure. In five years research period the maximum is 120% and minimum is 104% in FY 060/061 and 064/065 respectively. The average ratio is 115%.

ii) Total Debt to Equity Ratio:

It examines the relationship between borrowed funds and owner's capital (i.e. Shareholders' equity). It is the ratio of the amount invested by outsiders to the amount invested by the owners of the business. A higher ratio shows the large share of financing by the creditors than that of owners. It indicates the margin of safety to the owners.

Table No. 4.7

Total Debt to Equity Ratio

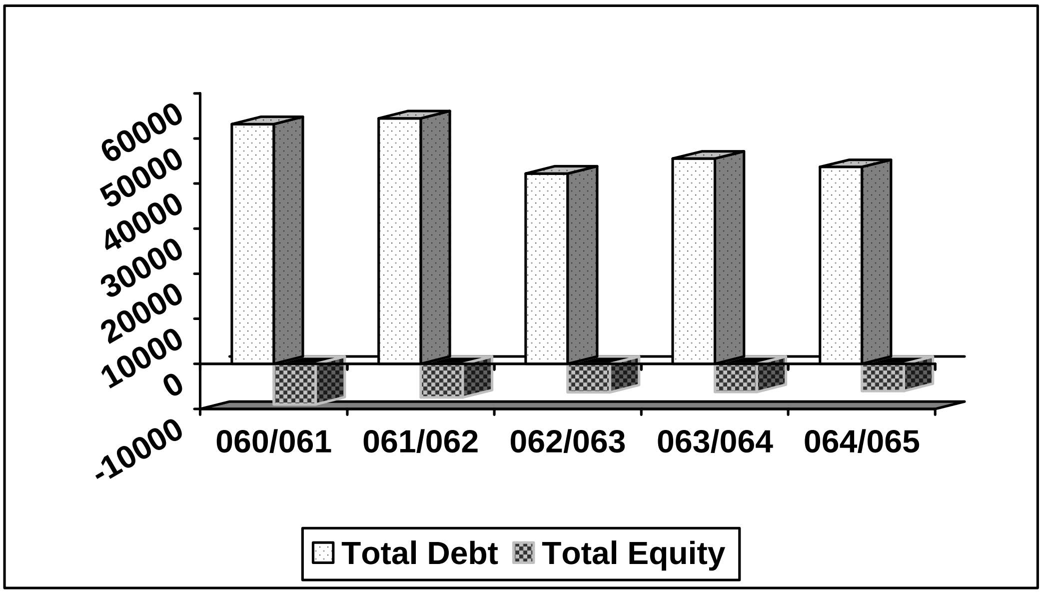
Rs in Million

Year	Total Debt	Total equity	Ratio
060/061	53176	-9015	-5.90
061/062	54471	-7426	-7.33
062/063	42220	-6302	-6.70
063/064	45506	-6248	-7.28
064/065	43650	-6008	-7.27
Average			-6.90

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.7

Total Debt to Total Equity Ratio



Source: Table No. 4.7

The above table shows that the total debt to total equity ratio of NBL is in negative form and generally a ratio of 50:50 is considered to be good depending upon the type of the organization. The analysis indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets.

iii) Interest Coverage Ratio:

It indicates the firms ability to cover interest charges. It is also identified as time interest earned ratio. The ratio measures the debt servicing capacity of a firm in so far as fixed on long-term loan is concerned.

Table No. 4.8

Interest Coverage Ratio

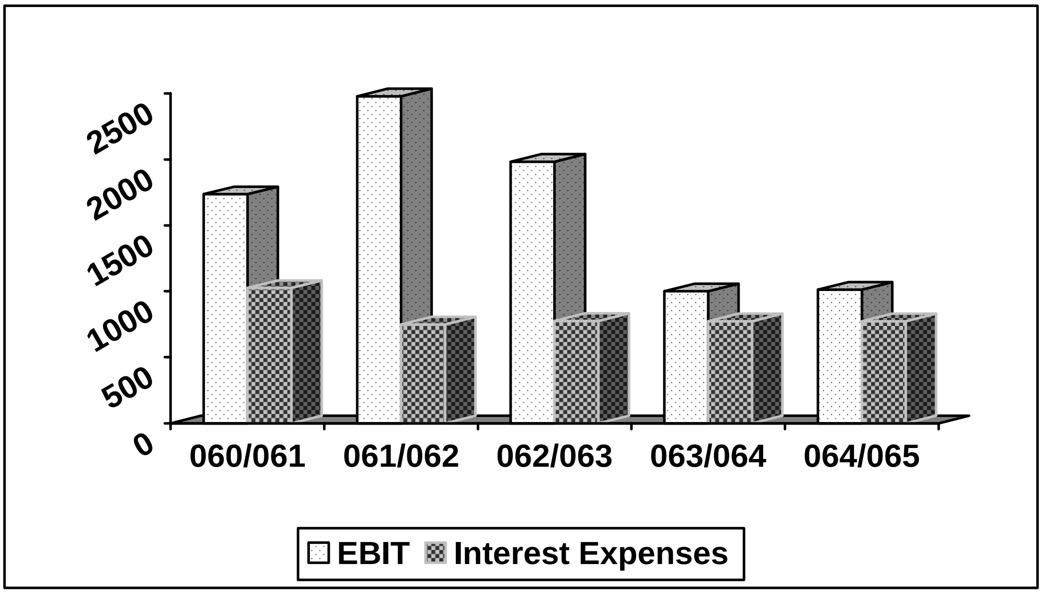
Rs in Million

Year	EBIT	Interest Expenses	Ratio
060/061	1736	1026	1.69
061/062	2479	749	3.31
062/063	1982	774	2.56
063/064	1000	773	1.30
064/065	1012	773	1.31
Average			2.034

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.8

Interest Coverage Ratio



Source: Table No. 4.8

Interest coverage ratio of NBL are 1.69, 3.31, 2.56, 1.30 and 1.31 times in during the study period. It range is between 1.31 to 3.31 times and this tell that debt servicing capacity of this bank is high.

Higher interest coverage rates is preferable to the creditors since it gives more assurance to them.

C) Profitability Ratio

The major performance indicator of any firm is profit. The objective of every firm is to make good return. Any organization has desire to earn high profit which helps to survive the firm and indicates the efficient operation of the firm.

i) Return on Assets Ratio:

This ratio measures the overall profitability of all working fund i.e. total assets. A firm has to earn satisfactory return on working fund for its survival. It measures the productivity of the assets.

Table No. 4.9

Net Profit to Total Assets to Return on Assets (ROA)

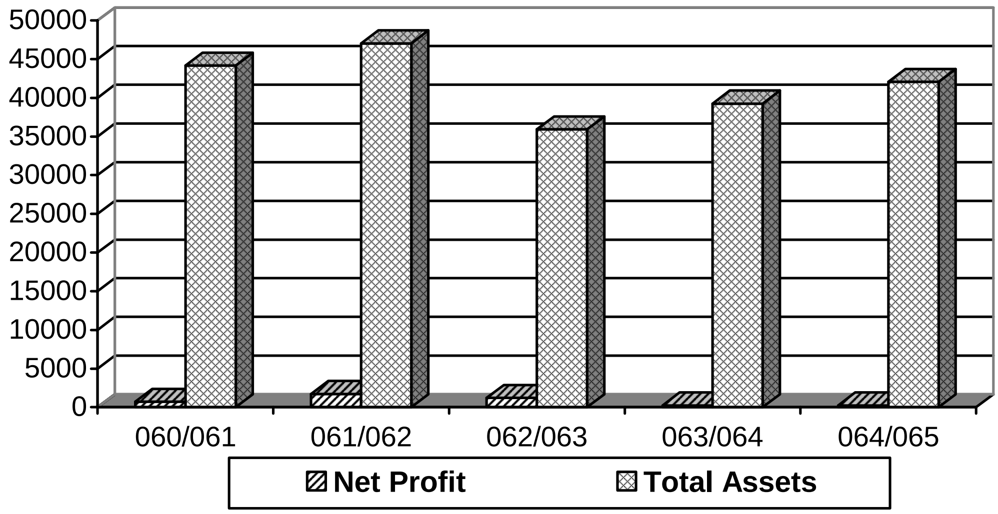
Rs in Million

Year	Net Profit	Total Assets	Ratio
060/061	710	44162	0.0161
061/062	1730	47045	0.0367
062/063	1207	35919	0.0336
063/064	227	39259	0.0058
064/065	239	42053	0.0057
Average			0.0196
Standard Deviation (S.D.)			0.0133
Coefficient of Variation (C.V.)			0.6783

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.9

Net Profit to Total Assets to Return on Assets (ROA)



Source: Table No. 4.9

The above table shows that the Net profit to total assets ratio of NBL various from maximum 3.67% to minimum 0.57% with an average 1.96% during the study period. The analysis indicates that the bank has not been able to generate surplus by utilizing assets efficiently.

ii) Net Profit after Tax to Total Operating Income Ratio:

This ratio measures the relation between net profit or net loss and total operating income. This ratio represents the tax amount or tax ratio with total operating income.

Table No. 4.10

Net Profit After Tax to Total Operating Income Ratio of NBL

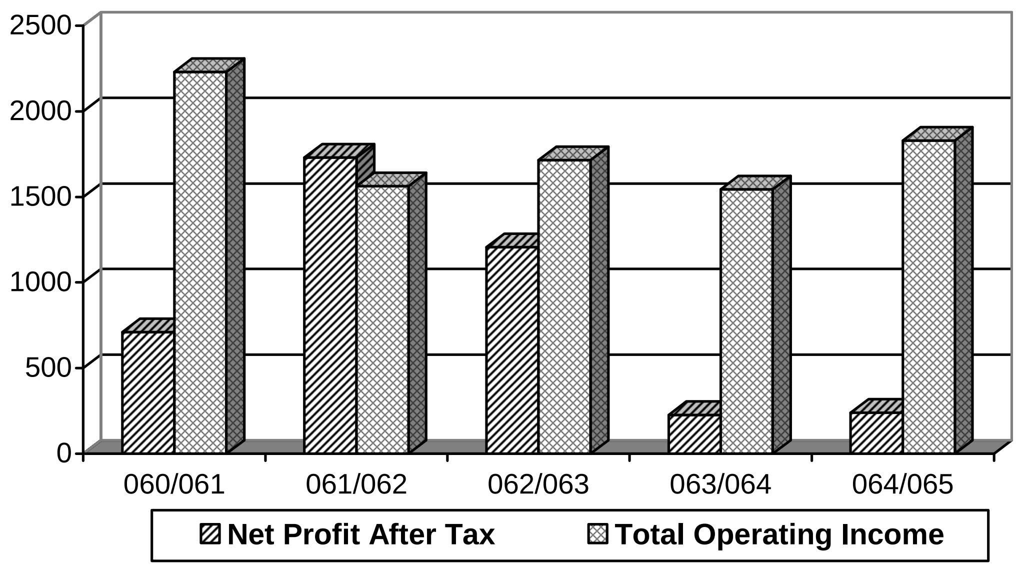
Rs in Million

Year	Net Profit After Tax	Total Operating Income	Ratio
060/061	710	2230	0.32
061/062	1730	1563	1.11
062/063	1207	1715	0.70
063/064	227	1545	0.15
064/065	239	1829	0.13
Average			0.482
S.D.			0.3747
C.V.			0.7808

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.10

Net Profit After Tax to Total Operating Income Ratio of NBL



Source: Table No. 4.10

Above table shows the net profit after tax to total operating income ratio of NBL for five different fiscal years. There is highest ratio is 111% in FY 061/062 and lowest ratio is 13% in FY 064/065. The mean average ratio is 48.2%. There is increase in ratio in FY 061/062 and then decreasing trend upto FY 064/065.

ii) Net Profit to Total Deposit Ratio

Deposits are disbursed as loans and advances to public in generating revenue. It measures the internal rate of return from the utilization of total assets.

Table No. 4.11

Net Profit to Total Deposit Ratio

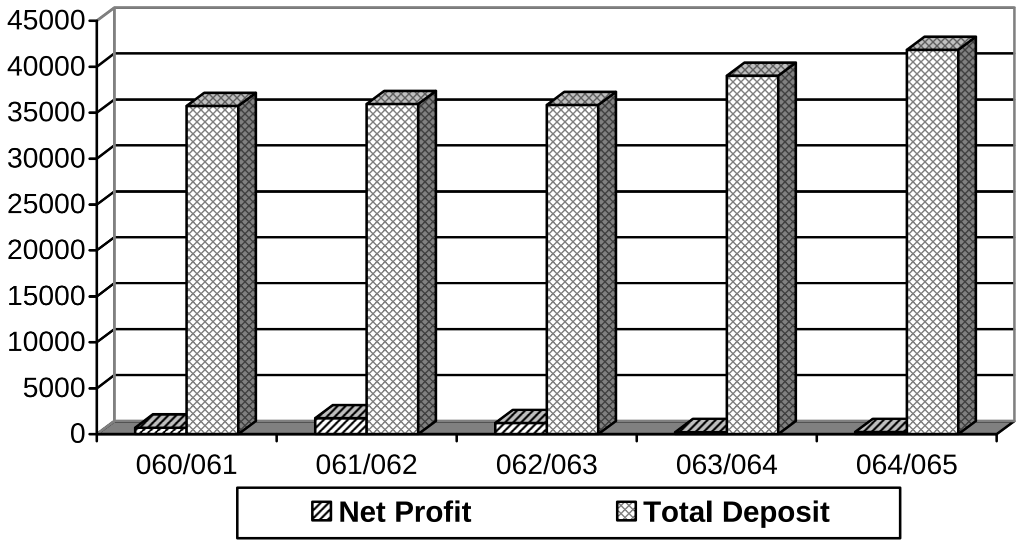
Rs in Million

Year	Net Profit	Total Deposit	Ratio
060/061	710	35735	0.0199
061/062	1730	35934	0.0481
062/063	1207	35830	0.0337
063/064	227	39014	0.0058
064/065	239	41829	0.0057
Average			0.0227
Standard Deviation (S.D.)			0.0163
Coefficient of Variation (C.V.)			0.7192

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.11

Net Profit to Total Deposit Ratio



Source: Table No. 4.11

The above table shows that the net profit to total deposit ratio of NBL various from maximum 4.81% in FY 061/062 to minimum 0.57% in FY 064/065 with an average 2.27% during the study period. On the 2nd year net profit ratio is maximum and after it is decreasing. The table shows that the bank is not able to generate profit by using it's deposits.

iii) Interest Income on Investment to Total Income Ratio

Given figure shows that the total interest income on investment to total income ratio in five years period.

Table No. 4.12

Interest Income on Investment to Total Income Ratio

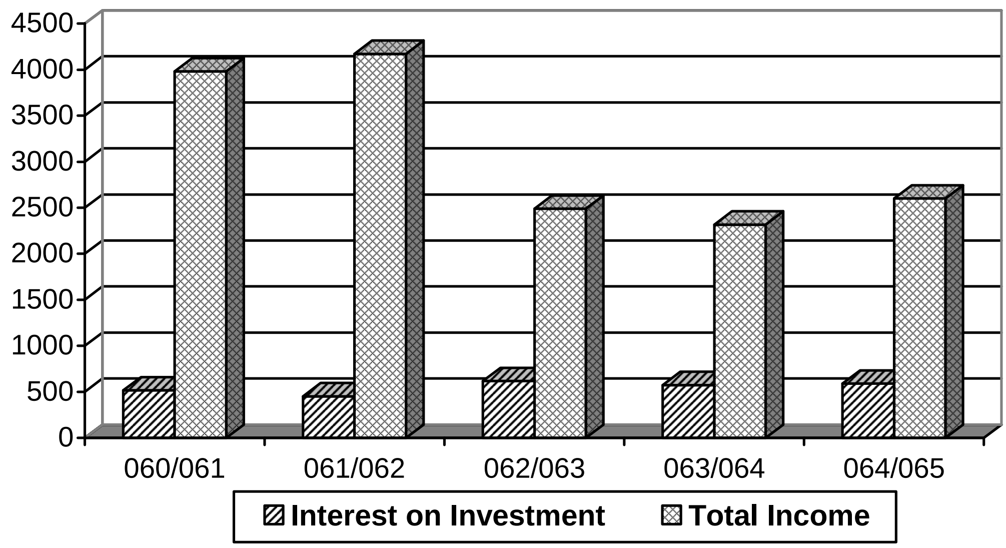
Rs in Million

Year	Interest on Investment	Total Income	Ratio
060/061	516	3982	0.1296
061/062	451	4171	0.1081
062/063	617	2489	0.2479
063/064	573	2317	0.2473
064/065	588	2601	0.2260
Average			0.1918
Standard Deviation (S.D.)			0.0613
Coefficient of Variation (C.V.)			0.3227

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.12

Interest Income on Investment to Total Income Ratio



Source: Table No. 4.12

The above table shows that the total interest on investment to total income ratio is in fluctuating trend the highest ratio is 24.79% and lowest one is 10.81% in FY 063/064 and 061/062 respectively. The ratio is

12.96%, 24.73%, 22.60% in FY 060/061, 063/064, 064/065 respectively. The average ratio is 19.18%.

iv) Operating Self-Sufficiency Ratio:

This ratio shows NBL income (interest) with respect to the operating cost. Operating cost includes administrative expenses, interest expenses, indirect interest expenses, loan loss provision, etc.

Table No. 4.13

Operating Self-Sufficiency Ratio of NBL

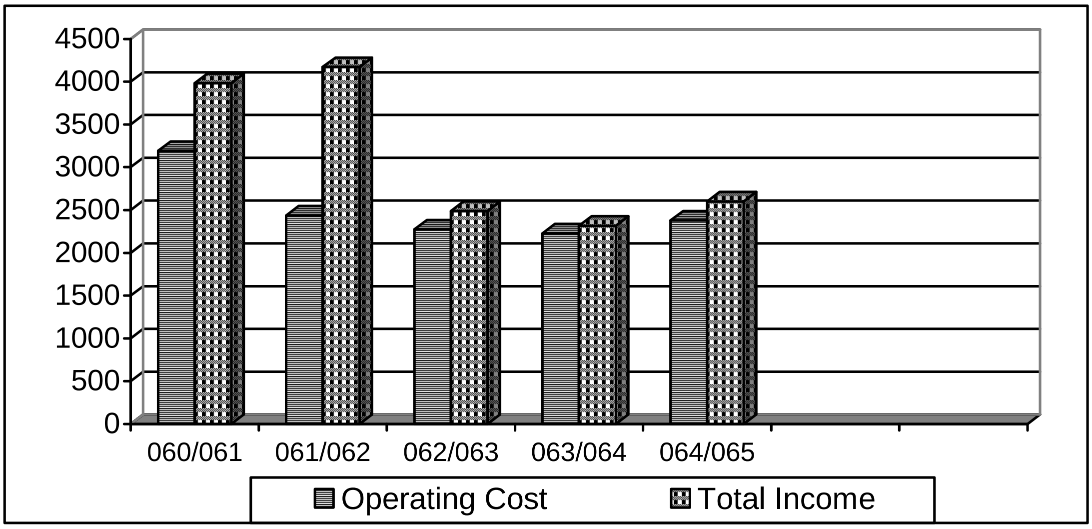
Rs in Million

Year	Operating Cost	Total Income	Ratio
060/061	3192	3982	1.25
061/062	2437	4171	1.71
062/063	2275	2489	1.09
063/064	2228	2317	1.04
064/065	2379	2601	1.09
Average			1.236
Standard Deviation (S.D.)			0.2473
Coefficient of Variation (C.V.)			0.1995

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.13

Operating Self-Sufficiency Ratio of NBL



Source: Table No. 4.13

In above table, total income is fluctuating trend. The highest total income is Rs. 4171 million in FY 061/062 and lower total income in Rs. 2317 million in FY 063/064. But the operating cost is also fluctuating so there is a fluctuation in operating self sufficiency ratio. The highest ratio is 171% and the lowest ratio is 104% in FY 061/062 and 063/064 respectively. The average ratio is 1.24%.

v) Net Profit to Net Worth or Return on Equity (ROE)

Net worth denotes the owner's claim in the assets of the bank's remain after subtracting total external liabilities from total assets here, total assets represent all the assets beside accumulated loss and intangible assets.

Table No. 4.14
Net Profit to Net Worth or Return on Equity

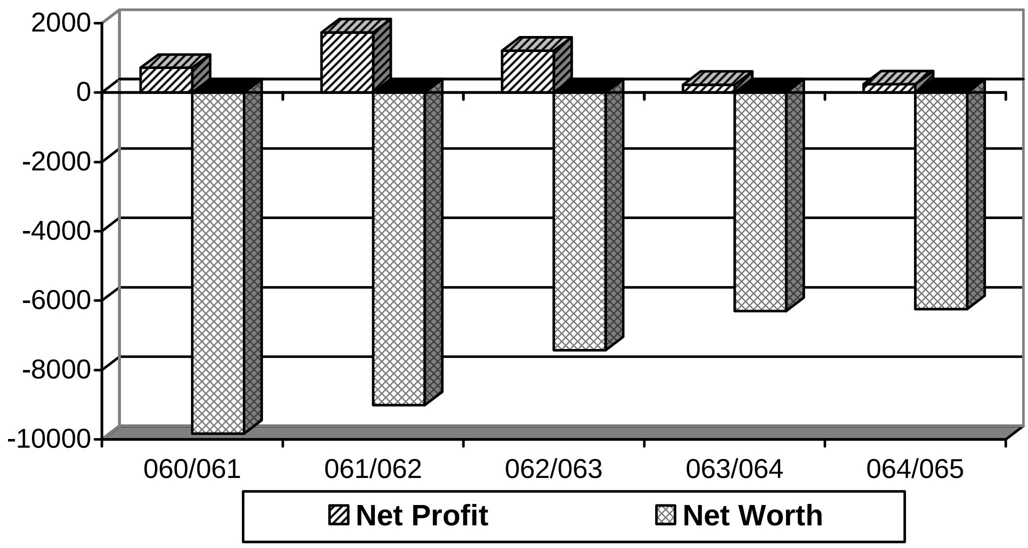
Rs in Million

Year	Net Profit	Net Worth	Ratio
060/061	710	-9831	-0.0788
061/062	1730	-9015	-0.2323
062/063	1207	-7426	-0.1916
063/064	227	-6301	-0.0363
064/065	239	-6248	-0.0382
Average			-0.1154

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.14

Net Profit to Net Worth or Return on Equity



Source: Table No. 4.14

The above table shows that the net profit to net worth ratio of NBL varies from maximum -3.63% to minimum -23.23% with an average -11.54%. during the study period, This analysis indicates that profit earning in relation to its share holders equity is in worst position.

vi) Interest Earned to Total Assets Ratio:

It measures the relationship between interest earned and total assets. A higher ratio is considered as significant measure to gauge interest earning efficiency of the firm in relation to the total assets.

Table No. 4.15

Interest Earned to Total Assets Ratio

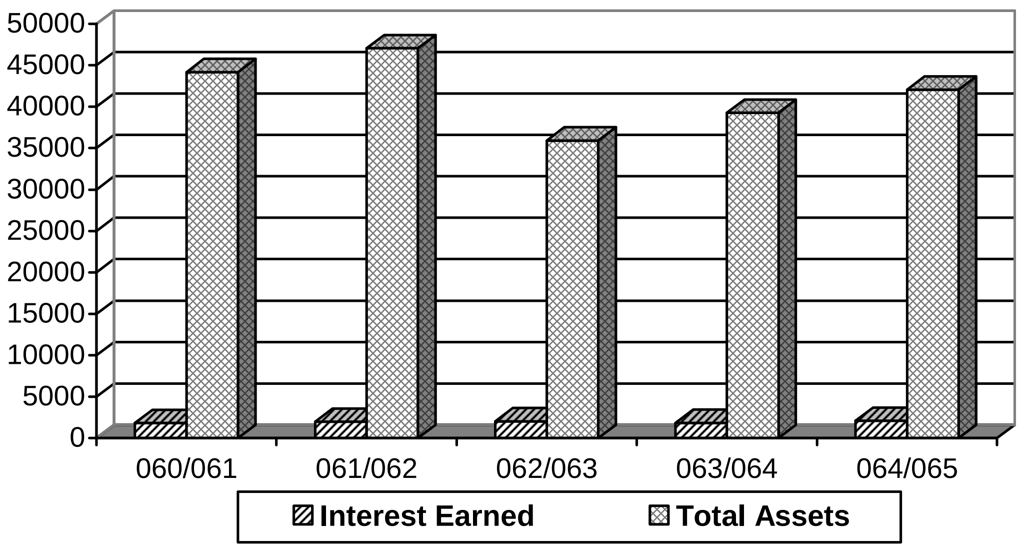
Rs in Million

Year	Interest Earned	Total Assts	Ratio
060/061	1825	44162	0.0413
061/062	1987	47045	0.0422
062/063	2049	35919	0.0570
063/064	1849	39259	0.0471
064/065	2095	42053	0.0498
Average			0.0475
Standard Deviation (S.D.)			0.0075
Coefficient of Variation (C.V.)			0.1578

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.15

Interest Earned to Total Assets Ratio



Source: Table No. 4.15

The above table shows that the interest earned to total assets ratio of NBL is 4.13%, 4.22%, 5.70%, 4.71%, 4.98% in FY 060/ 061, 061/062, 062/063, 063/064, 064/065 respectively. The average ratio is 4.75%.

D) Operating Ratio:

i) Total Operating Expenses to Total Assets Ratio:

This ratio helps the relation between the total operating expenses and the total assets.

Table No. 4.16

Total Operating Expenses to Total Assets Ratio of NBL

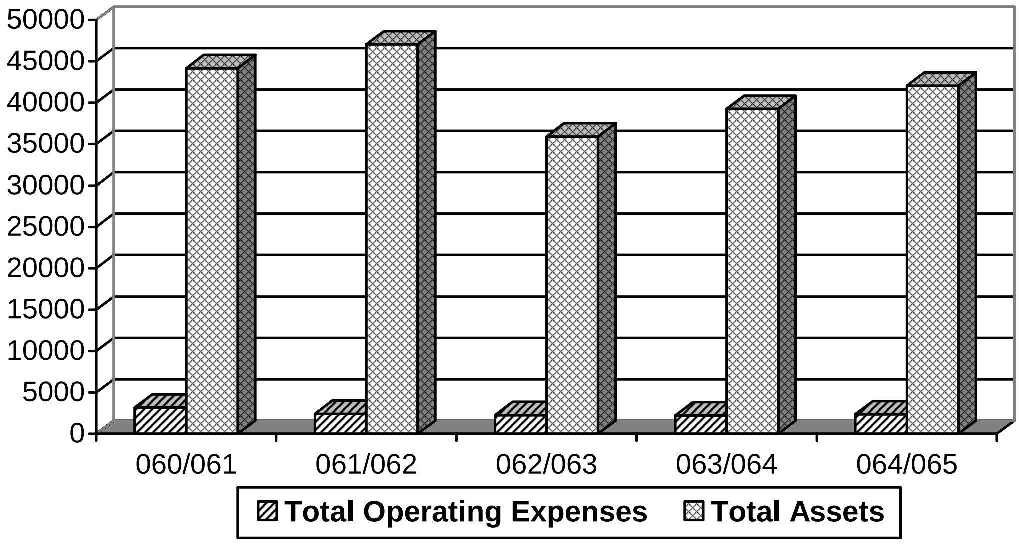
Rs in Million

Year	Total Operating Expenses	Total Assts	Ratio
060/061	3192	44162	0.0723
061/062	2437	47045	0.0518
062/063	2275	35919	0.0633
063/064	2228	39259	0.0567
064/065	2379	42053	0.0565
Average			0.060

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.16

Total Operating Expenses to Total Assets Ratio of NBL



Source: Table No. 4.16

The above table shows that there is a fluctuation in ratios. The ratios are not in increasing or decreasing trend i.e. fluctuating trend. The ratio gives the mixed result in different years. The highest ratio is 7.23% in FY 060/61. The lower ratio is 5.18% in FY 061/62. The average of the ratio is 6%.

ii) Total Operating Income to Total Assets Ratio:

This ratio is calculated to find out the ratio of operating income with total assets. Operating income represents the achievement of the profit of the organization.

Table No. 4.17

Total Operating Income to Total Assets Ratio of NBL

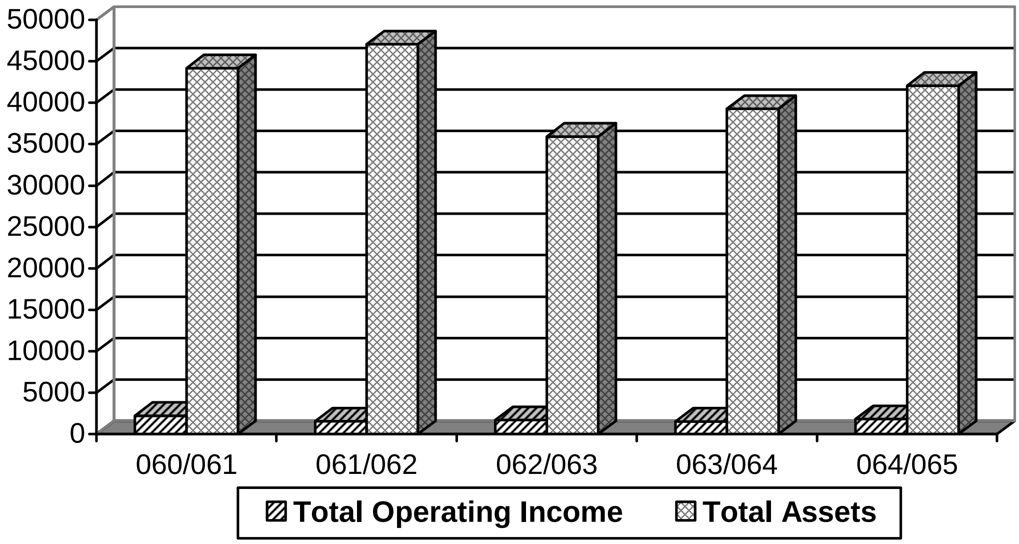
Rs in Million

Year	Total Operating Income	Total Assts	Ratio
060/061	2230	44162	0.0505
061/062	1563	47045	0.0332
062/063	1715	35919	0.0477
063/064	1545	39259	0.0394
064/065	1829	42053	0.0435
Average			0.0428

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.17

Total Operating Income to Total Assets Ratio of NBL



Source: Table No. 4.17

The above table 4.17 shows the operating income to total assets ratio. This ratio says the outcomes of utilizing the assets in the banking business. Higher ratio shows the higher position of profit using in total assets. Similarly, the lower ratio reflects the lower position of the profit by using total assets. The higher ratio is 5.05% and lower ratio is 3.32%

in FY 060/061 and 061/062 respectively. The ratio of above table is fluctuating trend. The average ratio is 4.28%.

iii) Total Operating Expenses to Total Operating Income Ratio:

This ratio shows the comparison of total operating income with total operating expenses. This ratio finds what is the relation between the operational expenses and the operating income.

Table No. 4.18

Total Operating Expenses to Total Operating Income Ratio of NBL

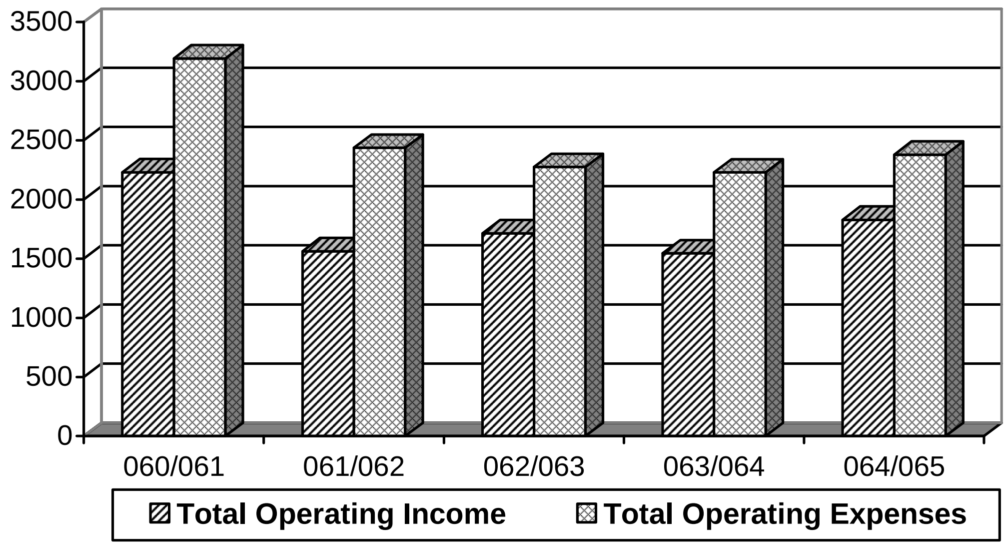
Rs in Million

Year	Total Operating Expenses	Total Operating Income	Ratio
060/061	3192	2230	1.43
061/062	2437	1563	1.56
062/063	2275	1715	1.33
063/064	2228	1545	1.44
064/065	2379	1829	1.30
Average			1.412

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.18

Total Operating Expenses to Total Operating Income Ratio of NBL



Source: Table No. 4.18

The above table shows the higher ratio is 156% and lower one is 130% in FY 061/062, 062/063 respectively. In during the research period the ratio is higher than 100%. The ratio crosses 100% expenses will be high and the bank will avoid the loss. The average of the ratio is 141.2%.

iv) Interest Paid on Total Deposit to Total Expenses Ratio:

This ratio is related with interest expenses of NBL. Total expenses of every organization refer to maximize the profit of the organization i.e. less expenses represents the viability of the organization. The bank has to pay interest on deposits. Deposits are the most important source of fund collection. All banking wings of the NBL are involving to collect fund by means of deposit accepting from the depositors with certain interest in some maturity periods.

Table No. 4.19

Interest Paid on Total Deposit to Total Expenses Ratio of NBL

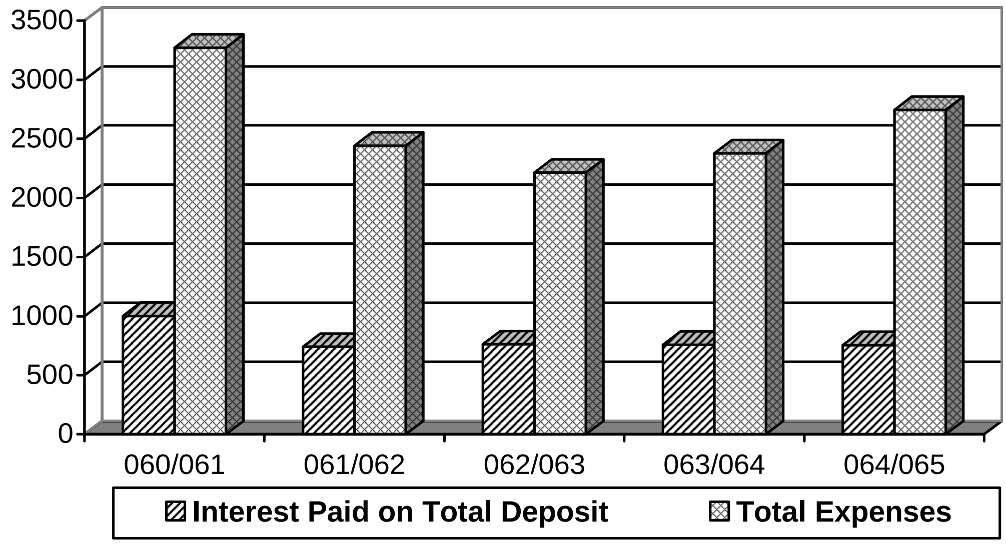
Rs. in Million

Year	Interest Paid on Total Deposit	Total Expenses	Ratio
060/061	1002	3271	0.3063
061/062	740	2441	0.3031
062/063	762	2215	0.3440
063/064	758	2377	0.3188
064/065	756	2745	0.2754
Average			0.3095

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.19

Interest Paid on Total Deposit to Total Expenses Ratio of NBL



Source: Table No. 4.19

From above presentation shows the interest on deposit to total expenses ratio is in Fluctuating trend of NBL. The highest ratio is 34040% in FY 062/063. The lowest one is 27.54% in FY 064/065. This means that in FY 062/063, contribution on the expenses of deposit is higher than the other years this ratio finds the contribution of the deposit expenses with the total expenses. The average of ratio is 30.95% of the study period.

v) Interest Paid on Borrowing to Total Expenses Ratio:-

Borrowing are the main source of capital for any organization borrowing capital to be paid with interest within the certain maturity periods interest is also an expenses to the organization.

Table No. 4.20

Interest Paid on Borrowing to Total Expenses Ratio of NBL

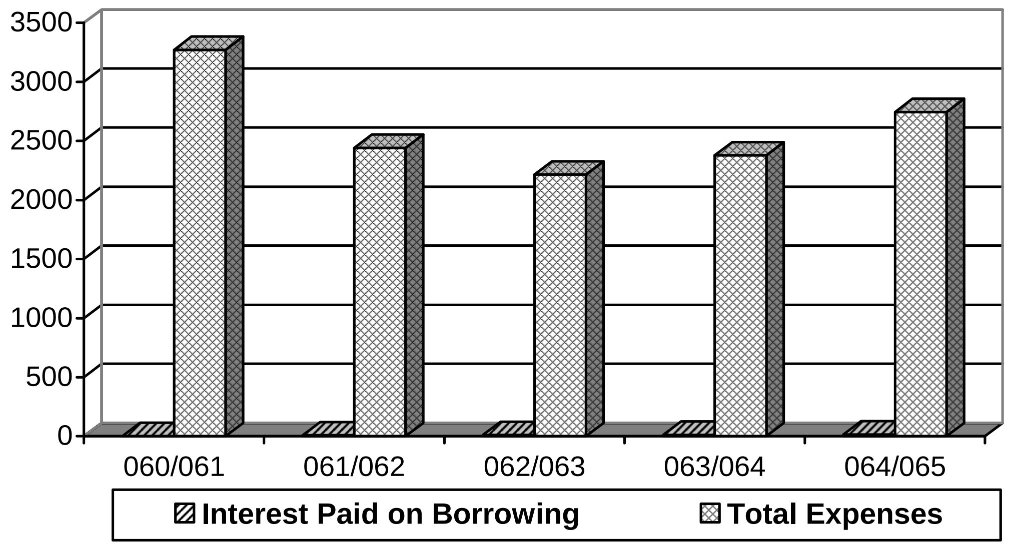
Rs. in Million

Year	Interest Paid on Borrowing	Total Expenses	Ratio
060/061	1.45	3271	0.0004
061/062	8.5	2441	0.0035
062/063	11.47	2215	0.0051
063/064	12.75	2377	0.0054
064/065	15	2745	0.0055
Average			0.0047

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.20

Interest Paid on Borrowing to Total Expenses Ratio of NBL



Source: Table No. 4.20

The above table shows the total interest expenses on borrowing to total expenses of NBL. The highest and lowest ratio is 0.55% and 0.04% in FY 064/065 and 060/061 respectively. The average ratio is 0.47%. It is increasing trend.

vi) Interest Expenses to Interest Income Ratio:

This ratio is the relationship between interest expenses and interest income. Interest expenses means the amount which the bank has to pay to its depositors, Borrowings, on provident fund and rebate on interest from it's investment on bonds on loan and advance to employed the following table shows this ratio of NBL for different periods.

Table No. 4.21

Interest Expenses to Interest Income Ratio of NBL

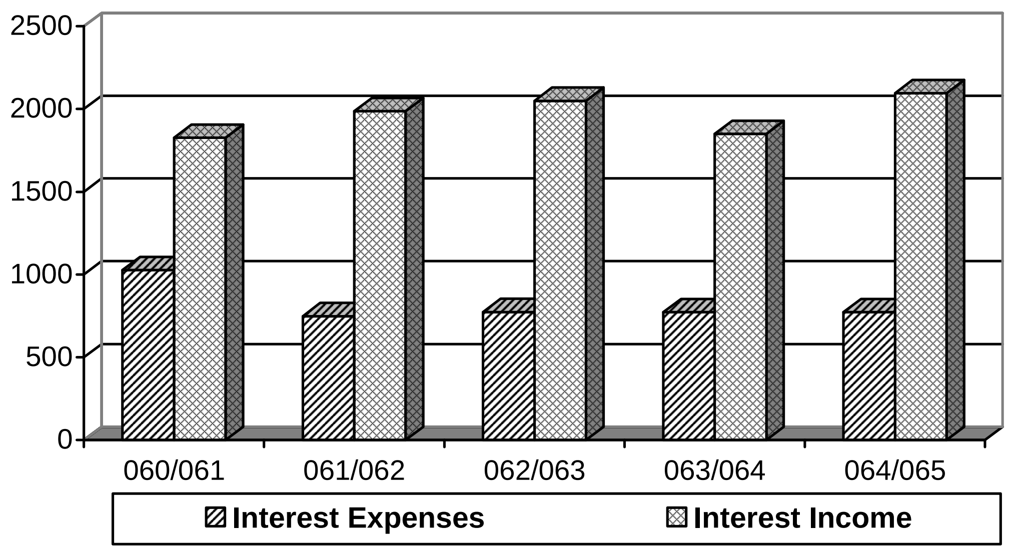
Rs. in Million

Year	Interest Expenses	Interest Income	Ratio
060/061	1026	1825	0.56
061/062	749	1987	0.38
062/063	774	2049	0.37
063/064	773	1849	0.42
064/065	773	2095	0.37
Average			0.422

Source: Annual report (year 2060/061 to 064/065)

Figure No. 4.21

Interest Expenses to Interest Income Ratio of NBL



Source: Table No. 4.21

The above table shows the interest expenses and interest income of NBL. The highest ratio is 56% and lowest on is 37% in FY 060/061 and 062/063 respectively. The ratio is fluctuating trend. The ratio is 38%, 42% and 37% in FY 061/062, 063/064, 064/065 respectively. The average of the ratio is 42.2%.

B) Analysis of Activity Ratios:

A analysis of loan and advances to total deposit ratio:

i) Loan and Advance to Total Deposit

It measures the banks' success in utilizing the outsider's funds for generating profit. It explains how quickly total collected funds are converted into loan and advances.

Table No. 4.22

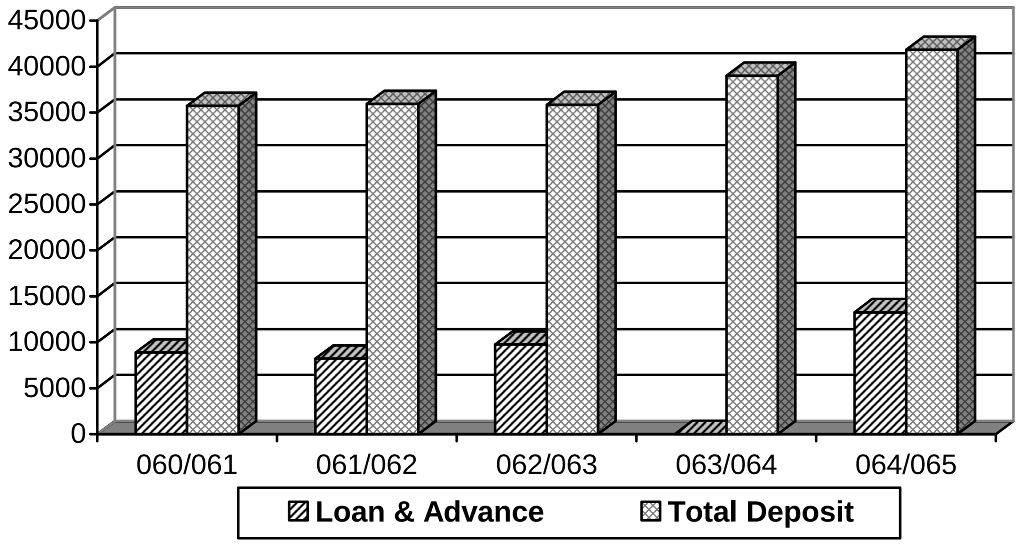
Loan and Advances to Total Deposits

Year	Loan and Advances	Total Deposit	Ratio
060/061	8882	35735	0.2485
061/062	8219	35934	0.2287
062/063	9756	35830	0.2723
063/064	11058	39014	0.2834
064/065	13252	41830	0.3168
Average			0.2699

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.22

Loan and Advances to Total Deposits



Source: Table No. 4.22

The above table sows that the loan and advances to total deposit ratio of NBL various from maximum 31.68% to minimum 22.87% in FY 064/065 and 061/062 respectively. The average ratio is 26.99% during the study period. The analysis shows that bank is no utilizing its total deposit by extending loans and generating profit.

ii) Loans and Advances to Fixed Deposit Ratio:

It measures how many times the amount is used in loans and advances against fixed deposit. Fixed deposits are interest bearing long term obligations where as loans and advances are major sources of investment in generating income for commercial banks.

Table No. 4.23

Loan and Advances to Fixed Deposits Ratio

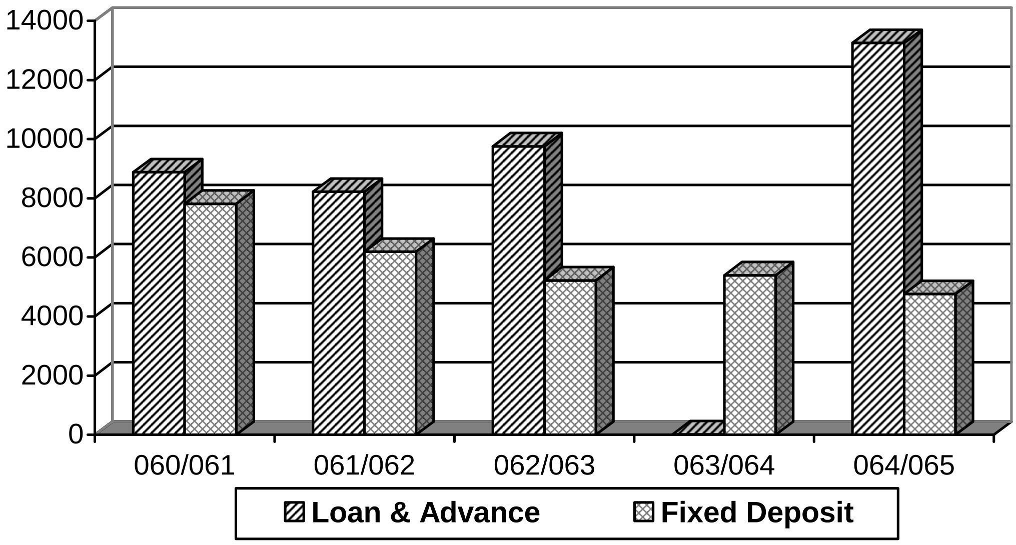
Rs in Million

Year	Loan and Advances	Fixed Deposit	Ratio
060/061	8882	7816	1.136
061/062	8219	6191	1.33
062/063	9756	5222	1.86
063/064	11058	5393	2.05
064/065	13252	4758	1.78
Average			0.0183

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.23

Loan and Advances to Fixed Deposits



Source: Table No. 4.23

The above table shows that loan & advances to fixed deposit ratio of NBL various from maximum 2.78% to minimum 113% in FY 064/065 and 060/061 respectively. The average of 183% during the study period. It shows that loan and advance to fixed deposit ratio has increasing trend. It means NBL has utilization of fixed deposit.

iii) Loan & Advances to Saving Deposit

It measures the ability of bank in mobilizing saving deposits funds into loans and advances. Saving deposit is interest bearing short-term obligation as well as the main source of investment in loan and advances for generating income.

Table No. 4.24

Loan and Advances to Saving Deposit

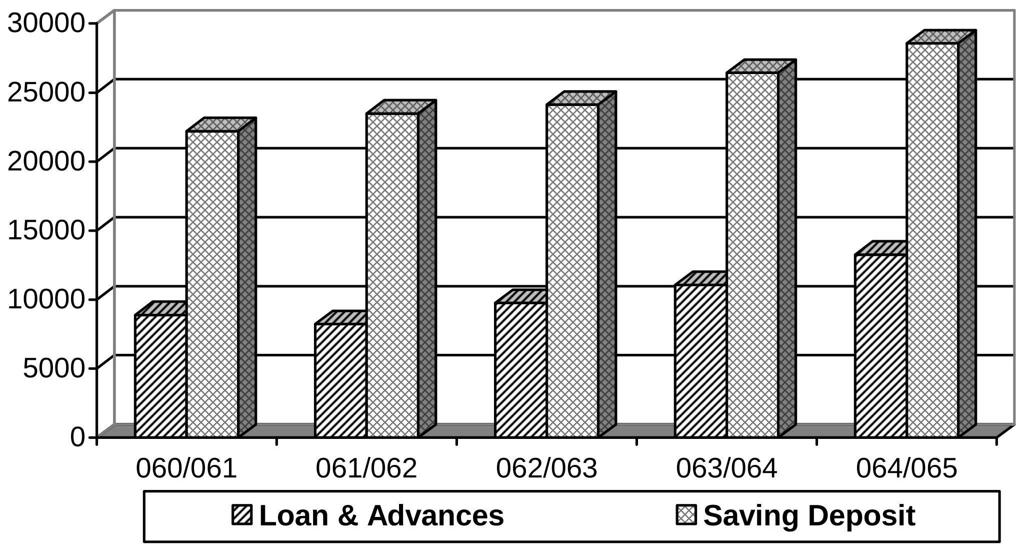
Rs in Million

Year	Loan and Advances	Saving Deposit	Ratio
060/061	8882	22204	0.40
061/062	8219	23489	0.35
062/063	9756	24123	0.40
063/064	11058	26427	0.42
064/065	13252	28565	0.46
Average			0.4067

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.24

Loan and Advances to Saving Deposit



Source: Table No. 4.24

The above table shows that the loan and advances to saving deposit ratio of NBL various from maximum 46% to minimum 35% in FY 064/065, 061/062 respectively. The average ratio is 40.67% during the study period. The analysis shows that the bank is not able to provide loan and advances from its saving deposit.

iv) Loan and Advances to Total Assets Ratio

Table No. 4.25

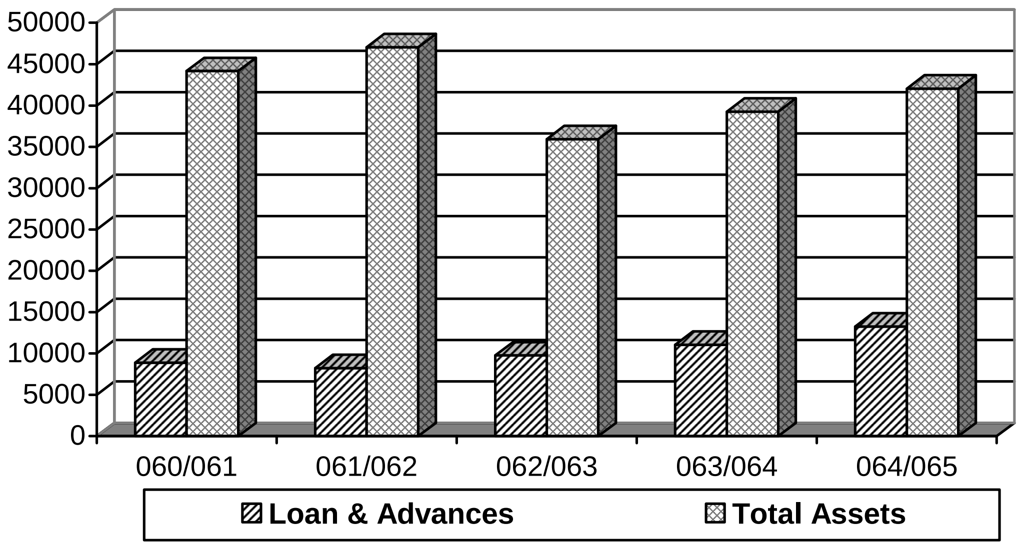
Loan and Advances to Total Assets Ratio

Rs in Million

Year	Loan and Advances	Total Assets	Ratio
060/061	8882	44162	0.2011
061/062	8219	47045	0.1747
062/063	9756	35919	0.2716
063/064	11058	39259	0.2816
064/065	13252	42053	0.3151
Average			0.2488

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.25
Loan and Advances to Total Assets Ratio



Source: Table No. 4.25

The above table shows that the loan and advances to total asset ratio of NBL. The maximum ratio is 31.51% and the minimum ratio is 17.47% in FY 064/065 and 061/062 respectively. The average ratio is 24.88% during the study period.

v) Performing Loan to Total Assets

It tells the percent of performing loan on total assets. It is useful to know the fact whether the good loan is increasing or not. We can generate more earning by increasing good loan and reducing bad and inferior loan.

Table No. 4.26

Performing Loan to Total Assets Ratio

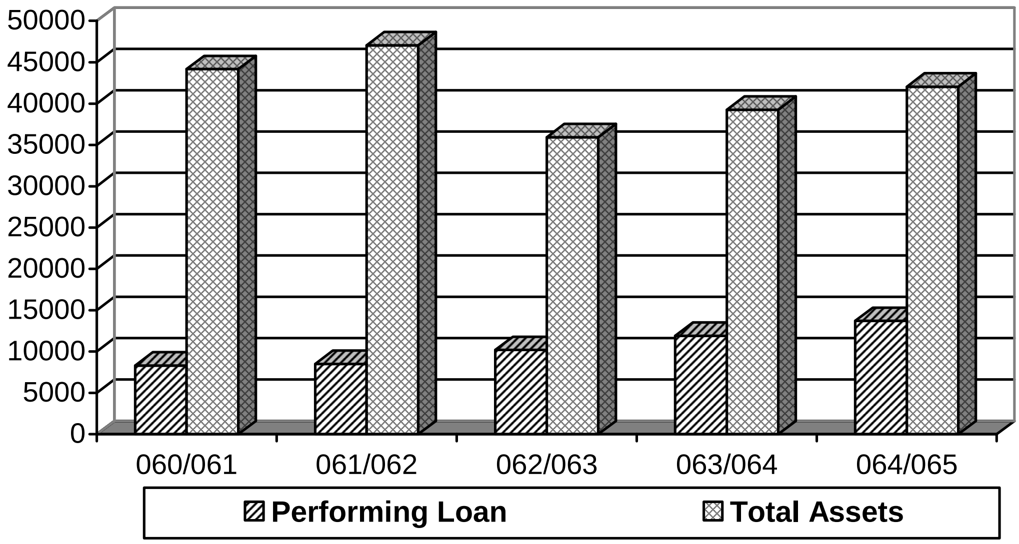
Rs in Million

Year	Performing Loan	Total Assets	Ratio
060/061	8298	44162	0.1879
061/062	8494	47045	0.1806
062/063	10179	35919	0.2834
063/064	11900	39259	0.3032
064/065	13698	42053	0.3257
Average			0.2562

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.26

Performing Loan to Total Assets Ratio



Source: Table No. 4.26

From this table shows that performing assets to total asset ratio of NBL are 18.79%, 18.06%, 28.34%, 30.32% and 32.57% in FY 060/061, 061/062, 062/063, 063/064 and 064/065 respectively and the average ratio is 25.62% during the research period. This table shows that performing loan to total assets ratio is in increasing trend.

4.1.2 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, correlation analysis, trend analysis, various types of tests etc.

A) Correlation Analysis:

Correlation is an analysis of the covariance between two or more variable and it deals to determine the degree of relationship between the variables. Correlation just says the degree of relationship between two or more variables increase or decrease in one cause increase or decrease in another then such variables are correlated variable

i) Correlation between Loan & Advances and Total Deposit

Table No. 4.27

Correlation between Loan & Advances and Total Deposit

Rs in Million

Year	Loan & Advances (x)	Total Deposit (y)
060/061	8882	35735
061/062	8219	35934
062/063	9756	35830
063/064	11058	39014
064/065	13252	41830
r		0.9547
P.E.		0.0268
6 (P.E)		0.1606
r^2		0.9115

Source: Annual Report (Year 2060/061 to 064/065)

The analysis shows that the coefficient of correlation between loan & advances and Total Deposit is 0.9547, which means there is a positive correlation between them. Since the value of 'r' lies between 0.7 to 0.999. So there is a high degree of correlation. Correlation between these two variable is significant as r (0.9547) is greater then 6 times P.E(i.e 0.1606). Total deposit is mainly affected by loan & advances.

ii) Correlation coefficient between Investment & Total Deposit

Table No. 4.28

Correlation coefficient between Investment & Total Deposit

Rs in Million

Year	Investment (x)	Total Deposit (y)
060/061	11005	35735
061/062	14199	35934
062/063	14450	35830
063/064	16072	39014
064/065	16571	41830
r		0.8096
P.E.		0.1041
6 (P.E)		0.6248
r^2		0.6557

Source: Annual Report (Year 2060/061 to 064/065)

The analysis shows that the coefficient of correlation between investment and total deposit is 0.8096, which means there is a positive correlation between them. Since the value of 'r' lies between 0.7 to 0.999. So there is a high degree of correlation. Correlation between these two variable is significant as r (0.8096) is greater then 6 times P.E(i.e 0.6248). Total deposit is mainly affected by investment.

iii) Correlation coefficient between Net profit & Total Deposit

Table No. 4.29

Correlation coefficient between Net Profit & Total Deposit

Rs in Million

Year	Net Profit (x)	Total Deposit (y)
060/061	710	35735
061/062	1730	35934
062/063	1207	35830
063/064	227	39014
064/065	239	41830
r		-0.7213
P.E.		0.1451
6 (P.E)		0.8707
r^2		0.5202

Source: Annual Report (Year 2060/061 to 064/065)

The analysis shows that the coefficient of correlation between net profit and total deposit is -0.7213, which means there is a negative correlation between them.

In above table means NBL net profit seems to increase in total deposit then decrease in Net Profit.

iv) Correlation Coefficient between Performing Loan & Total Loan

Table No. 4.30

Correlation Coefficient between Performing Loan & Total Loan

Rs in Million

Year	Performing Loan (x)	Total Loan (y)
060/061	8298	17938
061/062	8494	16866
062/063	10179	12441
063/064	11900	13756
064/065	13688	15749
r		-0.4250
P.E.		0.2478
6 (P.E)		1.48
r^2		0.1807

Source: Annual Report (Year 2060/061 to 064/065)

The analysis shows that the coefficient of correlation between performing loan and total loan is -0.4250, which means there is a negative correlation between them. r^2 is 0.1807 and probable error is 0.2478.

B) Trend Analysis

Trend analysis is one of the most useful statistical tools. In financial statement analysis, the direction of change over period of years is crucial important. Trend analysis of ratios indicates the direction of change. This kind of analysis is particularly applicable to the items it profit and loss account. It is a significant tool of horizontal financial analysis. It is a dynamic method to indicate the change and deviation in items of financial statements. Trend analysis helps to identify the controllable in terms of given period and future forecast can be made for on going concern.

i) Trend Analysis of Loan and Advances:

In this topic the trend values of Loan and Advances for 5 fiscal years have been calculated. The table shows trend and actual values of Loan and Advances for 5 years from FY 2060/061 to FY 2064/065.

Table No. 4.31

Trend Value of Loan and Advance

Loan and Advances (y) = 10233+2031.9x

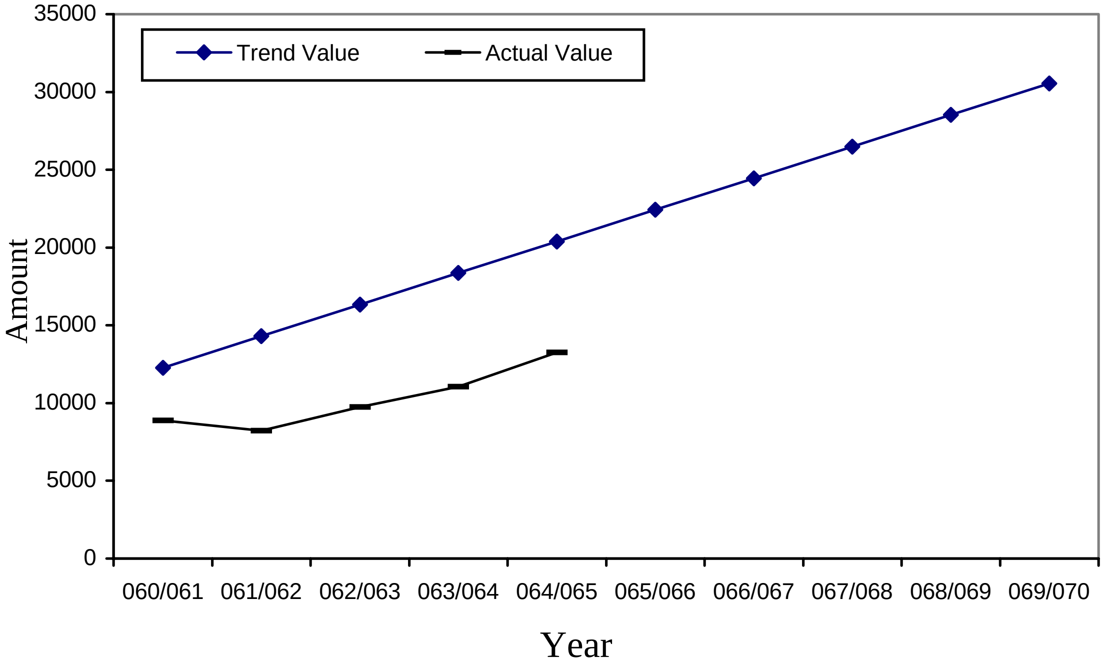
Rs. In Million

Year	Year (X)	Trend Value	App. Trend	Actual Value
060/061	1	12264.9	12265	8882
061/062	2	14296.8	14297	8219
062/063	3	16328.7	16329	9756
063/064	4	18360.6	18361	11058
064/065	5	20392.5	20393	13252
065/066	6		22424	
066/067	7		24456	
067/068	8		26488	
068/069	9		28520	
069/070	10		30552	

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.27

Trend Value of Loan and Advance



Source: Table 4.31

The above table No. 4.31 and figure No. 4.27 shows that the Loan and Advances is in increasing trend. The actual value is also in increasing trend during 5 fiscal years period.

From the above analysis, it is found that the Loan and Advances of NBL is better because the calculated trend values of Loan and Advances are fitted in trend line gives upward sloping.

ii) Trend Analysis of Investment

In this topic the trend value of investment of 5 fiscal years have been calculated. The table shows trend and actual value of investment for 5 years from FY 2060/061 to FY 2064/065.

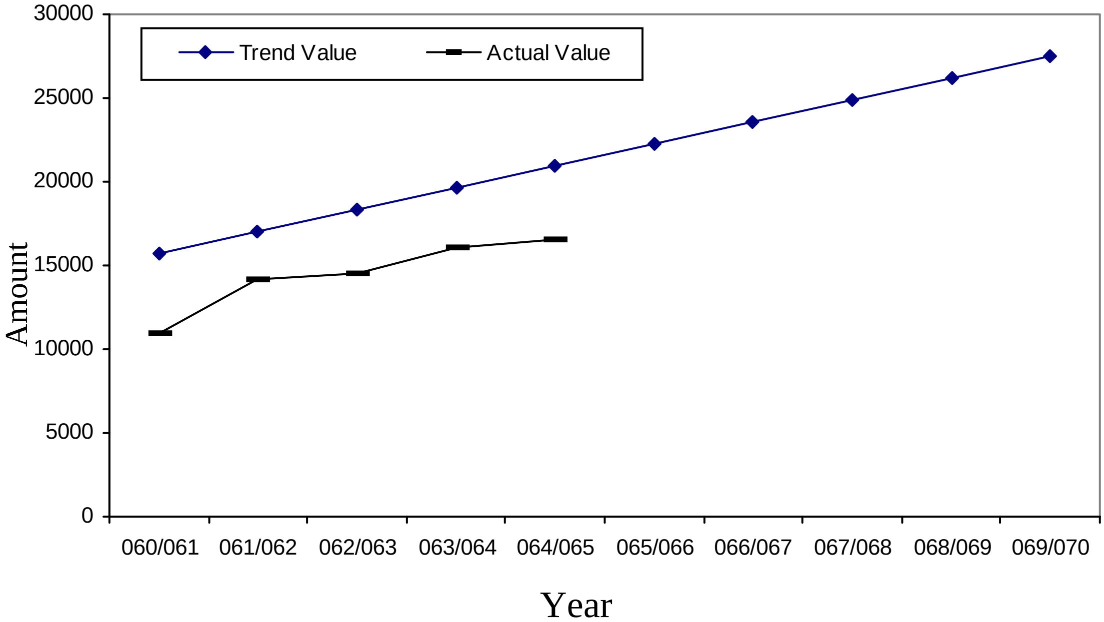
Table No. 4.32
Trend Value of Investment
Investment (y) = 14451.4+1308.5x

Rs. In Million

Year	Year (X)	Trend Value	App. Trend	Actual Value
060/061	1	15759.4	15759	11005
061/062	2	17068.4	17068	14199
062/063	3	18375.4	18375	14490
063/064	4	19683.4	19683	16072
064/065	5	20991.4	20991	16571
065/066	6		22300	
066/067	7		23608	
067/068	8		24917	
068/069	9		26225	
069/070	10		27534	

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.28
Trend Value of Investment



Source: Table 4.32

The above table No. 4.32 and figure No. 4.28 shows that the investment is in increasing trend. The actual value is also in increasing trend during 5 fiscal years period.

From the above analysis, it is found that the landing position of NBL is better because the calculated trend values of investment are fitted in trend line gives upward sloping.

iii) Trend Analysis of Net Profit:

In this topic, the trend values of Net Profit for 5 years have been calculated. The table shows trend and actual values of Net Profit for 5 years from FY 2060/061 to FY 2064/065.

Table No. 4.33

Trend Value of Net Profit

Net Profit (y) = 822.6+(-244.5)x

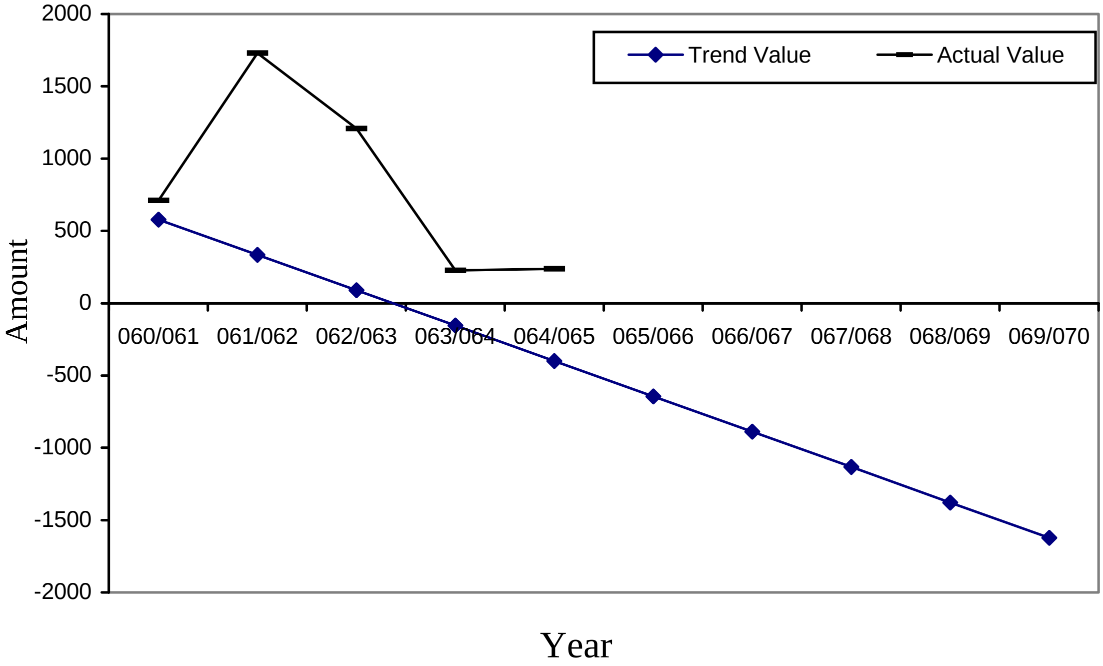
Rs. In Million

Year	Year (X)	Trend Value	App. Trend	Actual Value
060/061	1	578.1	578	710
061/062	2	333.6	334	1730
062/063	3	89.1	89	1207
063/064	4	-155.4	-155	227
064/065	5	-399.9	-400	239
065/066	6		-644	
066/067	7		-889	
067/068	8		-1133	
068/069	9		-1378	
069/070	10		-1622	

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.29

Trend Value of Net Profit



Source: Table 4.33

The above table No. 4.33 and figure No. 4.29 shows that the net profit of the NBL the trend value is in decreasing trend and there is a fluctuation in actual value. Net profit of the NBL in actual value is Rs. 710, Rs. 1730, Rs. 1207, Rs. 227 & Rs. 239 million in FY 060/061, 061/062, 062/063, 063/064 and 064/065 respectively.

From above analysis we know that the total income is less then the total expenditure. Decrement in trend value of net profit shows bad image of NBL.

iv) Trend Analysis of Total Deposits:

In this topic, the trend values of Deposits for 5 fiscal years have been calculated. The table shows trend and actual values of Deposits for 5 years from FY 2060/61 to FY 2064/065.

Table No. 4.34

Trend Value of Total Deposit

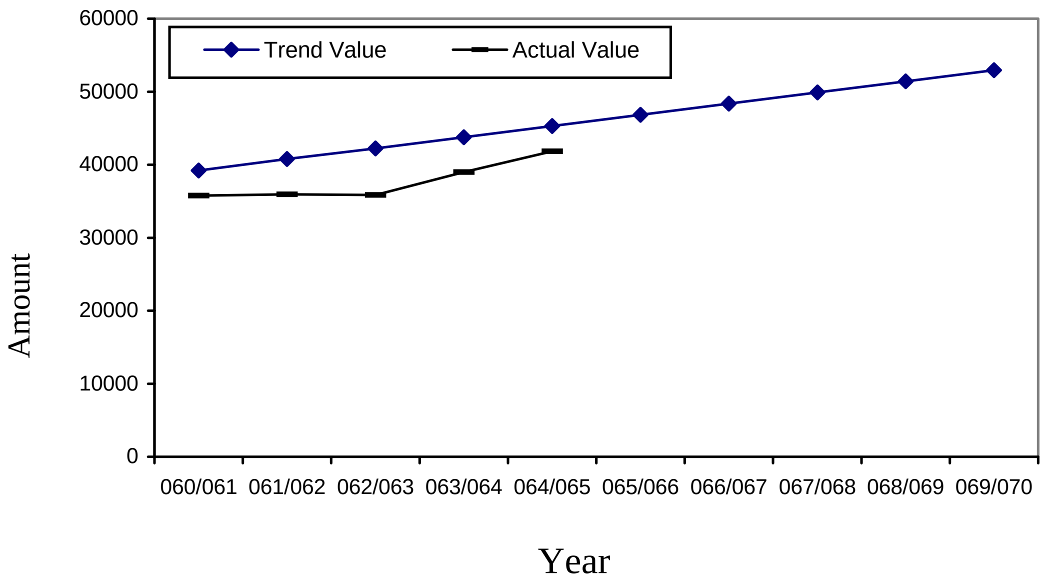
Total Deposit (y) = 37668.4+1526.8x

Rs. In Million

Year	Year (X)	Trend Value	App. Trend	Actual Value
060/061	1	39195.2	39195	35735
061/062	2	40722	40722	35934
062/063	3	42248.8	42249	35830
063/064	4	43775.6	43776	39014
064/065	5	45302.4	45302	41829
065/066	6		46829	
066/067	7		48356	
067/068	8		49883	
068/069	9		51410	
069/070	10		52936	

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.30
Trend Value of Total Deposit



Source: Table 4.34

According to the table and figure the actual value deposit is in increasing the deposit in trend value is also increasing per year.

The total deposit increased from Rs. 35735 million to Rs. 41829 million from FY 060/061 to 061/062 respectively. Where as trend value of total deposit is also increasing from Rs. 39195 million to Rs. 52936 million during research period.

From the above trend analysis, we can say that NBL's deposit collection position is better than before.

v) Trend Analysis of Loan Loss Provision

In this topic, the trend values of loan loss provision for 5 fiscal years have been calculated. The table shows trend and actual values of loan loss provision for 5 years from FY 2060/61 to FY 2064/065.

Table No. 4.35

Trend Value of Loan Loss Provision

Loan Loss Provision (y) = 5112.6+(-1905)x

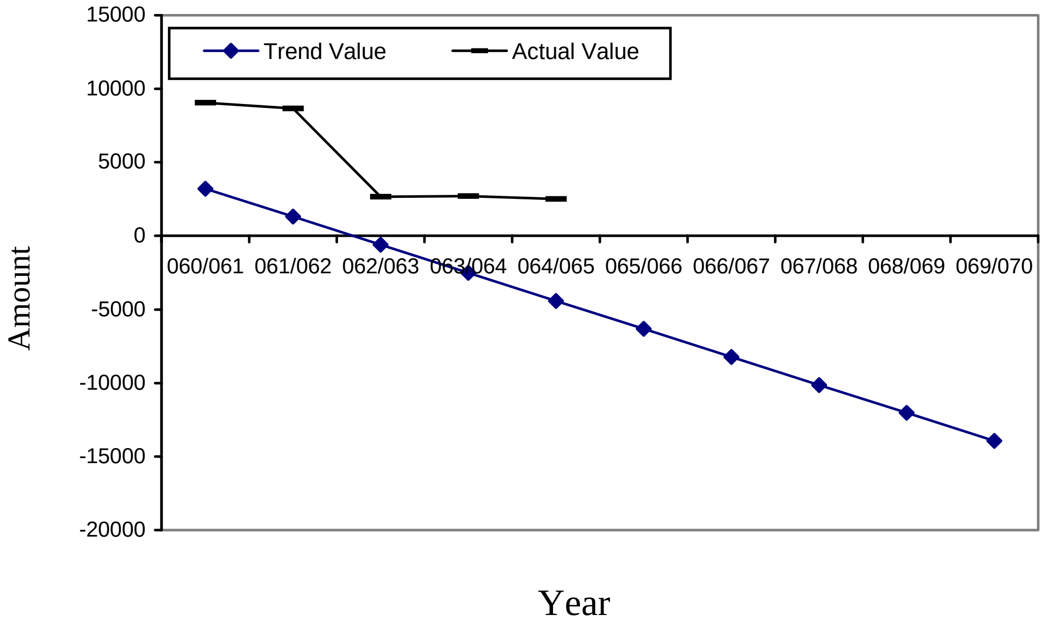
Rs. In Million

Year	Year (X)	Trend Value	App. Trend	Actual Value
060/061	1	3207.6	3208	9056
061/062	2	1302.6	1303	8648
062/063	3	-602.6	-603	2655
063/064	4	-2504.4	-2504	2698
064/065	5	-4412.4	-4412	2506
065/066	6		-6317	
066/067	7		-8222	
067/068	8		-10127	
068/069	9		-12032	
069/070	10		-13937	

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.31

Trend Value of Loan Loss Provision



Source: Table 4.35

According to the table No. 4.35 and figure No. 4.31 the loan loss provision of NBL is decreasing trend in both values (ie. actual and trend value). The loan loss provision of NBL in actual value is decreased from Rs. 9056 million to Rs. 2506 million similarly, the trend value decreased year by year from Rs. 3208 M. to Rs -4412 M.

vi) Trend Analysis of Bank Commission and discount

In this topic, the trend values of bank commission and discount for 5 fiscal years have been calculated. The table shows trend and actual values of bank commission and discount for 5 years from FY 2060/61 to FY 2064/065.

Table No. 4.36

Trend Value of Bank Commission and Discount

Bank Commission and Discount(y) = 201.8+(-1.1)x

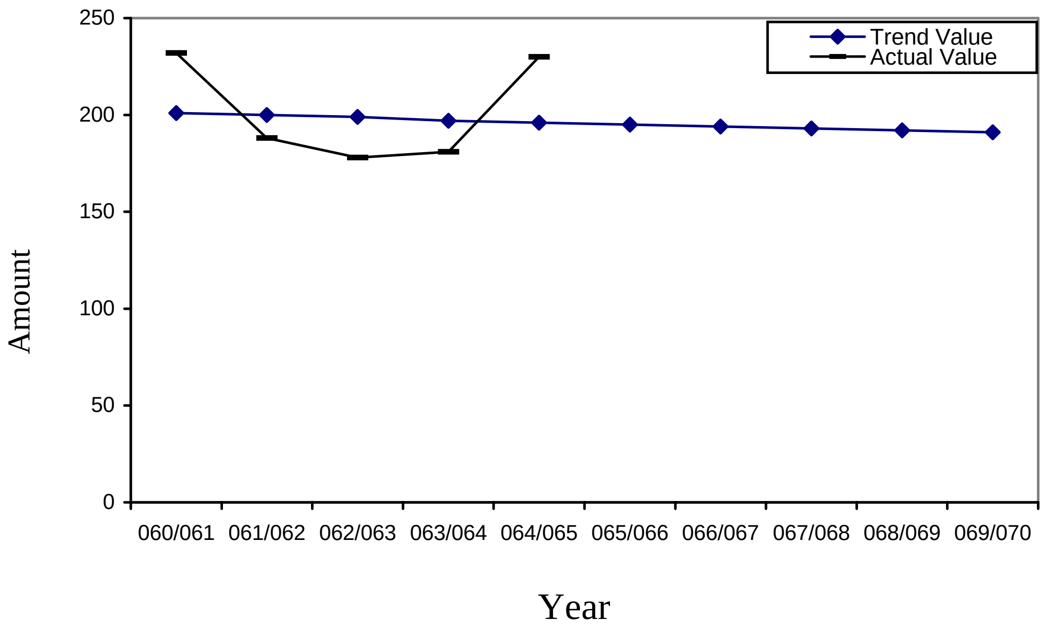
Rs. In Million

Year	Year (X)	Trend Value	App. Trend	Actual Value
060/061	1	200.7	201	232
061/062	2	199.6	200	188
062/063	3	198.5	199	178
063/064	4	197.4	197	181
064/065	5	196.3	196	230
065/066	6		195	
066/067	7		194	
067/068	8		193	
068/069	9		192	
069/070	10		191	

Source: Annual Report (Year 2060/061 to 064/065)

Figure No. 4.32

Trend Value of Bank Commission and Discount



Source: Table 4.36

The above table shows the bank commission and discount of NBL is decreasing trend is trend value and fluctuation of actual value.
The bank commission and discount decrease from Rs. 232 million to Rs. 181 million in FY 060/061 to 064/065 in actual value. But last year it is increase in Rs. 230 million.

C. Analysis of Loan Due Classified as Per Performance:

Table No. 4.37

Classification of Loan into Performing & Non Performing Loan of NBL

Rs. In Million

Years	Performing		Non Performing		Total
	Amount	% on Total Loan	Amount	% on Total Loan	
060/061	8298	46.25%	9640	53.74%	17938
061/062	8494	50.36%	8372	49.63%	16866
062/063	10179	81.81%	2262	18.18%	12441
063/064	11900	86.50%	1856	13.49%	13756
064/065	13688	86.91%	2061	13.09%	15749

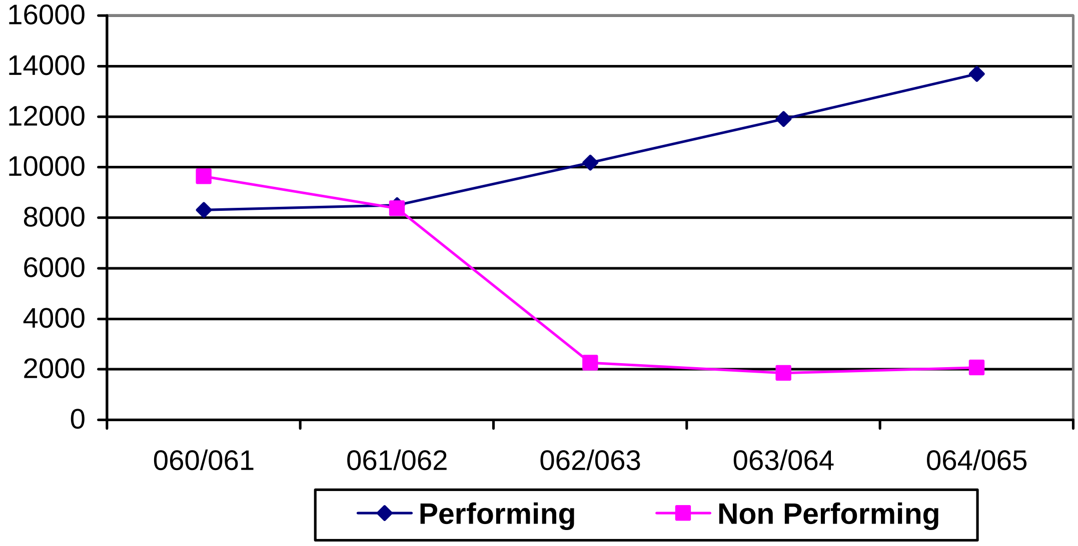
Source: Annual Report (Year 2060/061 to 064/065)

From the above table it is clear that the percentage of performing loan on total loan of NBL during research period is found as 46.25%, 50.36%, 81.81%, 86.50% and 86.91% respectively during the research period. This table shows that the performing loan percentage was sharply increased during the research period. This is clear that loan of NBL was going to good position and NBL loan disbursed is good policy.

The above calculation is plotted in the following figure

Figure No. 4.33

Trend Analysis of Loan into Performing & Non Performing Loan of NBL



Source: Table No. 4.37

The above figure shows trend of performing assets or loan (i.e. includes only good loan) side non-performing loans (i.e. indicating low quality loan, doubtful loan and bad loan)

D. Analysis of Loan Classification as Per Quality

Table No. 4.38

Analysis of Loan Classification as Per Quality

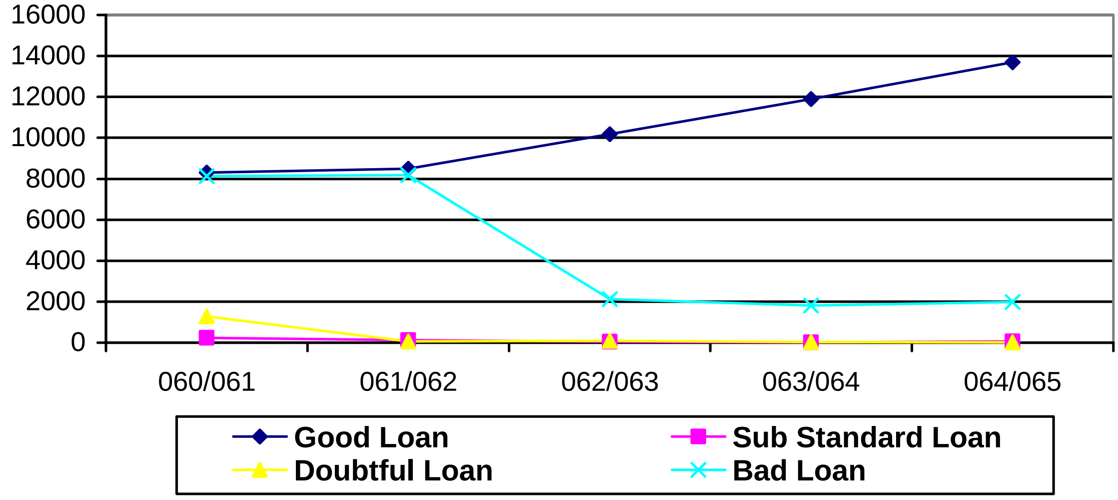
Years	Good Loan		Substandard Loan		Doubtful Loan		Bad Loan	
	Amount	%	Amount	%	Amount	%	Amount	%
060/061	8298	46.25	233	1.3	1280	7.12	8127	45.30
061/062	8494	50.36	130	0.8	64	0.4	8177	48.48
062/063	10179	81.81	47	0.4	88	0.7	2127	17.10
063/064	11900	86.50	17	0.2	30	0.2	1809	13.15
064/065	13688	86.91	64	0.4	21	0.1	1976	12.55

Source: Annual Report (Year 2060/061 to 064/065)

According to above table shows that classification of loan as per quality, good loan, substandard loan, doubtful loan & bad loan of NBL. It has good loan is 46.25%, 50.36%, 81.81%, 86.50% and 86.91 respectively. The substandard loan is 1.3%, 0.8%, 0.4%, 0.1% and 0.4% respectively. Doubtful loan is 7.12%, 0.4%, 0.7%, 0.2% and 0.1% and Bad loan is 45.30%, 48.48%, 17.10%, 13.15% and 12.55% respectively.

Figure No. 4.34

Trend Analysis of Loan Classification as Per Quality of NBL



Source: Table No. 4.38

The above figure shows that on x-axis research period (year) and on y axis amount of loan. This figure throws light on the fact that in all years good loan (performing loan) occupies major chunk of loan flown. Good loan curves ranges in between Rs. 8298 million to 13688 million.

Indicating bad loan occupies vital position after good loan during 5 year period.

4.2 Major Finding of This Study

1) Liquidity Ratio:

- The current ratio of NBL is always below the standard i.e., 2:1. It has range 0.51 minimum to 0.62 maximum over the study period. The ratio is decreasing on FY 062/063 than increasing trend. Which shows that bank is trying to increase its liquidity position to meet its current obligatory.
- The cash & bank balance to total deposit ratio is in fluctuating trend the cash & bank balance maximum Rs 7174 million to minimum Rs 5861 million and the deposit increased from 35735 million to Rs 41829 million. The ratio range is 15.81% to 20% and the average ratio is 17.51%.
- The current assets to total deposit ratio is in fluctuating trend the highest ratio is 92.24% in FY 060/061 and lowest one is 58.90% in FY 063/064. The average ratio is 72.34%.
- The cash & bank balance to current assets is in increasing trend in FY 060/061 to FY 062/063 and then decreasing trend up to FY 064/065. It has range 17.78% to 33.78%.
- The mandatory balance ratio during the study period is 11.84%, 12.13%, 14.25%, 12.86% and 10.15% respectively. It is in fluctuating trend.

2) Capital Structure Ratio:

- Debt to total asset ratio is in decreasing trend. It is 120% to 104% in FY 060/061 to 064/065 respectively. The average ratio is 115%
- The total debt to total equity ratio of NBL is in negative form the average ratio is -6.90.

- The interest coverage ratios of NBL are 1.69, 3.31, 2.56, 1.30 and 1.31 respectively during the research period.

3) Profitability Ratio:

- Return on assets ratio is in decreasing trend. It is maximum 3.67% to minimum 0.57% with an average 1.96% during five years research period.
- Net profit after tax is in fluctuating trend in study period. The maximum profit is Rs. 1730 million in 061/062 and minimum profit is Rs. 227 million on FY 063/064. The highest NPAT to total operating income ratio is 111% in FY 061/062 and 13% in FY 064/065 respectively. The average ratio is 48.2%.
- The net profit to total deposit rates of NBL various from maximum 4.8% to minimum 0.57% in FY 061/062 and 064/065 respectively. The average ratio is 2.27%. The bank is not able to generate profit by using its deposit.
- The total interest income on investment to total income ratio is in fluctuating trend. The calculated highest ratio is 24.79% and the lowest one is 10.81%. The average ratio is 19.18%.
- The operating self sufficiency ratio is in fluctuating trend. The highest ratio is 171% and lowest is 104% in FY 061/062 and 063/064 respectively. The average ratio is 124%
- The net profit to net worth ratio of NBL various form maximum -3.63% to minimum -23.23% with an average -11.54% during the research period.
- The interest earned to total asset ratio is 4.13%, 4.22%, 5.70%, 4.71% and 4.98% in FY 060/061, 061/062, 062/063, 063/064, and 064/065 respectively. The average ratio is 4.75%.

4) Operating Ratio:

- The Total operating expenses to total asset ratio is in fluctuating trend. The highest ratio is 7.23% and lowest one is 5.18% in FY 060/061 and FY 061/062. The average ratio is 6%.
- The operating income to total assets ratio is in fluctuating trend. The highest ratio is 5.05% and lowest one is 3.32% in FY 060/061 and FY 061/062 respectively. The average ratio is 4.28%.
- Total operating expenses to total operating income ratio is in fluctuating trend. The higher ratio is 156% and lower one is 130% in FY 061/062 and 062/063 respectively. The average of the ratio is 141.2%
- Interest paid on total deposit to total expenses ratio is in fluctuating trend of NBL. The highest ratio is 34.40% in FY 062/063and the lowest one is 27.54% in FY 064/065. The average ratio is 30.95%.
- The interest paid on borrowing to total expenses ratio is in increasing trend. The highest ratio is 0.55% and lowest one is 0.04% in FY 064/065 and 060/061 respectively. The average ratio is 0.47%.
- The interest expenses to interest income ratio is in fluctuating trend. The highest ratio is 56% and lowest one is 37% in FY 060/061 and 062/063 respectively. The average ratio is 42.2%.

5) Activity Ratio:

- The loan and advances to total deposit is various form maximum 31.68% and minimum 22.87% in FY 064/065 and 061/062 respectively. The average ratio is 26.99%.
- The loan and advances to fixed deposit is in increasing trend. The maximum ratio is 278% and minimum ratio is 113% in FY 064/065 and 060/061 respectively. The average ratio is 183 %.

- The loan and advances to saving deposit ratio are 40%, 35%, 40%, 42% and 46% in FY 060/061, 061/062, 062/063, 063/064 and 064/065 respectively. The average ratio is 40.67%. It is in increasing trend.
- The loan and total asset in increasing trend. The maximum ratio is 31.51% and the minimum ratio is 17.47% in FY 064/065 and 061/062 respectively. The average ratio is 24.88%.
- The performance loan to total assets ratio of NBL are 18.79%, 18.06%, 28.34%, 30.32% and 32.57% in FY 060/061, 061/062, 062/063, 063/064, 064/065 respectively. The average ratio is 25.62%.

6) Finding and Relative Study:

- The correlation between loan and advances & total deposit in 0.9547 which means the positive correlation between them since the value of 'r' lies between 0.7 to 0.99 so; there is a high degree of correlation.
- The analysis shows that correlation coefficient between investment & total deposit is 0.8096 which means there is a high degree of positive correlation.
- The analysis shows that the coefficient of correlation between total deposit and Net profit is -0.7213 which is highest negative correlation between them. NBL net profit seems to increase in total deposit then decrease in net profit.
- The analysis shows that the coefficient correlation between performance loan and total loan is -0.4250 which means there is a negative correlation between them.

7) Finding of Trend Analysis:

- The trend analysis of loan & advances is better because the calculated trend values of loan & advances are fitted in trend lines gives upward sloping.
- The trend analysis of investment is found that the lending position of NBL is better because the calculated trend values of investment are fitted in trend gives upward sloping.
- The trend analysis of net profit is in decreasing trend and there is a fluctuation in actual value.
- The trend analysis of total deposit is better because the trend line of total deposit is upward sloping.
- The analysis shows that the loan loss provision is in decreasing trend. The actual value also in decreasing trend.
- Bank commission & discount is in fluctuating trend in actual value and trend value is in decreasing trend.
- The analysis shows that the performance percentage was sharply increase and non-performing loan is sharply decreased in during five year research period. This is clear that loan of NBL was going to good position.
- The analysis shows that classification loan as per quality is good loan, substandard loan, doubtful loan and bad loan of NBL.

CHAPTER FIVE

SUMMARY, RECOMMENDATION AND CONCLUSION

5.1 Summary

Bank provides certain services for its customs and in return receives payment in one form or other. It tries to earn a profit for its stock owners. The development of modern banking in Nepal dates back to 1937 in which year NBL was set up under the Nepal Bank act, 1937. Bank provides opportunity to people for participation in the development process of the nation helps national economy to secure proper growth. At present more than 20 commercial banks are operating their transition in Nepal. Joint venture are mode of trading through partnership among nations and also a form of negotiation between various group of industries are orders to achieve mutual exchange of goods and services for sharing comparative advantages. No foreign bank was operated in the country before 1984 the new commercial bank act 1974 had a provision to permit foreign bank operate in the country. In 1980's government introduce financial sector reform program which facilities the establishment of joint venture banks.

The basic objectives of this study are to analyze the liquidity, profitability, assets utilization of NBL, to evaluate the liquidity position of NBL, to analyzed the relationship eg. Investment, loan & advance with deposit and profitability and to analyzed the growth and trend of financial position of NBL.

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. Under this chapter the researcher has reviewed research paper, annual reports of NBL, related unpublished thesis and various published and unpublished articles from the internet in order to study and analysis the conclusion of the research.

Research methodology has been to solve the research problems with the help of various tools and techniques. This study includes the various financial as well as statistical tools to analyze the data in order to come the decisions. The different tools, which are studied under financial analysis, are liquidity ratio, activity ratio, profitability ratio, capital structure ratio and operating ratios. On the other hand the different statistical tools that have been applied in the research are mean, standard deviation, trend, C.V. and correlation. This study is mainly conducted on the basis of secondary data collected from annual reports, financial statement of NBL etc. The five years financial statement has been examined for the purpose of this study.

The presentation and analysis of data has been made through comparative analytical and their interpretation, which is done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. Incase of financial tools ratio analysis is done which consist liquidity ratio, activity ratio, profitability ratio, capital structure ratio and operating ratios. Various statistical tools such as arithmetic mean, standard deviation, coefficient of variance and correlation have been applied to fulfill the objective of this study.

5.2 Recommendation:

From the study of financial statements or financial analysis of the bank the following suggestions or recommendations, in particular are made to improve the weaknesses of the bank or its performance efficiency in the years to come.

- **Maintain the proper mix of debt and equity:**

  As the capital structure ratio of the bank is highly leveraged, NBL is required the maintain the improve on optimum mix of debt and owners equity by increasing equity base in order to avoid financial risk. It is the job of management to maintain a proper balance between these two aspects.

- **Apply current and fixed assets properly:**

  Since NBL is not maintaining adequate liquidity position, the bank is suggested to manage its current assets properly.

- **Concentrate on Agriculture Sector:**

  Since Nepal is an agricultural country, bank should give more emphasis on the sector of agriculture product (like financing tractors, seeds, fertilizers, and irrigational project), poultry farming, cattle farming etc.

- **Decrease operational expenses:**

  For the growth and survival of any firm, profit is the essential factor. But NBL is seem to be unable to earn satisfactory level of profit over the study period. In this context, the bank is recommended to earn more operational profit either by increasing their operational efficiency or decreasing their operational expenses as far as possible.

- **Attract people by low interest rate:**

  NBL should attract more low interest bearing savings and current deposit to minimize its cost of fund and increase profit margin by investing the same as loan and advances.

5.3 Conclusion:

- NBL is Number one bank in Nepal. It has been able to maintain good position in the banking industry of the country. There has been as on going effort and commitment in enhancing its financial position. The bank is contributing to the development of the banking sector of the country by its active banking service.
- Banking plays an indispensable role in the process of development. They not only influence the structure of the economy but also its development process. Commercial banks collect scattered saving from the people and provide resources as loan and advances to the people who need then. This captivity build industrial environment in the country create employment and investment opportunity for the people and consequently economy of the country secures proper growth.
- The present state has been undertaken to examine and evaluate the financial management of the NBL. The researcher has used necessary financial and statistical tools to the study effective and informative. This study has covered five years data of NBL from the fiscal year 2060/061 to 2064/065.
- NBL has been able to maintain good position in the banking industry of the country there has been an ongoing effort and commitment in enhancing its financial position. The bank is contributing to the development of the banking sector of the country by its active banking service.

- It has been a good partner to the industrial businessman and general public by providing banking services and facilities. Now it has 44 ABBS (any branch banking system) and it has plan ABBS to all computer facilities branches.
- Analyzing the credit sector and bank guarantee the bank is trying to avoid unnecessary risk. By mobilizing its fund more in loan and advances, the bank would have increase its profit, but from the tabulated figures it is evident that NBL had also preformed to invert in secure sector like government securities.
- Profitability ratio indicates degree of failure in achieving desired profit level the result indicates that is not able to generate profit by utilizing deposits. So additional efficiency is required to increase its earnings. The analysis indicates that profit earning in relation to shareholder's quality of NBL is in bad condition which exhibits worst utilization of shareholder's equity. Overall it can be concluded that NBL is not able to earn a positive profit.
- Finally it can be concluded that the financial performance of NBL during the study period of five year is not satisfactory. The bank has tried to maintain a good position among the commercial banks in Nepal and is still pursuing to accommodate as many clients as far as possible.

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Appendix-I

Correlation between Loan and Advance and Total Deposit

Year	X	Y	$x-\bar{x} = u$	$y-\bar{y} = v$	u^2	v^2	uv
2060/061	8882	35735	-1351	-2334	1825201	5447556	3153234
2061/062	8219	35934	-2014	-1635	4056196	2673225	3292890
2062/063	9756	35830	-477	-1739	227529	3024121	829503
2063/064	11050	39014	825	1445	680625	2088025	1192125
2064/065	13252	41830	3019	4216	9114361	18156121	12863959
	$\bar{X}$ =10233	$\bar{Y}$ =37569			Σu^2=15903912	Σv^2=31389048	Σuv=21331711

$$r = \frac{\Sigma uv}{\sqrt{\Sigma u^2 \Sigma v^2}}$$

$$= \frac{21331711}{\sqrt{15903912 \times 31389048}}$$

$$= \frac{21331711}{22342978}$$

$$= 0.9547$$

$$r^2 = 0.9115$$

$$\text{Probable Error (PE)} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1-0.9115}{\sqrt{5}}$$

$$= 0.0268$$

Appendix-II
Correlation between Investment and Total Deposit

Year	X	Y	x- $\bar{x}$ = u	y- $\bar{y}$ = v	u^2	v^2	uv
2060/061	11005	35735	-3355	-2334	11256025	5447556	7830570
2061/062	14199	35934	-161	-1635	25921	2673225	263235
2062/063	14450	35830	90	-1739	8100	3024121	-156510
2063/064	16072	39014	1712	1445	2930944	2088025	2473840
2064/065	16571	41830	2211	4216	4888521	18156121	9421071
	$\bar{X}$ =14360	$\bar{Y}$ =37569			Σu^2=19109511	Σv^2=31389048	Σuv=19832206

$$r = \frac{\Sigma uv}{\sqrt{\Sigma u^2 \Sigma v^2}}$$

$$= \frac{19832206}{\sqrt{19109511 \times 31389048}}$$

$$= \frac{19832206}{24491414}$$

$$= 0.8098$$

$$r^2 = 0.6557$$

$$\text{Probable Error (PE)} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1-0.6557}{\sqrt{5}}$$

$$= 0.1041$$

$$6\ \text{P.E.} = 0.6248$$

Appendix-III
Correlation between Netprofit and Total Deposit

Year	X	Y	$x-\bar{x}=u$	$y-\bar{y}=v$	u^2	v^2	uv
2060/061	710	35735	-113	-2334	12769	5447556	263742
2061/062	1730	35934	907	-1635	822649	2673225	-1482945
2062/063	1207	35830	384	-1739	147456	3024121	-607776
2063/064	227	39014	-596	1445	355216	2088025	-861220
2064/065	239	41830	-584	4216	341056	18156121	-2488424
	$\bar{X}=823$	$\bar{Y}=37569$			$\Sigma u^2=1679146$	$\Sigma v^2=31389048$	$\Sigma uv=-5236623$

$$r = \frac{\Sigma uv}{\sqrt{\Sigma u^2 \Sigma v^2}}$$

$$= \frac{-5236623}{\sqrt{1679146 \times 31389048}}$$

$$= \frac{-5236623}{7259945}$$

$$= 0.7213$$

$$r^2 = 0.5202$$

$$\text{Probable Error (PE)} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1-0.5202}{\sqrt{5}}$$

$$= 0.1451$$

$$6\text{ P.E.} = 0.8707$$

Appendix-IV
Correlation between Performing Loan and Total Loan

Year	X	Y	x- $\bar{x}$ = u	y- $\bar{y}$ = v	u^2	v^2	uv
2060/061	8298	17938	-2214	2588	4901796	6697744	-5729832
2061/062	8494	16866	-2018	1516	4072324	2298256	-3059288
2062/063	10179	12441	-333	-2909	110889	8462281	968697
2063/064	11900	13756	1388	-1594	1926544	2540836	-2212472
2064/065	13688	15749	3176	399	10086976	159201	1267224
	$\bar{X}$ =10512	$\bar{Y}$ =15350			Σu^2=21098529	Σv^2=20158318	Σuv=-8765671

$$r = \frac{\Sigma uv}{\sqrt{\Sigma u^2 \Sigma v^2}}$$

$$= \frac{-8765671}{\sqrt{21098529 \times 20158318}}$$

$$= \frac{-8765671}{20623066}$$

$$= 0.4250$$

$$r^2 = 0.1807$$

$$\text{Probable Error (PE)} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1-0.1807}{\sqrt{5}}$$

$$= 0.2478$$

$$6 \text{ P.E.} = 1.4868$$

Appendix-V

Trend Value of Loan and Advance

Year (x)	Loan & Advance (y)	x(x-3)	x^2	xy
1	8882	-2	4	-35528
2	8219	-1	1	-8219
3	9756	0	0	0
4	11058	1	1	11058
5	13252	2	4	53008
	$\sum y$=51167	$\sum x$=0	$\sum x^2$=10	$\sum xy$=20319

$$a = \frac{\Sigma y}{n} = \frac{51167}{5} = 10233.4$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{20319}{10} = 2031.9$$

$$y = 10233.4 + 2031.9x$$

Appendix-VI

Trend Value of Investment

Year (x)	Investment (y)	x(x-3)	x^2	xy
1	11005	-2	4	-22010
2	14119	-1	1	-14119
3	14490	0	0	0
4	16072	1	1	16072
5	16571	2	4	33142
	$\sum y=72257$	$\sum x=0$	$\sum x^2=10$	$\sum xy=13085$

$$a = \frac{\Sigma y}{n} = \frac{72257}{5} = 14451.4$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{13085}{10} = 1308.5$$

$$y = 14451.4 + 1308.5x$$

Appendix-VII

Trend Value of Net Profit

Year (x)	Net Profit (y)	x(x-3)	x^2	xy
1	710	-2	4	-1420
2	1730	-1	1	-1730
3	1207	0	0	0
4	227	1	1	227
5	239	2	4	478
	$\sum y=4113$	$\sum x=0$	$\sum x^2=10$	$\sum xy=-2445$

$$a = \frac{\Sigma y}{n} = \frac{4113}{5} = 822.6$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{-2445}{10} = 244.5$$

$$y = 822.6 + (-244.5)x$$

Appendix-VIII

Trend Analysis of Total Deposit

Year (x)	Total Deposit (y)	x(x-3)	x^2	xy
1	35735	-2	4	-71470
2	35934	-1	1	-35934
3	35830	0	0	0
4	39014	1	1	39014
5	41829	2	4	83658
	$\sum y=188342$	$\sum x=0$	$\sum x^2=10$	$\sum xy=15268$

$$a = \frac{\Sigma y}{n} = \frac{188342}{5} = 37668.4$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{15268}{10} = 1526.8$$

$$y = 37668.4 + 1526.8x$$

Appendix-IX

Trend Value of Loan Loss Provision

Year (x)	Loan Loss Provision (y)	x(x-3)	x^2	xy
1	9056	-2	4	-18112
2	8648	-1	1	-8648
3	2655	0	0	0
4	2698	1	1	2698
5	2506	2	4	5012
	$\sum y=25563$	$\sum x=0$	$\sum x^2=10$	$\sum xy=-19050$

$$a = \frac{\Sigma y}{n} = \frac{25563}{5} = 5112.6$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{-19050}{10} = -1905$$

$$y = 5112.6 + (-1905)x$$

Appendix-X

Trend Value of Commission and Discount

Year (x)	Commission & Discount (y)	x(x-3)	x^2	xy
1	232	-2	4	-464
2	188	-1	1	-188
3	178	0	0	0
4	181	1	1	181
5	230	2	4	460
	$\sum y=1009$	$\sum x=0$	$\sum x^2=10$	$\sum xy=-11$

$$a = \frac{\Sigma y}{n} = \frac{1009}{5} = 201.8$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{-11}{10} = -1.1$$

$$y = 201.8 + (-1.1)\ x$$