A STUDY ON FINANCIAL ANALYSIS OF NABIL BANK LIMITED

By

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RECOMMENDATION

This is to certify that the thesis

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"A Study on Financial Analysis of Nabil Bank Limited"

has been prepared as approved by this Campus/Department in a prescribed format of faculty of Management. This thesis is forwarded for Examination.

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DECLARATION

I hereby declare that the research work entitled, **“A Study on Financial Analysis of Nabil Bank Limited"** Submitted to Shanker Dev Campus, Putalisadak, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfilment of the requirements of the ***Masters of Business Studies (MBS)*** under the supervision of Mrs. Snehlata Kafle and Mr. Pitri Raj Adhikari of Shankerdev Campus.

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LIST OF ABBREVIATIONS

% =	Percentage
& =	And
∑ =	Summation(Sum)
A/Cs =	Accounts
ATM =	Automated Teller Machine
BOK =	Bank of Kathmandu
BS =	Bikram Sambat
CBS =	Commercial Banks
CRR =	Cash Reserve Ratio
DER =	Debt to Equity Ratio
DPR =	Dividend Payout Ratio
DPS =	Dividend Per Share
EBI =	Emirates Bank International Limited
EBIT =	Earning Before Interest and Tax
EBL =	Everest Bank Limited.
EPS =	Earning Per Share
GDP =	Gross Domestic Product
HBL =	Himalayan Bank Limited.
HMG =	His Majesty's Government
JICA =	Japan International Co-Operation Agency

JVBs =	Joint Venture Banks
Ltd. =	Limited
NB =	Nepal Bank Limited
NBA =	Non Banking Assets
NBBL =	Nepal Bangladesh Bank
NBL =	Nepal Bank Limited
NPA =	Non-Performing Assets
NPAT =	Net Profit After Tax
NRB =	Nepal Rastra Bank
Nrs. =	Nepalese Rupees
P.E (r) =	Probable Error of Correlation
Prov. =	Provision
r =	Coefficient of Correlation
ROA =	Return on Assets
ROE =	Return on Equity
Rs. =	Rupees
SAARC =	South Asian Association for Regional Co-Operation
SAPTA =	SAARC Preferential Trading Arrangement
SCBNL =	Standard Chartered Bank Nepal Limited
SWIFT =	Society of Worldwide Inter Bank Financial Tele Communication
T.U. =	Tribhuvan University
TPS =	Tax Per Share
VOL. =	Volume

CHAPTER 1
INTRODUCTION

Finance is the science of funds management. The general areas of finance are business finance, personal finance and public finance. Finance includes saving money and often includes lending money. The field of finance deals with the concepts of time, money and risk and how they are interrelated. It also deals with how money is spent and budgeted. Finance works most basically through individuals and business organizations depositing money in a bank. The bank then lends the money out to other individuals or corporations or consumption or investment and charges interest on the loans.

Financial performance analysis can be considered as a heart of the financial decision. The growth and development of any enterprises is directly influenced by the financial policies. Rational evaluation of the financial performance of the financial management in public enterprise is too much involved in record keeping, raising necessary funds and maintaining relationship with the bank or other financial institutions. But financial aspect is one of the most neglected aspects of public enterprises in Nepal. However joint venture banks have analyzed financial performance for their corrective actions. But their analysis is limited within the banks themselves.

Financial performance as a part of the financial management is the main indicator of the success or failure of the firm. There are different persons/institutions that affect or are affected by the decision of the firm. Financial condition of business firm should be sound from the point of view of shareholder, debenture holders, financial institution and nation as whole.

Capital accumulation and formulation play vital role in accelerating the economic growth of a nation, which in turn is basically determined, among others, by saving and investment propensities. But the capacity to save in the developing countries is quite low with a relatively higher marginal propensity of consumption.

Banking plays a significant role for the development of national economy. It provides an effective payment credit system, which facilitates the channeling of funds from the surplus spending units to the deficit spending units in the economy. The basic task of the financial institution is to mobilize the saving to high yielding investment projects to offer attractive and secured returns to the different sectors of the economy according to the plan priorities of the of the country. This process of financial institutions give rise to money and other financial assets, which therefore have a central place in the development process of the economy. Banking intuitions are inevitable for the resources mobilization and all round development of the country. It is resource for economic development; it maintains economic confidence of various segments and extends credit to people.

Mobilization of the savings of the general public in the form of deposits and its channelization to various productive sectors of economy is the primary function of any commercial bank. In order to collect the scattered saving and put those into productive channels, financial institutions like; Banks are necessity. In the absence of such institutions, the saving will not be utilized properly within the economy and will either divert abroad or used for unproductive consumptions or susceptive activities. The national savings is attracted by the commercial banks into deposits which are then mobilized into investments into the productive sectors of the economy. Investment in the productive sectors like agriculture, commerce, service, industry as well as the deprived sectors of the economy helps in the economic growth of the country. The higher the economic growth, higher will be the national savings of the country.

Commercial banks occupies quite an important place in the framework of every economy because it provides capital for the development of trade, industry and business, investing the collected saving as deposits. Besides these, commercial bank renders numerous services to their customers, shareholders and society in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks are playing active role and have changed the economic structure of the world.

Being a developing country, Nepal is directing its effort to uplift her economy rapidly. But still it has been an agricultural dominated economy, considering economic and social development as the primary objectives. Nepal has adopted the “Mixed Economy Model” with the implicit assumption that the state and private sectors can complement each other in the development process of the country via issuing shares and accepting deposits from them. Then the bank can mobilize and invest such accumulated resources into field of agriculture, trade, commerce, industry, tourism, and hydroelectricity project etc.

A sound banking system is important because of the key role it plays in the economy intermediation, facilitating payment flows, credit allocation and maintaining financial discipline among the borrowers. Banks can encourage thrift and allocate savings and by enabling savings to be used outside the sector in which key originate. In any economy whether highly developed financial markets or less well developed financial markets, banks remains at the center of economic and financial activity and a stand apart from other institutions as primary providers of payment services and a fulcrum for the monetary policy implementation.

1.1 General Background of Banking

History of Nepalese Banks in Nepal

The word “Bank” came from Italian word "Banco" which means the bench in which Italian merchants did the transaction of money. The first bank in the world was also established in Italy in 1157 A.D named "The Bank of Venice". The second bank was the Bank of England established in 1844 AD.Nepal also had a trade transaction with Tibet and India before many centuries. But the traders felt much difficulty in the process of transaction. As foreign trade spread, Nepal also tried to involve in the tie of banking services. In this ground steps were taken by ‘Ranadip Singh’ who was the prime minister of Nepal from 1879 to 1885 A.D. He took a concrete step by establishing a government financial institution known as ‘Tezarath’. This institution supplied easy and cheap credit to the public at 5% interest on the security of gold and silver ornaments. In the later years, this service extended to a large extent.

The concept of banking system was introduce in Nepal with the establishment of Nepal Bank Ltd. in 1937.The financial scenario has changed with the introduction of joint ventures banks in 1984.The number of commercial banks has been increasing so is the investment volume and opportunity in various sectors that extends to agriculture industry, commercial and social sectors. Today each and every managerial decision- making is based on financial analysis .It covers the acquisition, utilization, control and administration of fund. "Managerial finance is an interesting, existing and dynamic area of study, and its importance to the long run success of today’s business is unquestioned. Financial management leads to the decision-making most skillfully. Finance has become an important branch of any economy of which share market is leading sector. Securities raise funds in capital market that certainly helps to expand the national economy. After 2041 BS His Majesty's Government (HMG) made & implemented the liberal policy in banking and allowed joint venture banks to accelerate the pace of the economic development of the nation. As a result, numbers of joint ventures are established in the country;

The definitions of bank can be varying according to its functions, services and role. "A Bank is one who in the ordinary course of his business receives money which he pays by honoring cheques of persons from whom or whose account receives (*Dr H.L. Hart*). A Bank is an establishment of the custody of money which it pays out on customer order (*Concise Oxford Dictionary*)". "Bank is an establishment which makes to individuals such as advantages of money as may be required and safety made to and to which individual’s entrust money when not requires by them for use (*The Encyclopedia American Vo 13 Grolier Incorporated 1984*)".

By these definitions, bank can easily be defined as custodian of deposits, which regulates the money of people by making some charge. The Banking System helps business entrepreneurs, industrialists and other people to get loan as they need. Therefore a Bank is an institution which accepts deposits from the public by providing t with certain rate of interest and in turns advances loans to needy customers charging them certain rate of interest and earns some profit by doing this intermediation. Investment policy is one fact of the overall range of policies that guide banks investment operation. A healthy development of any bank depends upon its investment policy. A good policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. The commercial banks have several guided principles to provide loan such as profitability, liquidity, safety, purpose, length of time etc. These fundamental principles of commercial bank's investment are considered while making investment policy.

Effective and efficient fund mobilization and investment policy are two major factors for any developing country aspiring for a sustainable economic development. Investment activity is the one of the major activity of any financial institution because only deposit collection carries no meaning. The success and prosperity of the bank relies heavily upon the successful investment of collected resources to the important sectors of economy. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. Good investment policy has a positive impact on economic development of the country and vice versa. So, the investment policy of commercial banks should be in accordance with the spirit of the economic upliftment of the people.

There is much impression in the investment policies of commercial bank of Nepal, which affects their performance to the great extent. It becomes everybody's concern when their performance does not seem so satisfactory in terms of utilization of its resources efficiently in productive sectors. The study of commercial bank's investment policy focusing on interest rate structure, portfolio management and credit management will strive to disclose the internal weakness and furnish the ideas for improvement. Therefore the study has undertaken to study and analyze the performance of commercial banks and point out the defects inherent in it and provide package of suggestions for its improvement. Formulation of sound investment policies and a coordinated and planned effort pushes forward the forces of economic growth.

In Nepal, Banks are managed and controlled by government. Nepal Bank Limited is the oldest commercial bank of Nepal. It was established in 1937AD (30^{th} Kartik 1994 B.S) which marked the beginning of an era of formal banking in Nepal. The Bank is also one of the largest in Nepal with 109 branches in the 55 districts of the Country. (Internet)

Only the NBL was not able to provide services all over the country. Integrated and speedy growth of the country is possible only when competitive banking sector reaches every corner of the country with increased banking needs of the economy. The second commercial bank Rastriya Banijya Bank came into existence on 8^{th} Shrawan 2023B.S. with 100% government ownership. These two commercial banks are operating as the model of banks.

Nepal Rastra Bank adopted laissez-faire policy and provided many facilities to feasible bankers of Nepal. Nepal Arab Bank Limited was established in the 1984 A.D. as the first joint venture bank of Nepal. In 1985 and 1986, two other joint venture bank, Viz. Nepal Indosuez bank and Nepal Grindlays bank limited (which is now known as standard chartered bank Nepal limited) started their operation. At present, many commercial banks are in operation to provide banking facilities, to generate employment etc. For this respect, commercial banks play vital role in the economic development of the country. Banking sector is going to be very competitive than ever. Beside the existing number of banks, some other banks are in the process of opening. So, the competition in the banking sector is going to be higher than ever before. To exist in the competitive market, banks are trying to introduce different schemes and advantages to the customer to hold greater share.

Whether the banks are well moving or not will be reflected through their performance. Specially, for banks profitability position, liquidity position, turnover position of reserve, capital structure policy should be effective and sound.

To meet the objectives, the overall performance of the bank should be soundly adjusted with each other. When performance will be well, the output will generally be sound. It helps bank to proceeds in its track.

As there has been number of commercial banks established the present aim is to analyze the financial performance of Standard Chartered Bank Limited, just to be assured whether they can put equal contribution in the economic growth of the country.

1.2 Introduction to Nabil Bank

Nabil Bank Ltd, the first foreign joint venture bank of Nepal, started in 12th July 1984 (29th Ashar 2041), It was established with joint venture of Emirates Bank international Limited (EBI), financial institution of Nepal and Nepalese people with shares of 50%, 20% and 30% respectively. But later on shares of Emirates Bank International Limited (EBI) were sold to National Bank Limited of Bangladesh in 2051 BS. Nabil was incorporated with the objective of extending international standard modern banking services to various sector of society. Pursuing its objectives, Nabil provides a full range of banking services.

After 11 years of active participation, Emirates Bank International Limited (EBI) divested its' 50% shareholding to National Bank Limited (NBL) Dhaka, Bangladesh. With increased economic cooperation under SAARC framework particularly in the field of trade commerce and induction of SAPTA agreement, the participation in National Bank Limited of Bangladesh in Nepal seemed to be most timely. However the board of directors had decided to release the technical assistance contract with National Bank Limited, Dhaka in May 2001 in a view to that the management of the

Nabil Bank Limited could be handled by the Nepalese employees. The annual general meeting held on 12 August 2001 decided to rename the bank as “NABIL Bank Limited” to be effective from 1st January 2002. The bank has now 28 branches, being the highest number of branches of any joint venture bank operating in Nepal.

NABIL provides a full range of commercial banking services through its outlets spread across the nation and reputed correspondents banks across the globe. Moreover, NABIL has a good name in the market for its highly personalized services to the customers.

The bank has focused in improvement of information technology, venturing into new areas of banking activities and also laid greater stress in improving the quality of manpower. The bank has also emphasized to remain competitive in fast changing environment and adopt new marketing policies. NABIL Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

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

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele-banking system.

PRESENT CAPITAL STRUCTURE OF NABIL BANK

Share Capital Structure	NRs. (Million)
Authorized Capital	1600.00
Issued Equity Capital	966.00
Paid-up capital	966.00

(Source:- www.nabilbank.com.np, "Financial Report of Fiscal year 2065/066)

SHARE HOLDING PATTERN OF NABIL BANK

1. National Bank International Ltd.	50%
2. NIDC	6.15%
3. Rastriya Beema Sansthan	9.67%
4. Nepal Trust	0.59%
5. General Public	33.59%

(Source:- www.nabilbank.com.np, "Financial Report of Fiscal year 2065/066)

1.3 Operating System of Nabil Bank

The operation takes place from the head office which is in Kamaladi. The bank provides a complete range of professional, commercial and corporate banking and related financial services through its two credit cards counters and one exchange counter with the largest no. of branches among any other Joint Venture Bank in Nepal. Nabil bank is handling its daily operation by using modern banking techniques that exist in international banking circle such as computer system, credit card, master card, visa international. Nabil bank is trying to make its staff efficient by conducting training, seminars, conferences so that they can perform better that the staff of other commercial banks and Nabil can face the competition with the other local banks and other joint venture banks very easily.

The bank is a major player in facilitating import and export activities with modern and efficient trade finance and international as well as established business group or corporation of merged firms in private sectors. NABIL BANK ranks amongst the top three financial institutions in Nepal in terms of its market share of handling Nepal's trade. Besides NABIL is successful in establish good relationship with several embassies donor institutions, Non-government organization, AID Agencies like DANIDA, JICA, USAID and foreign joint investment institutions established in Kathmandu. Due to this, its business volume is increasing and performance is also become well day by day.

1.4 Branches of Nabil Bank

NABIL bank Ltd is a joint venture bank whose head office is located at Kamaladi, Kathmandu. It has number of branches operating all over the country. At present, it has 43 branches all over the nation including Head Office NABIL House, Kamaladi, Kantipath Branch, Tripureshwore Branch, New Road Branch, Jorpati Branch, Birgunj Branch, Alau Branch (Parsa), Biratnagar Branch, Lalitpur Branch (Kupondole), Itahari Branch, Butwal Branch, Pokhara Branch, Bhairahawa Branch, Nepalgunj Branch, Lakeside Branch (Pokhara) Exchange Counter Tribhuvan International Airport, Dharan Branch, Bhalwadi Branch, (Rupandehi) Maharajgunj Branch, Birtamod Branch, Damak Branch, Hetauda Branch, Narayangadh Branch, Baglung Branch, Tulsipur Branch, Ghorahi Branch, Dhagadhi Branch, Mahendranagar Branch (Kanchanpur), New Baneshwor Branch, Halchowk Branch (Swayambhu), Themel Branch, Kaushaltar Branch (Bhaktapur), Chabahil Branch, Maitidevi Branch, Satdobato Branch (Lalitpur), Balaju Branch, Kuleshwor Branch (Kalimati), Kandhbari Branch (Sankhuwasabha), Charikot Branch (Dolakha), Dhulikhel Branch (Kavre), Gorkha Branch, Besisahar Branch (Lamjung), Chandragadhi Branch (Jhapa) are in operation, the largest no. of branches amongst any other joint venture bank in Nepal.

1.5 Performance of Nabil Bank

As a commercial bank, the main objective of this bank is to earn profit by providing loans and accepting deposits from the customer and make satisfy them in an optimal manner through healthy competition and sound management Nabil Bank had started its business operation from Kantipath banking office. Within 20 years period it has been able to extend its business in different parts of the country. The bank is providing direct services to numerous customers; it has planned to extend its additional branch in future. Though facing a keen competition with the contemporary banks, it has successful to hold maximum percentage of total banking sector. It has also aided millions of rupees in the form of revenue to the government. Nabil Bank Ltd. is successful to create its own image within the kingdom of Nepal. It is successful to create the banking relation with the most of the countries of the world. It is capable to render its services necessary for export and import to any business person of the world.

1.6 Banking Services & Products Rendering by Nabil Bank

NABIL bank is providing the full independent commercial banking services to the clients. It is established in Nepal with the objectives of providing following services to its clients/customers.

- Accepting deposits from customer in various like: current, saving and fixed a/c.
- Granting loan and advances in term of Overdraft, Demand loan, Housing
- Loan, Educational loan, Hire Purchase Agricultural Loan etc.
- Discounting Bills.
- Making investment in Treasury Bills, Foreign Bills etc.
- Providing Bank Guarantee and Trade finance.
- Opening facility of Letter of Credit.
- Remittance services.
- Issuing Travelers Cheque.
- Providing safety locker's facility
- Tele banking facility

1.7 Adapting of Modern Technology

The bank has been providing the services with the latest technologies and computerized equipment. The bank is determines to give quality services to its customers. The Tele banking facility of the bank enables the clients to get the information as well as statement of A/Cs through fax whenever required simply by dialing the telephone no. under banking option facility of making inquiry of interest rates, foreign exchange rate and even placing for fresh cheque book of one's A/C is also straight forwardly available.

The bank has enrolled itself as SWIFT (Society of Worldwide Inter Bank Financial Tele Communication) member to adopt fast communication means among the member bank of SWIFT. Messages are transmitted through SWIFT to the member banks of time which is widely used in remittance, Later of Credit and many more areas of communication as well.

1.8 Statement of Problem

Emphasizing the role of commercial banks, various financial institutions have been established to assist the process of economic development of Nepal. The major problem in almost all underdeveloped countries and Nepal is no exception, is that of capital formulation and proper utilization. To avoid problems and thereby contribute to the national economy, various commercial banks have played vital role by accepting deposits and providing various types of loan. Loan affects overall development of the country. The development of the country directly related to the volume of loan, which is also obtained from commercial banks. The problem of lending has become very serious for developing country like Nepal. This is due to lack of sound policy of commercial banks.

Commercial banks are found to be making loan only in short term basis against movable merchandise. There is hesitation to investment on long term project as they are much more safety, they do not consider the profit potential of the project. There is raised criticism that commercial bank have served only richer communities and not the poor. This has directly had negative impact in economic growth. Nowadays commercial bank does not seem to be capable to invest their funds in more profitable sector i.e. treasury bills, development bonds and other securities. They keep high liquidity and flow lower funds to the productive sectors, this result in lower profitability to commercial banks and ignorance to the national economies growth process. This is the main reason of crisis in the commercial banks and in the whole national economy as well.

In order to help realize the goal of the poverty alleviation, access to increased flow of credit and investment in the economic activities of direct benefit to the maximum number of low income people through micro and medium size loan needs serious attention in the days to come. It is also necessary to identify the activities that ensure quick return of the investment.

The mushrooming of banking and finance companies and about a dozens of rural banks and co-operative societies in short span of time has brewed new comparative scenario, and has posed a challenge to the previously monopolistic bank like NABIL which are making attractive profits. In the changed scenario these banks need to explore their strength and weakness to improve their performance because their successes depend upon their ability to boost their productivity and financial performance.

Thus the present study seeks to explore the efficiency and weakness of NABIL Bank.

Attempts are also being made to explore the following questions.

- How far have NABIL Bank been able to convert the mobilized resources into investment, collected from public.
- To what extent this bank has been able to raise their profitability,
- How efficiency this bank is managing their liquidity, activity, assets, capital structure, capital adequacy, etc.

- What is the lending pattern of loan and advances and other investment?
- What are the components which affect the operating income of NABIL?

1.9 Objective of The Study

Each and every activity should be motivated to achieve specific goals. It is desired outcomes. It defines path and courses of action to the human being. So the primary objective of study is to indicate the financial position of NABIL. And the secondary objective is to analyze & evaluate the financial stability of NABIL and make suggestion to improve its financial efficiency. The specific objectives of the study are :

- To analyze the liquidity, profitability, capital structure, capital adequacy, leverage, ownership ratios and operation of NABIL Bank.
- To determine the relationship between Dividend Per Share and Earning Per Share of NABIL Bank.
- To evaluate the soundness of profitability and operating efficiency of NABIL Bank.
- To examine the income and expenditure statement of NABIL Bank.
- To explore the level of profitability of bank.
- To identify how efficiency the bank has utilized its assets in generating interest earned.

1.10 Importance of The Study

Commercial banks in developing countries like Nepal have the greatest responsibility towards the economic development of the country. The main objective of the bank as a commercial organization is to maximize the surplus by the efficient use of its fund and resources. Being a commercial bank, it also has a responsibility towards the socio economic up-liftment of the country by providing specially considered loans and advances towards less privileged sectors. The study has various significant.

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

1.11 Organization of The Study

This whole study has been divided into five chapters. Each is developed to some aspects of the study.

First chapter - The introduction that includes background of the study, profile of sample bank, statement of problem, objective of study, limitation of the study and organization of study.

Second chapter - The literature review which includes review of books, review of legislations related to commercial banks, review of other relevant books, review of bank's report and review of pervious thesis.

Third chapter - Explains the research methodology used in the study, which includes research designs, nature and sources of data, data collection and data analysis technique.

***Fourth chapter* –** This chapter is the main part of the body which includes presentation and analysis of data using financial and statistical tools such as ratio analysis and statistical analysis and also main findings of the study.

***Fifth chapter* -** It includes summary, conclusion of the study, recommendation and suggestions for further improvement.

Lastly, it contains appendix and bibliography.

1.12 Limitation of The Study

Every study defines some boundaries. They have to study within this framework. So there are some limitations due to lack of data time and information. They are as follows :

A. This study has been carried out based on the published financial documents such as balance sheets, profit and loss accounts, related journals, magazines and books. These published documents have their own limitations.

B. The study has been based on the secondary data only.

C. The study has been focused on the financial performance of Nabil with the help of financial tools but could not cover all the financial tools to measure financial performance and the study deals with certain financial tools only such as ratio analysis and statistical tools.

D. It covers the financial performance of Nabil for the periods from 2061/062-2065/066 only. Therefore, it cannot be presented as the overall performance of the bank.

E. No comparison has been made with other commercial banks.

F. The conclusion drawn up from this study may or may not be applicable to other commercial banks in Nepal.

G. Limited resources and time at the disposal of the researcher did not allow a much more wide analysis of the subjective in question.

CHAPTER 2

REVIEW OF LITERATURE

Literature refers to the detail of anything. Review of literature is basically a stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. In the course of research, review of existing literature would help the researcher to find out what studies have been conduct and what remaining to go with. In this section relevant contents related with the topic of the study are mentioned or arranged like, concepts of banks commercial banks.
For the purpose of the study, this chapter is categorized under two major headings, which are discussed as below:

- Conceptual Frame Work
- Review of Related Articles & Thesis

2.1 Conceptual Framework

As this study is related to financial analysis of NABIL Bank Ltd. following aspects of analysis are reviewed in sequential manner.

I. Concept of commercial bank
II. Concept of joint venture bank
III. Concept of financial performance
IV. Concept of financial analysis

I. Concept of commercial bank

Specially, commercial bank deals with the activities of trade, commerce industry and agriculture. The main objective of commercial bank is to mobilize ideal resources in productive area after collecting them from scattered sources for profit maximization. Banking is an institution, which deals with money credit. It accepts deposits from publics, makes fund available to those who need them and helps in remittance of fund from one place to another. They perform several financial monetary and economic activities to accelerate the economic growth of the country. With these resources and bank's own capital, bank disburse loan or extend credit and also invest in securities. According to the Sayers (1970:30), "Ordinary Banking business consists of changing cash for bank deposits and bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank deposits in exchange for bill of exchange, bonds the secured or unsecured."

The Commercial Bank Act 2031 defines a commercial bank as a, “Bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transaction.”

A commercial bank is a bank which exchanges money, deposits money, accept deposits, grants loan and performs commercial bank functions and which is not a bank meant for cooperative agriculture, industries as per such specific functions. A Commercial bank performs four major functions like, receiving and handling deposits, handling payment for its clients, granting loan and investment and creating money by extension credit.

According to US Law, “Any institution offering deposits subject to withdrawal on demand and making loans of a commercial banks or business nature is a bank.” So, the importance of banking as the nerve center of economic development can’t be over emphasized and it is said that bank which are the need of and great wealth of the country have to be kept very scared.

Function of Commercial Bank

Accept deposits
Provides Loans
Discounting Bill
Credit creation
To transfer money
To serve agency function
To exchange foreign currency
To open letter of credit
To help issuing capital.

II. Concept of joint venture bank

A joint venture is an association of two or more persons or enterprises to make the operation highly effective with their collective effort. Joint Venture Banks are the commercial banks firmed by joining the two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods & services.

"A business contract of management effort between two person, companies or organizations involving risk and benefit sharing.” in the view of Ahuja (Ahuja,1994:174). Joint Venture Banks is an innovation in finance and it is growing stage, mostly in developing country, foreign investment plays a significant role for economic development by flowing capital, technology, skills, managerial efficiency and others. When two or more than two independent firms mutually decide to participate in a business venture, contribute to the total equity more or less capital and establish a new organization, it is known as Joint Venture.

Joint venture banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post-shipment finance to exporters. In this way, JVBs are successful to bring healthy competition among banks, increase in foreign investment, promote and expand import export trade, introduce new techniques and technologies.

A joint venture is an association of two or more persons or parties having exceptional advantages in specific operation is undertaken to make the operation highly remunerative with their collective efforts. In 1980's government introduced "Financial Sector Reforms" which facilitated the establishment of Joint Venture Banks (JVBs), which gave a new horizon to the Nepalese Banking Sector. Joint Venture Bank, especially with foreign banks, was expected to bring technology; modern management as well as foreign capital in banking industry besides export and import trades. Since these banks being new, urban based and run by foreign management, they started their operations with the accumulated system which could attract the elite group of business community due to their prompt service, modern management.

III. Concept of financial performance

Financial performance analysis means the analysis of financial activities of the company directed towards achieving its value maximizing objective. For the better financial activities, effectives, effective and efficient decisions are necessary and those better financial activities contribute excellent financial performance which in turn results to growth of the organization.

Financial performance analysis can be defined as the heart of financial decision. The growth and development of an enterprise is fully affected by financial performance and financial performance of an enterprise is correct when true facts and figures are sort out.

Business organizations are inspired to generate profit. The value of profit earned is also one of the major indications of a good financial performance of a firm. According to the Robinson, (1951:21-22), "Profit earned by the firm is the main financial performance indicators of business enterprises."

Financial performance analysis is an analysis of better understanding of forms positions i.e. its strength and weakness. Thus, it involves the use of various financial statements. First, the balance sheet which represents the firm's financial position at the moment and then comes income statement which represents the summary of firms profitability over a time.

Financial performance analysis as a part of financial management is the main indicator of success and failure of the firm. Its decision plays a vital role to increase the profitability by analyzing past performance and efficiency of the firm from accounting data and financial statements. Profit is essential for a firm to survive, grow in long run as well as to maintain capital adequacy through retained earnings. However, profit can't solely predict the financial performance of the firm. Financial condition of the business firm should be sound from the point of view of shareholders and stakeholders and financial institution and nation as a whole. However, financial aspects are one of the most neglected aspects of the public enterprises in Nepal. However, joint venture banks have been analyzing their financial performance in order to take corrective actions in timely manner, but which has also been limited within the banks themselves. In Nepalese context, commercial banks are playing vital role in economic growth of the country and NABIL Bank is one of the leading banks in this aspect. This bank has achieved a great success in terms of market share and profitability compared to other joint venture banks because of its professional and reliable services to the customers.

Therefore, it would be clear and transparent to analyze the financial performance of this leading foreign joint venture bank of Nepal by using various measuring financial tools to know about their earning and the utilization of the earnings to boost up the economic expansion of the country.

Financial performance analysis can be considered as a spirit of the financial decisions. The growth and development of any business firm is directly influenced by the financial policies. Rational evaluation of the financial performance management in public enterprises is too much involved in record keeping, raising necessary funds and maintaining relationship with the bank or other financial institutions. But a financial aspect is one of the most neglected aspects of public enterprises in Nepal. However joint venture banks have analyzed financial performance for their corrective action. But their analysis is limited with the bank themselves. Financial performance as a part of financial management, there are different institutions that affect or are affected by the decision of the firm.

Management of the firm is interested in all aspects of financial analysis to adopt food financial management system for the internal control of the enterprise. Similarly, trade creditors are primarily interested in the liquidity positions of the firm. Long term creditors are more interested in the cash flow ability of the enterprise to service debit over a long run. All the concerned groups are directly or indirectly interested about the financial performance of the firm.

The absolute accounting figures are reported in the financial statement, balance sheet, profit and loss account and other statements do not provide a meaningful understanding of the performance and financial position of the firm. Thus financial analysis is the main qualitative judgment process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of the balance sheet and profit & Loss Account.

Joint venture bank of Nepal is profit making business institutions. So the profit earned by a joint venture commercial bank in Nepal is the main financial performance indicator of the bank. However, it cannot exclusively forecast the performance of the bank by analyzing the profitability status only. Every aspects of the financial analysis are to be considered for financial performance of the bank.

IV. Concept of financial analysis

Financial analysis is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail the accounting information given in the financial statement to gain better understanding of the firm's financial position and performance. It is performed to determine the liquidity, solvency, efficiency and profitability position of the organization. It gratifies the need of the concerned parties like potential investors, shareholders, government, general public, short term as well as long term creditors and management itself about their vested interest providing them with adequate information.

In the view of Kothari, (1991:487),"Ratio analysis is such a powerful tool of financial analysis that through its economic and financial position of a business unit can be fully x-rayed."

According to Pandey (1996:257), "Financial Analysis is a process if identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet and the profit and loss Account."

Financial Analysis of a firm consists different of kinds of indicators out of which financial statement analysis, ratio analysis, sources and uses of funds are the major indicators to measure the strength & weakness of a firm. But here the study is mainly focused on the ratio analysis and some other financial indicators to analyze the financial position & performance of bank.

A quantitative judgment of the financial performance and financial position of the firm should be made from viewpoint of the firm's investment. "A ratio is defined as the indicated quotient of two mathematical expressions and as the relationship between two or more figure."

Financial analysis is a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of trend of these factors as shown in a series of statements. By establishing a strategic relationship between the items of a balance sheet and income statement and operative data, the financial analysis unveils the meaning and significance of such items.

The analysis of financial statement is necessary, the reason is that balance sheet, profit and loss account and fund flow statements even are successful to fulfill their targets but they cannot meet the requirement of different interests. To obtain the meaningful information according to own need, they should be analyzed. Ratio Analysis is widely used.

It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and the current financial condition can be determined.

The function of financial analysis of institution can be broken down into three major decisions a firm can make; the investment decision, the financing decision and the dividend decision. An optimal combination of the three decisions will be maximizing the value of the firm. A powerful and most widely used tool of financial analysis is ratio analysis. A ratio is a relationship between two accounting figures expressed mathematically; the term ratio refers to the numerical or quantitative relationship between two items. The type of relationship can be expressed as percentage, fraction and proportion to number. Ratio helps summarize large quantities of financial data and to make qualitative judgment about the performance.

2.2 Review of Related Study

I. Review of journals & articles

Relevant related articles and journals relating to the different aspects of commercial bank will help to conduct this study smoothly. So some of the articles relating to banking sectors are given below;

Shrestha on" Financial Management- Theory Practice" has concluded that the bank has sufficient liquidity to meet the claim of depositors (excluding fixed deposits). The bank has a highly geared capital structure and is more depending on borrower funds. The bank has been able to meet the interest on deposits out of its profits. The rate of return on ownership capital is favorable. He further suggests that operational efficiency should be enhanced to achieve its higher profit goal for better performance. (Shrestha, 1980).

The article entitled “Capital adequacy of Bank- the Nepalese Context” has suggested the banks that deal in highly risky transaction to maintain strong capital base. He concludes that the capital base should neither be too much leading to inefficient allocation of scarce resources nor so weak so as to expose to extreme risk. The study accepts that the operations of banks and the degree of risk associated with them are subject to changes country, bank and time period wise. (Shrestha, 1990: 24-27)

Henceforth the study suggested preparing standard capital adequacy ratios for each individual bank keeping in mind the various reason factors.

Chopra (1990) in his article “Role of foreign banks in Nepal” undoubtedly conduced that the Joint venture Banks are playing an increasingly dynamic and vital role in the economic development of the country (Chopra, 1990: 1-2).

“The role of commercial Banks in Nepalese Context” has conducted that due to the pressure of competition for public welfare, five commercial banks are improving their services”(Gilles, 1990: 31-36).

Bajaracharya (1991) in his article “Monetary policy and Deposit mobilization in Nepal” concludes that the mobilization of domestic saving is one of the prime objective of the monetary policy in Nepal and for this purpose commercial banks are the vital active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the country (Bajaracharya, 1991: 93-97).

Another study conducted by Shrestha (1991) in his article "Commercial Banks comparative performance evaluation" clarifies that joint venture in Nepal are new and comparatively more efficient in operation and having superior performance amongst local banks. Due to their sophisticated technology, modern banking and skill, joint venture banks are performing better in comparison to local banks. Their better performance is also due to the burden of local banks, which are facing the burden of government's branching policy in rural areas and financing public enterprises. Local banks are efficient and expertise in rural sector. But having number of deficiencies, they have to face growing constrains of socio-economic political system on one hand spectrum that of issue and challenges of joint venture banks commanding significant banking in other hand spectrum. (Shrestha, 1991).

An article “Joint Venture Banks in Nepal” published in 1999 Vol. XI:36. It focused that despite the increase in numbers, the joint venture banks are concentrated in urban centers, especially in major cities, with will all their headquarters in Kathmandu. This trend has resulted two ways effect on the operation of the government owned commercial banks in Nepal. First, the comparatively attractive interest rate and service promptness of these private banks have drawn the public deposit’s to their side there by reducing financial liabilities of the former, Second, as a result of reduction in financial liabilities government operated commercial banks have been forced to shut down some of their branches in remote area of the country.

Nevertheless, look at the activities of these joint venture banks provide a boost into the tremendous aid they provide to the national economy. They have been instrumental in mobilizing capital more efficiently and to be a larger extent especially, and they have been more helpful in funding the private sectors.

A speech states, “The government has called up on foreign investors to explore the unique business opportunities lying in the Himalayan Country. While addressing at business meeting at Hanover, Germany on September 9th 2000, he states that government is committed to encourage every type of investment, which can ultimately contribute for the industrial development of the country. Informing the gathering that various 37 investors of nations have invested 592 projects during last ten years industrial production, tourism and service sectors have been prime attraction of foreign investors. (Tamrakar, 2000)

Bhagat highlights on article entitled “ Issue in Banking Reforms”, that the commercial banks generally registered under the company act but operated under the commercial bank act does not provide for the registration of the bank. Here commercial bank act should be a made independent from the provision of the company act. Further he mentions that banks capital adequacy guidelines prescribed under certain basic criteria or parameter. However, there should not be any discrimination between new and old commercial banks in meeting capital adequacy guidelines such as a minimum paid up capital and increasing paid up capital over the time period. (Bhagat, 2003)

Another study conducted by Shrestha (2003) on "Portfolio of Commercial Bank in Nepal" has analyzed the financial performance of the commercial banks using both descriptive and diagnostic approach. In her study she has concluded in following points.

- Per capita deposit as well as per capita credit in commercial banks has increased tremendously. The contribution of deposit in GDP has also been seen increasing. The assets holding of commercial banks are growing with 42.12% rate that is supposed to be higher for developing country. It can be concluded that the commercial banks in Nepal are performing their function of collecting the domestic property.
- The structural ratio of commercial banks shows that bank invest on the average 75% of their total deposit on the government securities and the shares.
- The analysis of reserve position of commercial banks showed quite high percentage of deposit as cash reserve.
- The debt-Equity Ratio of commercial banks is more than 100% in most of the time period under study –period. It lead to conclude that the commercial banks are highly leverage and highly risky. Joint venture banks had higher capital adequacy ratio but has been declining every year.
- Return ratios of all the banks show that most of the time foreign banks have higher return as well as higher risk than the Nepalese banks
- In case of the analysis of management achievement, foreign banks were found to have comparatively higher total management achievement index.

Thus, comparing all the banks throughout the time period, financial condition and performance are better in joint venture banks than local banks.

The number of commercial banks increased dramatically after the democratically elected government adopted the liberal and market oriented economic policy. (Thapa, 2061:17)

According to the Banking Supervision report 2007 of NRB concludes that, the capital of the Nepalese banking industry has depicted a favorable trend during 2006/07. There are various reasons for this improvement. The banks, during the period, on an average have performed well and some of them have raised capital from the market, which improved the overall capital position of the industry. All banks, except for three private banks were able to post handsome profits. Some banks were able to distribute cash dividends and bonus shares to its shareholders. At the same time, some banks raised finance from the market through issue of right shares while Lumbini Bank raised equity capital through initial public offering during the year.

An Article published in 2007 concludes that, Banks are gradually starting to realize that, in today's competitive banking environment, exemplary customer service is one of the distinguishing characteristics that banks can exploit to establish a competitive edge. Since most banks offer comparable products and services, they should continually search for a competitive advantage that will attract new customers and help them retain existing ones. Banks are therefore, looking to develop innovative products and services to maintain superior customer service levels while at the same time remaining profitable. With the number of market players in the rise, the competition has been obviously growing in the banking industry. The most obvious effect of the rising competition can be seen in the interest rates offered by the banks. The banks, which some years ago, used to charge rates in the range of 15 to 20 percent, have dramatically reduced their interest rates to 8 to 12 percent, in order to remain competitive. Banks are now gradually shifting towards IT based solutions to enhance service delivery in order to address customer concerns. More and more banks are embracing E-banking and provision of ATMs to reduce long queues in banking hall. In addition, some of the banks have launched mobile phone banking services which facilitates several account enquiry tools, including account balances, thereby, minimizing the need for customers to visit banking halls. This drive towards IT based solutions will continue to gather momentum in the future as banks will find it be very difficult to survive in the ever growing competition without some form of competitive advantage. Another trend observed in banking industry in 2006/07 is the shift towards multiple banking relationships explored by large corporate houses. In order to remain competitive, Banks are seen to be increasingly encouraging business houses to transact with them. This has led to a creation of large volume of unutilized limits with the bank and in order to get a large piece of the pie banks are increasingly accepting risks, which they otherwise would not have taken. The unyielding competition has also leaded the banks to accept collaterals that are more risky and unsecured. The volume of loans against the hypothecation of stocks, receivables and other assets are on the rise. In the absence of statute for registration of charges (hypothecation) in the current assets, the risk of over financing is eminent and banks are exposed to a higher degree of risk. (Banking Supervision Annual Report-2007:7)

After liberalization and globalization of the world economy the economic transaction such as trading and commerce, industrial and banking activities have grown up tremendously. Likewise, an international trade of the developing country has also boosted up. But on the other hand, the increasing competitiveness has also increased various type of risk in every business, including banking sector. To manage with their risk, the banks in favor of their clients have adopted strategies relating to treasury management. (Shrestha, 2065:20)

Pradhan (2008) in Nepal Ma Banijya Banking: Upalabdhi Tatha Chunauti pointed out some major issues in our local commercial banks against recently established foreign joint venture banks. The study deals on the whole commercial banking system of Nepal in respect of their performance and profitability. His major findings may be relevant to our study. Some of the major findings are listed below:

- The deposit collection rate of local bank is very poor in comparison to foreign banks.
- The pattern of deposit is also different between these banks. The ratio of current deposit in local banks is 19.34% only whereas the same in the foreign banks is 52.5%. But the fixed deposit ratio is very high in local banks.
- The joint venture banks are in better position than the local banks in profit making.

II. Review of thesis

In addition to financial performance analysis, there are various studies on financial aspects, which deal with the context on Nepalese commercial joint ventures banks. Previous studies relating to Nepalese banking sector have been the most relevant sources and assistants for this study. The major findings of the approach used in these important studies are reviewed briefly.

Acharya (2001), in a study entitled "**A comparative study of financial performance of JVBs in Nepal especially on NABIL and NIBL"** concludes that the liquidity position of both the banks is below the normal standard of 2:1 (i.e. Unsatisfied), comparatively this ratio if NBL is better on an average. Both the banks are found to be efficient to utilized most of their total assets.
Based on the findings of analysis, the research suggest finding out the root cause of weak liquidity position to improve the liquidity of both banks. Similarly both the banks are suggested to maintain improved capital structure in increasingly equity base, to extend loan and advance, to utilize more of the total deposit, to minimize operational expenses or to mobilize resources more efficiently and to extend their banking facilities even in rural areas.

Adhikari (2001), in a thesis titled "**A comparative study of financial performance of NSBIBL and EBL"** conclude that EBL is found superior regarding the liquidity, quality assets they possessed and capital adequacy. Overall capital structure of NSBIBL appears more levered than that of EBL. But NSBIBL is found superior in terms of profitability and turn over. Comparatively interest remained more dominant in the total income and expense of NSBIBL than that of EBL. Regarding the test of hypothesis (at 5% level of significance) the performance of the sampled banks significantly different with respect to the ratios, loan and advances to saving deposits. Loan loss provision of total deposits, interest earned to total assets, tax per share and correlation analysis signifies that EBL is successful to utilize its resources more efficiently than NSBIBL.

Pradhan (2001) has done a research for which he carried out a survey of 78^{th} enterprises. According to him “The most important finance function appeared to be working capital management while, the least important one appeared to be maintaining good relation with stockholder.”
The finding reveals that banks and retained earnings are two most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to banks which offer best interest rates. Most enterprises find that banks are flexible in interest rate. Further he said that among the bank loans, bank loan of less than one year are more popular in public sector whereas bank loan of 1-5 year are more popular in private sector.

Lamsal (2004) in his thesis paper entitled "**A studies of commercial banks deposits and its utilization"** had made an attempt to highest the discrepancy between resources collection and the resources utilization. He concluded that commercial banks failure in resources utilization is due to their lending confined for short-term only. So he recommended that commercial banks should give emphasis also on long term lending for better utilization of the deposits.

Ghimire (2005) had conducted a research on a topic "Non-Performing Assets of Commercial Banks: Cause and Effect." He had mainly focused his research in analyzing and identifying the impact, cause and consequences of NPA of Commercial banks namely NBBL Nepal SBI bank and BOK. Time period covered by the researcher was five years. Necessary data and other information were collected from secondary sources.
Based on the findings, he had pointed out the followings:

- There is positive growth of operating profit maintained by all the sample banks but the growth of net profit is negative due to increase in loan loss provisions.
- It is found that there is some relationship between credit expansion and increment of NPA. NBA (Non-Banking Assets) is created due to having NPA. But it is not certain that NPA always creates NBA.
- In regard to the creation of high level of NPA, it has been found that relationship of borrowers with top management is the major determining factor in lending. Commercial banks are giving least weight on personal integrity of the borrower. Follow up of overdue loan and advances in commercial banks starts one month later after the maturity of the loan. It proves the poor loan recovery system in those banks.
- Bad intention of borrower, weak monitoring and mismanagement are the most responsible factor of NPA growth. Similarly, weak legal provision and credit concentration are found as the least preferred factor in turning good loan to bad loan. Lack of portfolio analysis, not being effective credit policy and shortfall on security were also identified as factors affectively in NPA growth.
- Supervision and monitoring system have been identified as average factor. It is also identified that banks give highest priority to trade found that the service sector is not given much priority.

Tamang (2006) in her thesis paper entitled "**Lending Policy of commercial banks in Nepal"** had tried to examine the lending policy of the commercial banks and she had concluded that efficient utilization of resources is more important than collection of the same lower investment means lower capital formation that hampers economic development than banks showed emphasis on efficient utilization of resources.

Shrestha (2006) through a thesis titled "**A study on financial performance of commercial banks"** concluded that the liquidity position of commercial bank is satisfactory local commercial banks have been found relatively highly leveraged compared to the joint venture banks. Loan and advances have been their main form of the investment. Two third assets have been used for earning purpose. Profitability position of NABIL is stronger than others.

Awasthi (2006) had conducted a research on a topic "A Comparative Study on Financial Performance between HBL and Bank of Kathmandu Ltd."
In his research the finding reveals that the bank had not pay attention towards the improvement in investment by total deposit ratio. Profitability ratio in both banks such as return on investment and return on total assets were not satisfactory. Both banks seemed highly leveraged. Both banks

had been able to earn high profit but not satisfactory. HBL was more success to generate more return on its shareholders fund than BOK HBL has been efficient in utilizing most part of its total assets in profit generating purpose than BOK during the period. The liquidity position of the both banks was not satisfactory.

Shrestha (2007) had conducted a research on topic "A comparative Analysis of Financial Performance of Selected Joint Ventures Banks". She had mainly focused her research on comparative examining the overall performance of NABIL, HBL and NB Bank through financial Analysis. She had collected necessary data and other information from the secondary sources of data.
The various findings of the research shows that liquidity analysis indicates better liquidity position of NB bank. Although positions of HBL & NABIL are lower, they were still able to meet their current obligation. Leverage/Capital Structure analysis indicated the long-term debt to net worth ratio of NB Bank was the highest NABIL was the lowest. An unbalanced capital structure was the common situation in all the commercial banks. The banks were unnecessary debt capital. Profitability of these banks were reflected by the determination of return on investment, return on shareholders' equity, interest earned to total assets ratio, interest income to interest expenses ratio. Activity/Turnover ratio indicated that the loan and advance to total deposits and to saving deposit ratio of NB Bank was the highest with NABIL in the second place while that of HBL was the least. This implied NB Bank was efficiently utilizing its deposits on loan and advances.

Gupta (2007) had conducted a research on topic "Financial Performance Analysis of Everest Bank Ltd." He had mainly focused his research in examining the technique of financial analysis such as liquidity, activity, profitability ratios of EBL. In his research he had pointed out various findings. The banks liquidity position is below the normal standard and also inconsistency in liquidity policy. The EBL should utilize its risky assets and shareholders fund to gain profit margin. Similarly it should reduce its expenses and should try to collect cheaper fund being more profitable. EBL should encourage the small depositors for promoting small investors. Return on equity is found satisfactory, as it has not efficiently utilized its equity capital.

Singh (2008) concludes that the both banks are in a better position to discharge current liabilities and utilization of deposits. Himalayan bank is utilizing deposits more efficiently in loan advances than NABIL. Both of the banks have highly geared capital structure. However both banks have maintained higher capital adequacy ratio than the required ratios. Comparatively both of the banks performances are satisfactory. The research suggests increasing equity base operational profit and liquidity position as per the new regulation of NRB. (Singh,

Paudyal (2008) had conducted a research on topic, "A Comparative study on financial performance of NABIL Bank Ltd. and Nepal Bangladesh Bank Ltd." On his study he concludes that overall liquidity position of NBBL was stronger than that of NABIL. It can be concluded that NBBL could discharge its depositor's obligation more comfortably. Analyzing the activity or turnover of both banks, NBBL mobilized its deposits more on loan and advances whereas, NABIL mobilized its deposits more prudently and efficiently in generating income. Similarly, capital adequacy position of NABIL was found to be better than that if NBBL. Regarding to capital structure of the bank, NBBL was found to have adopted 'high risk- high return' strategy as suggested by its highly leveraged i.e. debt dominated capital structure. Under favorable condition, it could offer a handsome return to its owners. According to profitability analysis, NABIL was found sound profitability due to its higher ratio. Also, other indicators in terms of earning per share (EPS) and dividend per share (DPS) found sharply higher in NABIL which implies positive attitude of stakeholders toward NABIL.

Shrestha (2009), through his thesis **"A study on financial performance of commercial banks"** concluded that the liquidity position of commercial bank is satisfactory local commercial banks have been found relatively highly leveraged compared to the joint venture banks. Loan and advances have been their main form of the investment. Two third assets have been used for earning purpose. Profitability position of NABIL is stronger than others.

Maharjan (2009), in his thesis paper entitled "**A study of financial performance of SCBNL**" concludes that the liquidity position of SCBNL is satisfactory as well as other financial performance is also in satisfactory level however, net profit earned in comparison to the total deposit is in fluctuating trend. Overall, the activity ratio of SCBNL indicates that the bank has utilized its resources in a best way. Hence, the result of the profitability ratio analysis indicates that the overall performance of the bank is effective in generating the profit and hence maximizing its wealth.

The review of the above mentioned bunch of research have definitely enrich my vision to elaborate analysis to come to the meaningful conclusion in realistic term and few key suggestion that help in improvement of commercial banks.

2.3 Research Gap

There are number of studies conducted in order to analyze the financial performance of joint venture commercial banks, financial institutions and trading companies. This study on Financial Analysis of NABIL Bank Ltd. covers the data of last five fiscal years to analyze and identify the financial performance of the bank in order to point towards the bank's gradual growth and stability in this competitive environment. Financial analysis through ratio analysis assists in identifying the major strengths and weaknesses of the Bank. It indicates whether the Bank has enough cash to meet its obligations and ability to utilize their available resources properly. All of which are necessary if the firm is to achieve the goal of maximizing shareholder's wealth. Financial analysis can also be used to assess the Bank's viability, as an ongoing enterprise and determine whether a satisfactory return is being earned for the risk taken. Therefore, this study can be regarded as one of the useful study.

CHAPTER 3

RESEARCH METHODOLOGIES

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain object in view. Thus the main purpose of this chapter is to stress on the different research methods and conditions, which are used while conducting this study. Research methodology is the technique to achieve the stated objectives of the study. The basic objective of this study is to compare financial performance of NBL.

"Research is an original contribution to the existing stock of knowledge making for its advancement. It is the pursuit of truth with the help of study observation, comparisons and experiment. In short, the search for knowledge through objective and systematic method of finding solution to a problem is research." (Kothari, 1994)

This chapter studies how research to be conducted, how the research is made effective and what are the steps of research so that the study and goal of the related study can be easily achieve. Especially research refer sequential step's to be followed by researcher at the time of solving problem or studying the concerned subject matter in detail that include following steps.

3.1 Research design
3.2 Sources and types of data
3.3 Population and sample
3.4 Data procedure
3.5 Method of data analysis
3.6 Data analysis technique

3.1 Research Design

A research design is the framework or plan that guides the computation and analysis of the data gathered for the study purpose. Basically, this study deals with the financial performance analysis of NABIL Bank. Hence, analytical as well as descriptive approach have been used to evaluate the financial performance of the bank and obtained stated objectives.

3.2 Sources And Types of Data

To conduct this study, secondary data are taken from annual reports of related office and their websites. So the major sources and types of data include these published sources:

- Financial statement of NABIL Bank
- Annual report of the bank

- Different previous studies
- Related bulletins, reports, periodically published by various government bodies.

3.3 Population And Sample

At present, there are nearly three dozens of commercial banks are operating in Nepal. They constitute the population sample. Among of them, NABIL Bank is selected for the study of Financial Analysis as it is one of the leading and first joint venture commercial bank in Nepal. Five years data are taken to conduct the study from 2061/62 to 2065/66.

3.4 Data Procedure

Various data obtained through different sources can't be used directly for the analysis in their original form. So, they have been rechecked, re-evaluated, edited and tabulated to bring them into appropriate form for the analysis purpose. The researcher made the collected data trust worthier getting them form authorized sources. Moreover, different graph charts are presented according to necessity to interpret visually. The data are tabulated according to subject matter and they are shown in table in sequential way. Similarly, the financial ratios are also used for the analysis and interpretation of the financial performance of selected sample.

3.5 Method of Data Analysis

In order to ascertain actual financial position of any firm, various analytical tools can be used. It is true that suitable or appropriate tools, according to the nature of statement and data make the analysis more effective and significant for achieving these objective basically two sorts of tools can be used, financial and statistical the researcher has therefore, applied these tools extensively.

3.6 Data Analysis Technique

As this study is related to financial performance analysis, financial tools are more useful they help to identify the financial strength and weakness of the firm in spite of various financial tools available the research has primarily stressed on ratio analysis assuming it the most suitable tools. The following financial ratios and tools have been used to analyze the data:

3.6.1 Financial Ratio Analysis

Lawrence J, (P-199), "A Ratio is simply a number expressed in terms of other number and it expressed the quantitative relation between any two Variables." Moreover, it is used as a technique to quantify the relationship between two sets of financial data taken from either profit and loss account or balance sheet. It provides information relation to strength and weaknesses of financial data in relation to others. However, the researcher has employed his utmost effort to use as many ratios as possible to reach the point of true financial position of the banks. These ratios include the following :

A) Liquidity Ratios
B) Activity Ratios
C) Capital adequacy Ratios
D) Capital Structure Ratios
E) Profitability Ratios
F) Invisibility Ratios

A) Liquidity Ratios

Liquidity Ratio measures the firm's ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency. A very high degree of liquidity of liquidity is also bad, idle cash earn nothing. So, it is necessary to a firm to maintain optimum level of liquidity. A bank is subject to a minimum cash reserve requirements (CRR) imposed by central bank to ensure minimum amount of total assets to meet unexpected withdrawals. The following ratio has been applied to find out liquidity position of the banks.

I. Current ratio
II. Cash and bank balance to total deposit ratio.
III. NRB balance to current and saving deposit ratio
IV. Cash and bank balance to current and saving deposits ratio
V. Fixed deposit to total deposit ratio

I. Current Ratio

The current ratio is the ratio of total current assets to total current liabilities and measures the short-term solvency of a firm. It is calculated by dividing current assets by current liabilities.

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

Current assets include normally those assets of a firm, which are converted into cash within one year. These assets of a firm includes cash , bank balance, investment in treasury bills, discounts, overdrafts, short-term advance loans, foreign currency loan, bills for collection, customer acceptance, outstanding expenses, divided payable, provision for taxation. Although there is no hard and fast rule for measuring this ratio, conventionally a CR ratio of 2:1 is the considered satisfactory.

II. Cash and bank balance to total deposit ratio (Cash Reserve Ratio)

In countries where capital market is not well developed, the cash reserve requirement can be used not only to control the commercial bank credit but also to influence the investment portfolio of the commercial banks.

Regarding cash reserve, Nepal Rastra Bank had guided all the commercial Banks to maintain at least 12% of their deposit liabilities as reserve (Vault cash is 4% and the central bank balance is 8%of total deposits).

This ratio is calculated by dividing cash bank balance by total deposits.

$$Cash\ Reserve\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Total\ Deposits}$$

Total deposits consist of current deposits, saving deposit, fixed deposit money at call and short notice and other deposits. This ratio shows the proportion of total deposits held as compared to the most liquid assets. High ratio shows the strong liquidity position of the bank but very high ratio is not favorable the bank because doesn't produce appropriate profit to bear the high interest.

III. NRB balance to current and saving deposit ratio (NRB-CSDR)

This ratio is computed by using this formula.

$$NRB - CSDR = \frac{NRB\ Balance}{Current\ and\ Saving\ Deposits}$$

Commercial Banks are required to hold certain proportion of current and saving deposits in NRB's account. It is to ensure the smooth functioning and sound liquidity position of the Bank. As per the directive of Nepal Rastra Bank, the required ratio of 8 percent must be kept as NRB balance. This means the ratio measures whether the bank is following the direction of NRB or not.

IV. Cash and bank balance to current and saving deposits ratio (CBBCSDR)

This ratio is calculated by dividing cash and bank balance by current and saving deposits.

$$CBBCSDR = \frac{Cash\ and\ Balance\ Bank}{Current\ and\ Saving\ Deposits}$$

Cash and bank balance includes cash in hand, foreign cash in hand, other cash items, balance with domestic bank and balance held in foreign banks. On the other hand current and saving deposits consist of all types of deposits excluding fixed deposits. This ratio measures the ability of bank to meet its immediate obligation. High ratio normally indicates sound liquidity position of the bank but too high ratio is not good as it reveals the under- utilization of fund.

V. Fixed deposit to total deposit ratio (FDTDR)

This ratio determined by dividing fixed deposits by total deposits.

$$FDTDR = \frac{Fixed\ Deposit}{Total\ Deposits}$$

It indicates the percentage between total deposits. High ratio shows better opportunity available to the bank to invest in sufficient profit generating long-term loans but low ratio indicates vice versa.

B) Activity Ratios

Activity ratios are also known as assets management ratios. These ratios look at the amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels. Mostly, activity ratio is used to evaluate managerial efficiency and proper utilization of assets.

I. Investment to total deposit ratio
II. Loans and advances to total deposit ratio.
III. Loan advances total assets ratio
IV. Total income generating assets to total assets ratio

I. Investment to total deposit ratio (ITDR)

This ratio is computed by dividing investment by total deposits. This can be stated as:

$$ITDR = \frac{Investment}{Deposits\,Total}$$

The numerator includes government's treasury bills, development bonds, company shares and other investments. This ratio presents how efficiently the resources the banks have been utilized. High ratio shows managerial efficiency regarding the utilization of deposits and vice-versa.

II. Loans and Advances to Total Deposits Ratios (LATDR)

This ratio is calculated by using following formula.

$$LATDR = \frac{Loans\ and\ Advances}{Total\ Deposits}$$

Loans and advances consists of loans, advances cash credit overdrafts local and foreign bills purchased and discount. It indicates the proportion of total deposits invested in loan and advances. High ratio indicates greater use of deposits in loans and advances but low ratio may be the cause of ideal cash or use of fund in less productive sector. Very high ratio shows the poor liquidity position.

III. Loan advances to total assets ratio (LATAR)

This ratio is obtained by dividing loans and advances by total assets.

$$LATAR = \frac{Loans\ and\ Advances}{Total\ Assets}$$

Total Assets include total assets of balance sheet items. This ratio indicates what proportion of total assets has been used in loans and advances. Higher ratio means effective of total assets in loans and advances.

IV. Total income generating assets to total assets ratio (IGATAR)

$$IGATAR = \frac{Total\ Income\ Generating\ Assets}{Total\ Assets}$$

Income generating assets are those assets, which are invested for generally income. This includes loans, advances; bills purchased and discounted investment and money at call or short notice. This ratio shows what percentage of the total assets has been invested for income generation. High ratio indicates sound profitability position and greater utilization of assets.

C) Capital Adequacy Ratios

The ratio is important to every business firm. Similarly commercial banks must evaluate this ratio. Capital is important for an organization to maintain every facility. Holding excess capital that required may have higher holding cost and low return from investment, similarly holding too little capital may have inefficiency in paying liabilities of a firm.

So a firm should maintain an optimum level of cash. For maintaining optimum cash by the CBS NRB directs the commercial banks to increase or decrease or fix a certain percentage of capital funds out of total deposits.

I. Total Net Worth to Total Assets Ratio
II. Net Worth to Total Deposit Ratio

I. Net Worth to Total Assets Ratio (NWTAR)

This ratio is computed by dividing net worth by total assets.

$$NWTAR = \frac{Net\ Worth}{Total\ Assets}$$

This ratio measures the percentage of shareholder fund in relation total assets owned by banks. High ratio shows greater contribution of investors' fund and strong capital position.

II. Net Worth to Total Deposit Ratio (NWTDR)

This ratio is calculated by using the following formula.

$$NWTDR = \frac{Net\ Worth}{Total\ Deposit}$$

It indicates the percentage of net worth in relations to the total deposits collected in the bank. The direction of the central bank has maintained or not by the bank, is the yardstick to measure the position.

D) Capital Structure Ratios

Capital structure ratio also known as leverage ratios are the measures of long-term solvency of a bank. Capital structure generally refers to the composition of debt and equity component of overall capital of a firm. These ratios are calculated to measure the long-term financial position of the bank.

Specially, structure ratio and coverage ratio have been calculated and interpreted under capital structure ratio. The first ratio deals with the composition of debt and equity capital where as to second show the relationship between shareholders' fund and total assets of the banks. These two categories of ratio, particularly, include the following.

I. Debt to Equity Ratio
II. Total Debt to Total Assets Ratio &
III. Interest Coverage Ratio.

I. Debt to Equity Ratio (DER)

This ratio can be calculated in this way.

$$DER = \frac{Total\ Debt}{Shareholders'\ Equity}$$

This ratio shows the relationship between debt capital and equity capital. High debt equity ratio indicates greater financing by debt holders than those of equity holders. From the creditor's view-point, high debt-equity ratio of the banks is more risky to them. It means the bank may fail to satisfy creditors.

II. Total Debt to Total Assets Ratio (TDTAR)

$$TDTAR = \frac{Total\ Debt}{Total\ Assets}$$

This ratio can be denotes the relationship between total debt and total assets of the banks. The higher ratio indicates the greater portion of the outsiders' and investment in term of the bank's assets.

III. Interest Coverage Ratio (ICR)

This ratio is computed by dividing earning before income and tax by interest. This ratio evaluates the debt serving capacity of the banks.

$$ICR = \frac{EBIT}{Interest}$$

The higher ratio shows that the bank can pay the interest easily.

E) Profitability Ratios

Profitability ratio is one of the main indicators to analyzing the financial performance of a firm. It calculates to measure the earning performance and operational efficiency of the bank. A bank should be able to produce adequate profit on each rupee of investment, if investments do not generate sufficient profits, it would be very difficult for the bank to cover operating expenses and interest charges. The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return of investment, its survival is threatened.

Under this category the researcher has calculated the following ratios to obtain the stated objectives of the study.

I. Return on Total Assets Ratio
II. Return On Equity Ratio
III. Interest Earned to Total Assets Ratio
IV. Total Interest Expenses to Total Interest Income Ratio
V. Return on Total Deposits Ratio

I. Return on Total Assets Ratio (ROA)

This ratio is related to net profit after tax (NPAT) and total assets. How efficiently is the assets of a firm able to generate more profit are measured by this ratio is calculated by dividing NPAT by Total Assets. This ratio provides the foundation necessary for a company to deliver a good return on equity.

$$ROTA = \frac{NPAT}{Total\ Assets}$$

The increasing Ratio shows favorable situation for the banks. The higher ratio is also shows that the bank could manage their overall operations, but the lower ratio shows vice-versa.

II. Return on Equity Ratio (ROE)

This ratio measures, how much profit is earned by utilizing funds of total equity by the firm. As the commercial bank, the objectives of joint venture bank are to earn profit so as to provide a reasonable return to the owners. Total shareholders' equity consists of preference share capital, ordinary share capital, share premium and reserve and surplus less accumulated losses. This ratio can be computed as Net profit after tax (NPAT) divided by average total shareholders' equity.

$$ROE = \frac{NPAT}{Total\ Equity}$$

III. Interest Earned to Total Assets Ratio (IETAR)

The ratio indicates how much interest mobilizing the assets in the bank has generated. Interest is the main source of income of banks' interest received from generally loan and advances overdraft and investment in securities. This ratio can be computed as interest earned divided by total assets.

$$IETAR = \frac{Interest\ Earned}{Total\ Assets}$$

Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

IV. Total Interest Expenses to Total Interest Income Ratio (TIETIIR)

This ratio can be computed by using the following formula.

$$TIETIIR = \frac{Total\ Interest\ Expenses}{Total\ Interest\ Income}$$

The numerators consist of total interest paid on deposits liabilities, loan and advances and other deposits. The denominator comprises total interest earned or retained from loan and advances, cash credit and overdraft, government securities, interbank and other investment. This ratio indicates how much interest expenses have been made in relation to interest income received. The higher ratio shows unfavorable profitability situation of the bank.

V. Return on Total Deposits Ratio (RTDR)

This ratio measures the level of NPAT by using total deposits. It measures the relationship between NPAT and total deposits with an ability of a firm to utilize maximum of deposits to earn much profit. This ratio is computed by dividing NPAT by Total Deposits.

$$RTDR = \frac{NPAT}{Total\ Deposits}$$

F) Invisibility Ratios

An analysis of ratio helps the investors to know about the performance of the banks. Therefore, following ratio have been calculated to test earning capacity of the banks to last earning capacity of the bank.

I. Earning Per Share (EPS)
II. Dividend Per Share (DPS)
III. Tax Per Share (TPS)
IV. Dividend Pay Out Ratio (DPR)

I. Earning Per Share (EPS)

This ratio is calculated by dividing earning available to common stockholders by number of outstanding share of common stock.

$$EPS = \frac{EBIT}{No.of\ outstanding\ share\ of\ common\ stock}$$

High ratio shows the sound profitability position of the bank. It is favorable for the investor too.

II. Dividend Per Share (DPS)

This ratio can be obtained by using following formula.

$$DPS = \frac{Earning\ Paid\ to\ the\ shareholders}{No.of\ outstanding\ share\ of\ common\ stock}$$

This ratio shows per rupee earning actually distributed to common stock holders per share held by them. High ratio is favorable for the shareholders.

III. Tax Per Share (TPS)

Tax Per Share is obtained by dividing tax paid to government by number of common share outstanding.

$$TPS = \frac{Tax\ Paid\ to\ Government}{No. of\ outstanding\ share\ of\ common\ stock}$$

This ratio shows the contribution of shareholders for the economic development. Higher TPS indicates the better profitability position of the bank.

IV. Dividend Pay Out Ratio (DPR)

It measures the relationship between the earning belonging to the ordinary shareholders and the dividend paid to them. This ratio can be calculated by dividing the total dividend paid to the owners by the total profit/earning available to them.

$$DPR = \frac{Dividend\ Per\ Share \times 100\,\%}{Earnings\ Per\ Share}$$

3.6.2 Income and Expenditure Analysis

There are so many items in debit and credit side in income and expenditure or profit and loss account. This tool has been used to separate the income and expenditure in to main sub headings. So this helps to compare nature of income and expenditure. Different proportions of the income and expenses have been separated according to their homogenous nature. Under the income analysis there will four headings, interest incomes, commission & discount, foreign exchange income & other income. In expenses analysis it is divided into major four sub-headings, i.e. interest expenses, staff expenses, office operation expenses and bonus facilities.

3.6.3 Statistical Tools

Although various statistical tools are available to analyze the obtained data, the researcher has selected the most suitable and commonly usable tools to extract trustworthy financial decision.

1. Arithmetic mean
2. Least square liner trend
3. Karl Pearson's co-efficient of correlation
4. Probable error

1. Arithmetic Mean

Arithmetic mean of a given set of observation is their sum divided by the number of observation. In general, if x_1, x_2, x_3, ……………………,x_n are the given number of observation, their arithmetic mean can be obtained by

$$x = \frac{x1 + x2 + x3 + \cdots . xn}{n}$$

Where,

x denotes arithmetic mean

n denotes the no. of periods and

x_1, x_2 x_3 and x_n are the individual observations.

2. Least Square Linear Trend

The straight line trend implies that irrespective of the seasonal and cyclical swings and irregular functions, the values increases or decreases by absolute amount per unit of time. The linear trend values from a series in arithmetic progression.

It combines by following notations.

$$y = a + bx$$

where,

y= the value of dependent variable

a= intercept of trend line

b=slope of trend line

x= value of the independent variable i.e. time

when they are put in normal equation, these equations can be developed

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

$$\Sigma xy = a\Sigma x + b\Sigma x$$

Since

$$\Sigma x = 0,$$

$$a = \frac{\Sigma y}{n}$$

and, $b = \frac{\Sigma xy}{\Sigma x2}$

The constant 'a' is simply equal to the mean of y value and constant 'b' given the rate of change. This is s mathematical method, which is widely used in practice. It is applied for finding out a trend line for those series, which change periodically in absolute amount.

3. Karl Pearson's Co-efficient of Correlation

Out of several mathematical method of measuring correlation, the Karl Pearson's coefficient of Correlation is most widely used in practice to measure the degree of relationship between two variables. So, it is measured by following formula using two variables or series X and Y.

$$r = \frac{n \sum XY - (\sum X)(\sum Y)}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

where,

r = The coefficient of correlation

ΣXY = Sum of product of observations in two series

ΣX = Sum of observation in X series

ΣY = Sum of observation in Y Series

ΣX^2 = Sum of square of observations in X series

ΣY^2 = Sum of square of observations in Y series

The value of this coefficient (r) can never be more than 1 or less than -1. Thus +1 and -1 are limits of the coefficient. Here, r= +1 implies that there is perfect positive correlation between the two variables. But r= -1 implies that there is perfect negative correlation between the variables. If it has a Zero Value (r = 0), it denotes no correlation between the variables. If the obtained value lies outside the limit ±1, this implies that there is some mistake in calculation.

4. Probable Error of Correlation

Probable error of correlation is an old testing the reliably of an observed value of correlation coefficient. It is calculated to find the extent to which correlation coefficient is dependable as it depends upon the condition of random sampling probable error of correlation coefficient denoted by P.E (r) is obtained as

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

where,

$\frac{1- r^2}{\sqrt{n}}$ = standard error reason for taking 0.6745 is that in a normal distribution

5 % of observation lie in range $\mu \pm 10.675\,\sigma$ Where μ and σ denotes the population mean and standard deviation.

P.E. (r) is used to test it an observed value of sample correlation coefficient is significant of any correlation in population.

If r is less than its P.E (r < P.E) it is insignificant. So, perhaps there is no evidence of correlation.

If r is more than its P.E (r <6 P.E), it is significant and there is correlation.

If r is more than 6 times its P.E and greater than ±0.5, then it is considered as

correlation.

CHAPTER 4

DATA ANALYSIS AND PRESENTATION

In this chapter, the data have been analyzed and interpreted using financial and statistical tools following the research methodology dealt in the third chapter. In the part of analysis, various tables have been used to present the data collected from various sources have been inserted in the required tables according to their homogenous nature. The outcomes of the analysis have been compared with conventional standard with respect to ratio analysis, directives of NRB and other factors. Furthermore, many suitable graphs, and diagrams have also been used to clarify the actual position and performance of the bank.

4.1 Ratio Analysis

Ratio analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The basic input to ratio analysis is the firm's income and expenditure statement and balance sheet for the periods to be examined. The study consists of the following ratios to analyze the financial performance of the NABIL Bank.

4.1.1 LIQUIDITY RATIOS

Liquidity Ratio measures the firm’s ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency. The following ratio has been applied to find out liquidity position of the banks.

I. Current ratio

II. Cash reserve ratio.

III. NRB balance to current and saving deposit ratio

IV. Cash and bank balance to current and saving deposits ratio

V. Fixed deposit to total deposit ratio

I. Current Ratio

The current ratio, one of the most commonly cited financial ratio, measures the firm's ability to meet its short-term obligations. The current ratio is the ratio of total current assets to total current liabilities and measures the short-term solvency of a firm. It is calculated by dividing current assets by current liabilities.

Table 4.01

Current Ratio of NABIL Bank Limited (Rs. In '000)

Year	Current Assets	Current Liabilities	Current Ratio (times)
2061/62	16,825,095	15,511,629	1.08
2062/63	22,010,088	20,281,774	1.09
2063/64	26,966,497	24,313,770	1.11
2064/65	36,534,720	33,095,560	1.10
2065/66	43,206,409	38,755,852	1.11
Average	**29,108,721.40**	**26,391,717.60**	**1.10**

Source: Balance Sheet: Nabil See Annex No. 1

Analysis of table 4.01 shows that the current assets of NABIL Bank Ltd. have always exceeded the current liabilities for the study period of five Years from 061/62 to 065/66. The bank has the highest current ratio of 1.11 in 2063/64 and 2065/66 and the lowest current of 1.08 in 061/62 with an average current ratio of 1.10 during the study period. In general terms, the bank has been able to meet its short-term obligations. The above analysis indicates that the bank is in sound liquidity position.

II. Cash Reserve Ratio (CRR)

The cash reserve requirement in the most developed and developing countries have been used extensively as a means to control commercial banks credit. Especially in countries where capital market is not well developed, cash reserve requirement can be used not only to control the commercial bank credit but also to influence the investment portfolio of the commercial banks. Cash Reserve Ratio (CRR) is calculated by dividing the cash and bank balance by the amount of total deposit.

Table 4.02

Cash Reserve Ratio (Rs. In Thousands)

Year	Cash and Bank Balance	Total Deposits	Ratio %
2061/62	559,382	14,586,609	3.83
2062/63	630,238	19,347,399	3.26
2063/64	1,399,826	23,345,285	6.00
2064/65	2,671,141	31,915,047	8.37
2065/66	3,372,512	37,348,256	9.03
Average	**1,726,619.80**	**25,307,919.20**	**6.10**

Source: Balance Sheet: Nabil See Annex No. 1

Table 4.02 shows that cash reserve ratio of the NABIL differs from maximum of 9.03% in the year 2065/66 to the minimum of 3.26% in the year 2062/63 with an average of 6.10% during the study period. The analysis specifies that the bank is volatile to maintain cash reserve ratio as per NRB directives.

III. NRB balance to current and saving deposit ratio (NRBBCSDR)

Commercial Banks are required to hold 8% of current and saving deposits in NRB's account. It is to ensure the smooth functioning and sound liquidity position of the Bank.

Table 4.03

NRB Balance to Current and Saving Deposit Ratio (Rs. In Thousands)

Year	Nepal Rastra Bank Balance	Current & Saving Deposits	Ratio (in Percentage)
2061/62	389,705	9,825,519	3.97
2062/63	318,358	11,681,349	2.73
2063/64	1,113,415	13,582,594	8.20
2064/65	1,829,471	17,444,334	10.49
2065/66	2,648,596	20,100,940	13.18
Average	**1,259,909.20**	**14,526,947.40**	**7.71**

Source: Balance Sheet: Nabil See Annex No. 1

The above table 4.03 expose that the ratios of NABIL were 3.97%, 2.73%, 8.20%, 10.49%, and 13.18% with mean ratio of 7.71%. Commercial Banks are required to hold 8% of current and saving deposits in NRB's account. It is to ensure the smooth functioning and sound liquidity position of the Bank. NABIL Bank is fails to maintain minimum deposit liabilities of 8% as cash reserve with Nepal Rastra Bank during fiscal year 061/62 and 062/63.

IV. Cash and bank balance to current and saving deposits ratio (CBBCSDR)

This ratio measures the ability of bank to meet its immediate obligation. High ratio normally indicates sound liquidity position of the bank but too high ratio is also not good as it reveals the under- utilization of fund. This ratio is calculated by dividing cash and bank balance by current and saving deposits.

Table 4.04

Cash and Bank Balance to Current and Saving Deposits Ratio (Rs. In Thousands)

Year	Cash and Bank Balance	Current & Saving Deposits	Ratio (Percentage)
2061/62	559,382	9,825,519	5.69
2062/63	630,239	11,681,349	5.40
2063/64	1,399,826	13,582,594	10.31
2064/65	2,671,141	17,444,334	15.31
2065/66	3,372,512	20,100,941	16.78
Average	**1,726,620**	**14,526,947**	**10.70**

Source: Balance Sheet: Nabil See Annex No. 1

The Above Calculated table shows that the Cash and Bank Balance to current & saving deposits of NABIL Bank Ltd. have always is in good condition except in the fiscal year 061/62 with ratio of 5.69 and in the fiscal year 062/63, 5.4 percentages. The bank has the highest ratio of 16.78 in 2065/66 and the lowest ratio of 5.40 percentages in the fiscal year 062/63 with an average ratio of 10.70% during the study period. In general terms, the bank has been able to meet its short-term obligations. The above analysis indicates that the bank is in sound liquidity position. High ratio normally indicates sound liquidity position of the bank but too high ratio is not good as it reveals the underutilization of fund.

V. Fixed deposit to total deposit ratio (FDTDR)

Fixed deposit is the high interest bearing deposit and can be withdrawn only after its maturity. This ratio is calculated in order to find out the proportion of fixed deposit with respect to the total deposit. It is calculated by dividing the amount of fixed deposits by the amount of total deposit.

Table 4.05

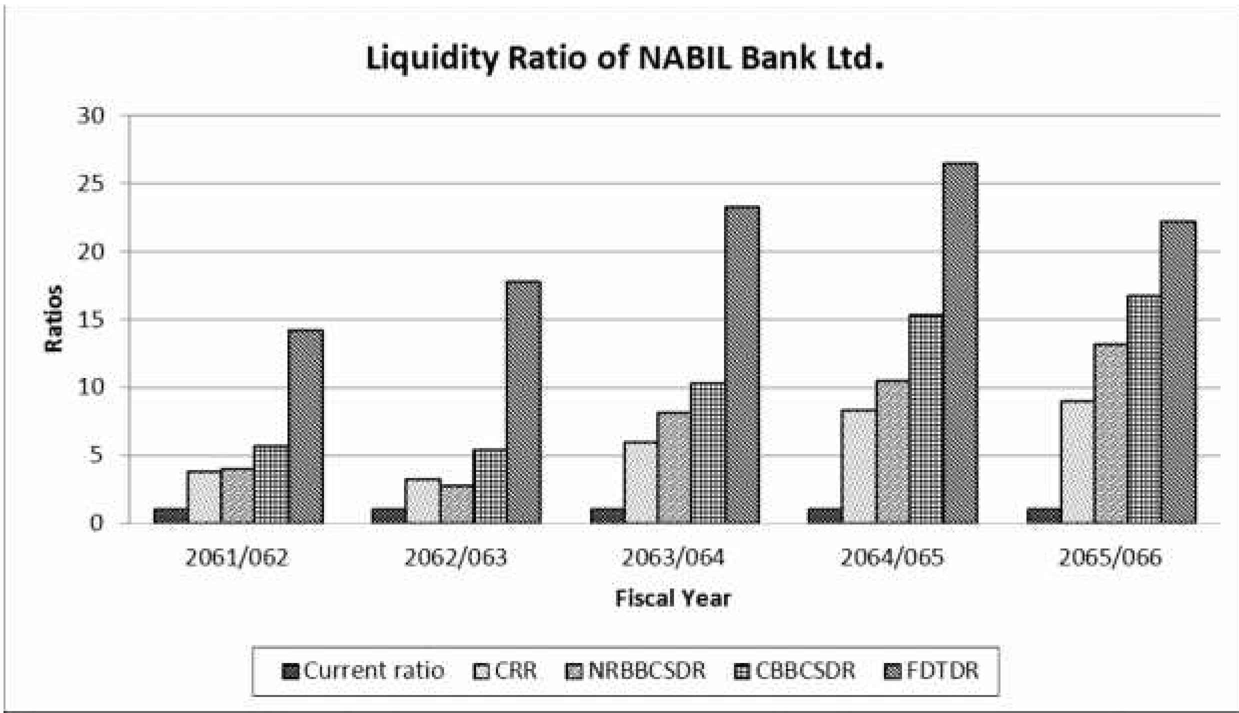
Fixed Deposit to Total Deposit Ratio (Rs. In Thousands)

Year	Fixed Deposits	Total Deposits	Ratio (Percentage)
2061/62	2,078,535	14,586,609	14.25
2062/63	3,449,094	19,347,399	17.83
2063/64	5,435,190	23,345,285	23.28
2064/65	8,464,086	31,915,047	26.52
2065/66	8,310,708	37,348,256	22.25
Average	**5,547,523**	**25,307,919**	**20.83**

Source: Balance Sheet: Nabil See Annex No. 1

Fixed deposit is the high interest bearing deposit which can be withdrawn only after its maturity. The above table shows that the fixed deposit to total deposit ratio of the NABIL Bank differ from maximum of 26.52 % in the year 2064/65 to the minimum of 14.25% in the year 2061/62 with an average of 20.83% during the study period of five years. The analysis indicates that the portion of fixed deposit in the total deposit is fluctuating.

Figure 4.1



The graph shows the liquidity ratio of Nabil from fiscal year 2061/62 to 2065/66 in percentage. It summarizes the various ratios in a cumulative form which represents the liquidity position of the bank. From the above figure it is clear that the fixed deposit to total deposit have the high liquid ratio. Similarly, current ratio has less liquidity in the study period.

4.1.2 ACTIVITY RATIOS

Activity ratio has been used to evaluate managerial efficiency and proper utilization of assets. This includes investment to total deposit ratio, loans and advances to total deposit ratio, loans and advances to saving deposit ratio and total income generating assets to total deposit ratio.

I. Investment to total deposit ratio (ITDR)

This ratio presents how efficiently the resources the bank has been utilizing. High ratio shows managerial efficiency regarding the utilization of deposits and vice-versa. This ratio is computed by dividing investment by total deposits. This can be stated as:

Table 4.06
Investment to Total Deposit Ratio (Rs. In Thousands)

Year	Investment	Total Deposits	Ratio (Percentage)
2061/62	4,267,233	14,586,609	29.25
2062/63	6,178,533	19,347,399	31.93
2063/64	8,945,310	23,345,285	38.32
2064/65	9,939,771	31,915,047	31.14
2065/66	10,826,379	37,348,256	28.99
Average	**8,031,445**	**25,307,919**	**31.93**

Source: Balance Sheet: Nabil See Annex No. 1

Investment to total deposit ratios of NABIL calculated in table 4.3.1 remained its ratios 29.25, 31.93, 38.32, 31.14 and 28.99 in the respective years with the average of 31.93 in the study period. The higher average shows that NABIL is successful in managerial efficiency regarding the utilization of deposits.

II. Loans and Advances to Total Deposits Ratios (LATDR)

This ratio indicates the proportion of total deposits invested in loan and advances. High ratio indicates greater use of deposits in loan and advances but low ratio may be the cause of ideal cash or use of fund in less productive sector.

Table 4.07
Loans and Advances to Total Deposits Ratios (Rs. In Thousands)

Year	Loan & Advances	Total Deposits	Ratio (Percentage)
2061/62	10,586,170	14,586,609	72.57
2062/63	12,922,544	19,347,399	66.79
2063/64	15,545,779	23,345,285	66.59
2064/65	21,365,053	31,915,047	66.94
2065/66	27,589,933	37,348,256	73.87
Average	**17,601,896**	**25,307,919**	**69.36**

Source: Balance Sheet: Nabil See Annex No. 1

The calculations in above table shows that loans and advances to total deposits of the NABIL Bank fluctuates from maximum of 73.87 percent in the fiscal year 2065/66 to the minimum of 66.59 percentage in the year 2063/64 with an average of 69.36 percent. The analysis shows that the bank is mobilizing its total deposits in loan and advances adequately and it has efficiently utilized its total deposits for loan and advances. Higher ratio reveals that it is efficient to utilize the financial resources in productive sectors.

III. Loan and Advances to Total Assets Ratio (LATAR)

This ratio shows what proportion of total assets has been used in loans and advances. Higher ratio means effective use of total assets in loan and advances.

Table 4.08

Loan Advances Total Assets Ratio (Rs. In Thousands)

Year	Loan & Advances	Total assets	Ratio (Percentage)
2061/62	10,586,170	17,186,331	61.60
2062/63	12,922,543	22,329,971	57.87
2063/64	15,545,778	27,253,394	57.04
2064/65	21,365,053	37,132,759	57.54
2065/66	27,589,933	43,867,398	62.89
Average	**17,601,895.60**	**29,553,970.40**	**59.39**

Source: Balance Sheet: Nabil See Annex No. 1

Table 4.08 shows that the ratios of NABIL were 61.60%, 57.87%, 57.04% 57.54% and 62.89% with an average of 59.39% in the respective years of study period. The higher average ratio indicates that NABIL is efficient in utilization of total assets in profitable sector. It can be determined that ratios of NABIL fluctuate to a greater extent in the study period.

IV. Total income generating assets to total assets ratio (TIGATAR)

Income generating assets are those assets which are invested to in order to generate income in the commercial banks. This ratio shows the proportion of total assets, which are invested to generate the income.

Table 4.09

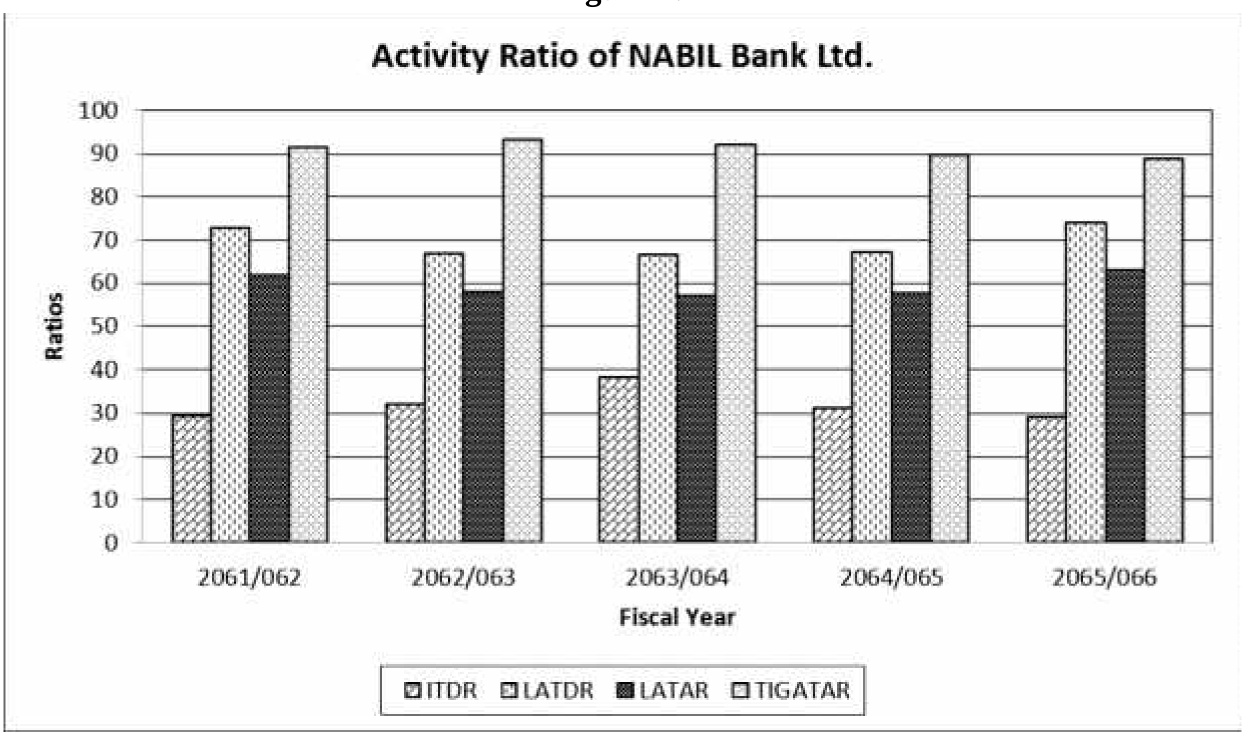
Total Income Generating Assets to Total Assets Ratio (Rs. In Thousands)

Year	Total Income Generating Assets	Total assets	Ratio (Percentage)
2061/62	15,721,813	17,186,331	91.48
2062/63	20,835,978	22,329,971	93.31
2063/64	25,054,621	27,253,394	91.93
2064/65	33,257,185	37,132,759	89.56
2065/66	38,969,200	43,867,398	88.83
Average	**26,767,763.20**	**29,553,970.40**	**90.02**

Source: Balance Sheet: Nabil See Annex No. 1

It is clearly depicted in table 4.09 that the ratios of NABIL were 91.48%, 93.31%, 91.93%, 89.56% and 88.83%, in the respective years of study period with the mean of 90.02%. This higher ratio shows that NABIL has sound profitability position and greater utilization of its assets.

Figure 4.2



The ratio is important to every business firm. Similarly commercial banks must evaluate this ratio. Capital is important for an organization to maintain every facility. Holding excess capital that required may have higher holding cost and low return from investment, similarly holding too little capital may have inefficiency in paying liabilities of a firm.

4.1.3 CAPITAL ADEQUACY RATIO

I. Net Worth to Total Assets Ratio (NWTAR)

Net Worth or shareholders equity refers to the owner's claim on the assets of the bank. This ratio measures the percentage of shareholder fund in relation to total assets owned by banks. This ratio is computed by dividing net worth by total assets.

Table 4.10

Net Worth to Total Assets Ratio (Rs. In Thousands)

Year	Net worth	Total Assets	Ratio (Percentage)
2061/62	1,657,638	17,186,331	9.65
2062/63	1,874,994	22,329,971	8.40
2063/64	2,057,049	27,253,394	7.55
2064/65	2,437,199	37,132,759	6.56
2065/66	3,430,241	43,867,398	7.82
Average	**2,291,424.40**	**29,553,970.40**	**7.99**

Source: Balance Sheet: Nabil See Annex No. 1

The above table displays that the ratios of NABIL remained 9.65%, 8.40%, 7.55%, 6.56% and 7.82% in the respective years of study period with the average of 7.99%. The greater ratio indicates that NABIL has greater contribution to investors fund and strong capital adequacy position. This ratio measures the percentage of shareholder fund in relation total assets owned by banks.

II. Net Worth to Total Deposit Ratio (NWTDR)

This ratio indicates the percentage of net worth in relation to the total deposits collected in the bank. This ratio is calculated by using the following formula.

Table 4.11

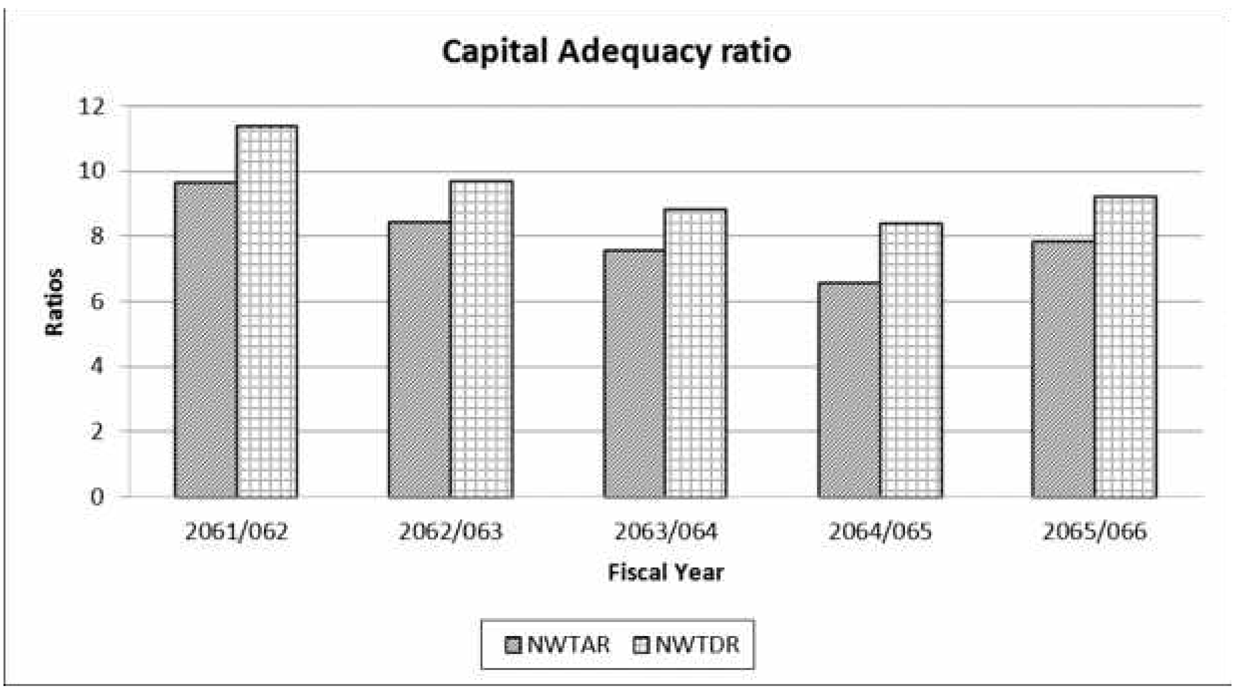
Net Worth to Total Deposit Ratio (Rs. In Thousands)

Year	Net worth	Total Deposits	Ratio (Percentage)
2061/62	1,657,638	14,586,609	11.36
2062/63	1,874,994	19,347,399	9.69
2063/64	2,057,049	23,345,285	8.81
2064/65	2,677,199	31,915,047	8.39
2065/66	3,430,241	37,348,256	9.18
Average	**2,339,424.40**	**25,307,919.20**	**9.49**

Source: Balance Sheet: Nabil See Annex No. 1

The above calculation shows that Net Worth to Total Deposits ratio of Nabil Bank fluctuating from maximum of 11.36 percentage in the fiscal year 2061/62 to the minimum of 8.39 percentage in the year 2064/65 with an average of 9.49 percentage. According to the NRB directives to the capital adequacy ratio of 11 percent, NABIL fails to be maintained the ratio as prescribed by the Central Bank except in the fiscal year 2061/62.

Figure 4.3



In the graph, capital adequacy ratio of Nabil is presented in percentage from the fiscal year 2061/62 to 2065/66. The cumulative graph shows Net worth to total assets and Net worth to total deposit ratios to measure capital adequacy of the bank.

4.1.4 CAPITAL STRUCTURE RATIOS

Capital structure ratio also known as leverage ratios are the measures of long-term solvency of a bank. Capital structure generally refers to the composition of debt and equity component of overall capital of a firm.

I. Debt to Equity Ratio (DER)

The debt-equity ratio indicates the relationship between the long-term funds provided by creditors and those provided by the firm's owners. It is commonly used to measure the degree of financial leverage of the firm. This ratio shows the relationship between debt capital and equity capital. This ratio is computed by dividing total debt by shareholders' equity.

Table 4.12

Debt to Equity Ratio (Rs. In Thousands)

Year	Total Debt	Shareholders' Equity	Ratio (Times)
2061/62	15,528,692	1,657,638	9.37
2062/63	20,454,976	1,874,994	10.91
2063/64	25,196,343	2,057,049	12.25
2064/65	34,455,560	2,677,199	12.87
2065/66	40,437,157	3,430,241	11.79
Average	**27,214,546**	**2,339,424.40**	**11.44**

Source: Balance Sheet: Nabil See Annex No. 1

From above table, it is clear that debt to equity ratio of the NABIL bank differ 12.87 times in the year 2064/65 to the minimum of 9.37 times in the year 2061/62 with an average of 11.44 times during the study period. The analysis indicates that the bank has the high debt ratio, which indicates that the creditors have invested more in the bank than the owners.

II. Total Debt to Total Assets Ratio (TDTAR)

This ratio denotes the relationship between total debt and total assets of the banks. Higher ratio indicates the greater portion of the outsiders and investment in term of the bank's assets.

Table 4.13

Total Debt to Total Assets Ratio (Rs. In Thousands)

Year	Total Debt	Total Assets	Ratio (Times)
2061/62	15,528,692	17,186,331	0.904
2062/63	20,454,976	22,329,971	0.916
2063/64	25,196,343	27,253,394	0.925
2064/65	34,455,560	37,132,759	0.928
2065/66	40,437,157	43,867,398	0.923
Average	**27214546**	**29,553,970.40**	**0.921**

Source: Balance Sheet: Nabil See Annex No. 1

It shows clearly from above table that Debt to Total Assets of the NABIL Bank differs from maximum of 92.79% in the year 2064/65 to the minimum of 90.35% in the year 2061/62 with an average of 91.88% during the study period. This analysis indicates that the bank has the high debt equity ratio, which means creditors have invested more in the bank than the owners. So this shows role of creditors in the bank is high than the owners in investing sector of Bank.

III. Interest Coverage Ratio (ICR)

This ratio is computed by dividing earning before income and tax by interest. This ratio evaluates the debt serving capacity of the banks.

Table 4.14

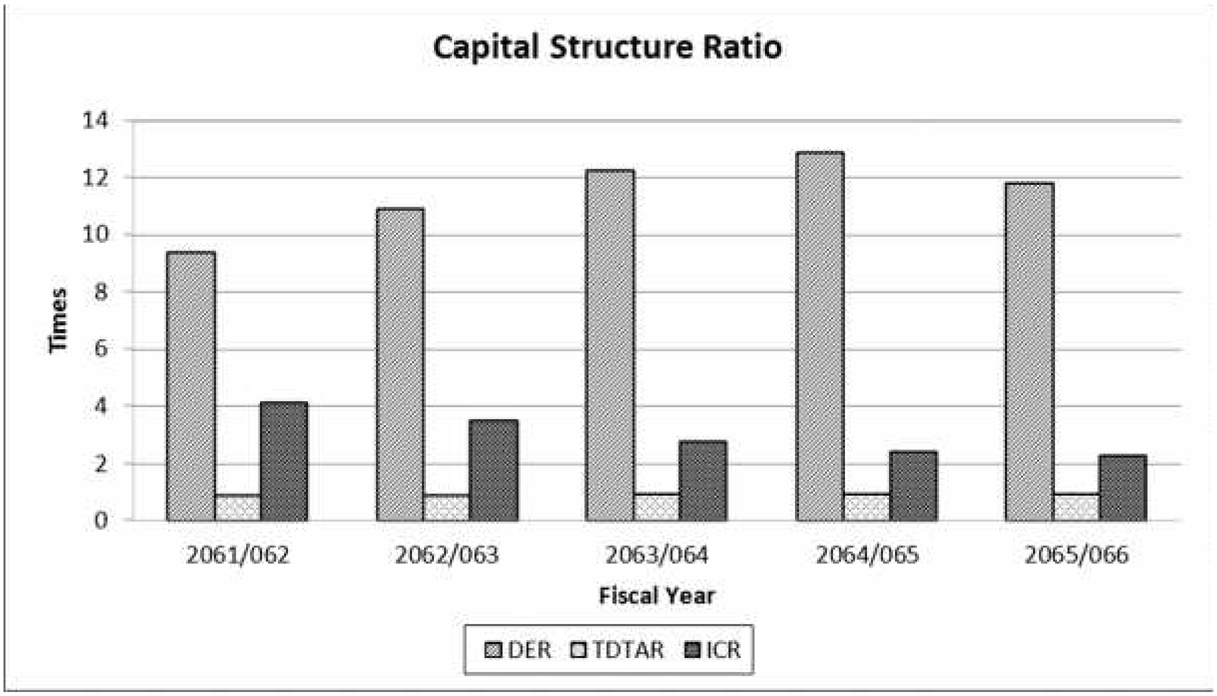
Interest Coverage Ratio (Rs. In Thousands)

Year	EBIT	Interest Expenses	Ratio (times)
2061/62	1,001,329	243,545	4.11
2062/63	1,255,165	357,161	3.51
2063/64	1,544,196	555,710	2.78
2064/65	1,847,426	758,436	2.44
2065/66	2,631,948	1,153,280	2.28
Average	**1,657,325**	**613,626.40**	**3.03**

Source: Profit & Loss A/C: Nabil See Annex No. 2

The above calculated table shows that the ratios of NABIL Bank remained 4.11, 3.51, 2.79, 2.44 and 2.28 respectively during the study period. The ratio differs from maximum of 4.11 times in the year 2061/62 to the minimum of 2.28 times in the year 2065/66 with an average of 3.03 times during the study period. This analysis indicates that the bank has sufficient operation of debt and can pay interest easily.

Figure4.4



In the graph, capital structure of Nabil is presented in percentage from the fiscal year 2061/62 to 2065/66. It is clear from the diagram that the bank has high debt equity ratio. It means the creditor have invested more in the banks than owners. The highest debt equity ratio of Nabil is 12.87 times in the fiscal year 2064/65. Similarly, more debt is utilized in total assets than equity.

4.1.5 PROFITABILITY RATIOS

Profitability ratio is one of the main indicators to analyzing the financial performance of a firm. It calculates to measure the earning performance and operational efficiency of the bank. A bank should be able to produce adequate profit on each rupee of investment, if investments do not generate sufficient profits, it would be very difficult for the bank to cover operating expenses and interest charges. The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return of investment, its survival is threatened.

I. Return on Total Assets Ratio (ROA)

This ratio is related to net profit after tax (NPAT) and total assets. How efficiently is the assets of a firm able to generate more profit are measured by this ratio is calculated by dividing NPAT by Total Assets. This ratio provides the foundation necessary for a company to deliver a good return on equity.

Table 4.15

Return on Total Assets Ratio (Rs. In Thousands)

Year	Net Profit	Total Assets	Ratio (Percentage)
2061/62	518,635	17,186,331	3.02
2062/63	635,263	22,329,971	2.84
2063/64	673,960	27,253,394	2.47
2064/65	746,468	37,132,759	2.01
2065/66	1,031,053	43,867,398	2.35
Average	**721,075.80**	**29,553,970.40**	**2.54**

Source: Balance Sheet and Profit & Loss A/C: Nabil See Annex No. 1& 2

It is shown in the above table that the Return on Total Assets of the NABIL Bank differ from maximum of 3.02% in the year 2061/62 to the minimum of 2.01% in the year 2064/65 with an average of 2.54% during the study period of five years from 2061/62 to 2065/66. This analysis indicates that the net profit earned in comparison to the total assets is in fluctuating trend which means the ratio is decreasing and increasing trend during the study period.

II. Return on Equity Ratio (ROE)

Total shareholders' equity consists of preference share capital, ordinary share capital, share premium and reserve and surplus less accumulated losses. This ratio can be computed as Net profit after tax (NPAT) divided by average total shareholders' equity.

Table 4.16

Return on Equity Ratio (Rs. In Thousands)

Year	Net Profit	Total Equity	Ratio (Percentage)
2061/62	518,636	1,657,638	31.29
2062/63	635,262	1,874,994	33.88
2063/64	673,960	2,057,049	32.76
2064/65	746,468	2,677,199	27.88
2065/66	1,031,053	3,430,241	30.06
Average	**721,075.80**	**2339,,424.40**	**31.17**

Source: Balance Sheet and Profit & Loss A/C: Nabil See Annex No. 1& 2

The above calculations show that the Return on Total Equity of the NABIL Bank differ from maximum of 33.88% in the year 2062/63 to the minimum of 27.88% in the year 2064/65 with an average of 31.17% during the study period of five years from 2061/62 to 2065/66. This analysis indicates that the net profit earned in comparison to the total Equity is in fluctuating trend which means the ratio is in decreasing and increasing trend during the study period. NABIL Bank is earning reasonable profit by utilizing its funds of total equity.

III. Interest Earned to Total Assets Ratio (IETA)

Interest earning is the major source of income of a commercial bank. This ratio is calculated to find out percentage of the interest earned in comparison to total assets. This ratio indicates how much interest mobilizing the assets in the bank has generated.

Table 4.17

Interest Earned to Total Assets Ratio (Rs. In Thousands)

Year	Interest Earned	Total Assets	Ratio (Percentage)
2061/62	1,068,747	17,186,331	6.22
2062/63	1,309,999	22,329,971	5.87
2063/64	1,587,759	27,253,394	5.83
2064/65	1,978,697	37,132,759	5.33
2065/66	2,798,486	43,867,398	6.38
Average	**1,748,737.60**	**29,553,970.40**	**5.92**

Source: Balance Sheet and Profit & Loss A/C: Nabil See Annex No. 1& 2

The above table shows that interest earned to Total Assets of the bank varies from maximum of 6.38% in the year 2065/66 to the minimum of 5.33% in the year 2064/65 with an average of 5.92% during the study period of five years. The analysis indicates that the interest earned in comparison to total assets is fluctuating during the study period.

IV. Total Interest Expenses to Total Interest Income Ratio (TIETIIR)

This ratio indicates how much interest expenses have been made in relation to interest income received. This ratio is computed as follows:

Table 4.18

Total Interest Expenses to Total Interest Income Ratio (Rs. In Thousands)

Year	Interest Expenses	Interest Earned	Ratio (Percentage)
2061/62	243,545	1,068,747	22.79
2062/63	357,161	1,309,999	27.26
2063/64	555,710	1,587,759	35.00
2064/65	758,436	1,978,697	38.33
2065/66	1,153,280	2,798,486	41.21
Average	**613,626.40**	**1,748,737.60**	**32.92**

Source: Profit & Loss A/C: Nabil See Annex No. 2

From above table, it clearly shows that interest expenses to interest earned ratio of the NABIL bank varies from maximum 41.21% in the fiscal year 2065/66 to the minimum of 22.79% in the year 2061/62 with an average of 32.92% during the study period. The analysis indicates that the interest expense in comparison to interest income is in increasing rate during the study period. The higher ratio shows unfavorable profitability situation of the bank.

V. Return on Total Deposits Ratio (RTDR)

The calculated deposits are mobilized in investment and loans to get profit. This ratio indicates the percentage of profit earned by using the total deposit. It is calculated by dividing the amount of net profit by the amount of total deposits which is presented below:

Table 4.19

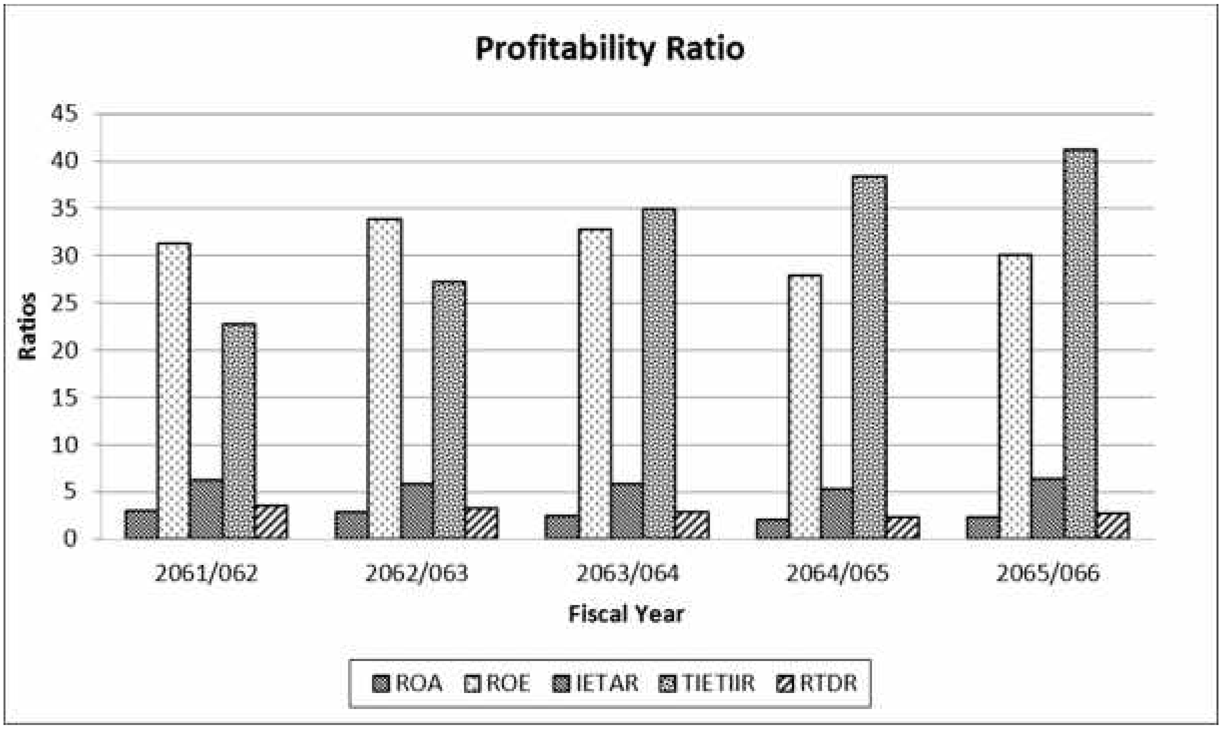
Return on Total Deposits Ratio (Rs. In Thousands)

Year	NPAT	Total Deposits	Ratio (Percentage)
2061/62	518,635	14,586,609	3.56
2062/63	635,263	19,347,399	3.28
2063/64	673,960	23,345,285	2.89
2064/65	746,468	31,915,047	2.34
2065/66	1,031,053	37,348,256	2.76
Average	**721,075.80**	**25,307,919.20**	**2.97**

Source: Balance Sheet and Profit & Loss A/C: Nabil See Annex No. 1& 2

The calculation above shows that the return on total deposits of the NABIL Bank varies from maximum of 3.56% in the year 2061/62 to the minimum of 2.34% in the fiscal year 2064/65 with an average of 2.97% during the study period. The analysis indicates that the net profit earned in comparison with the total deposits are fluctuating. In general, the average return ratio shows that NABIL is successful to earn constant profit over the study period.

Figure 4.5



The chart shows the profitability ratio of Nabil from 2061/62 to 2065/66 in percentage. The cumulative graph shows the five different ratios to measure profit of the bank. ROE, ROA, IETAR and RTDR of Nabil shows fluctuating trend. Similarly, TIETIIR of profitability shows increasing trend in five years of observation.

4.1.6 INVISIBILITY RATIOS

An analysis of ratio helps the investors to know about the performance of the banks. Therefore, following ratio have been calculated to test earning capacity of the banks to last earning capacity of the bank.

I. Earning Per Share (EPS)

The firm's Earning per Share are generally of interest to present or prospective stockholders and management. The EPS represents the amount earned on behalf of each outstanding share of common stock. They are closely watched by investing public and are considered an important indicator of the firm's success. This ratio is calculated by dividing earning available to common stockholders by number of outstanding share of common stock.

Table 4.20
Earning Per Share (Rs. In Thousands)

Year	EAC	No. of Common Stock	Ratio (Rs.)
2061/62	518,635	4,917	105.48
2062/63	635,263	4,917	129.20
2063/64	673,960	4,917	137.07
2064/65	746,468	6,892	108.31
2065/66	1,031,053	9,657	106.77
Average	**721,075.80**	**6,260**	**117.36**

Source: Balance Sheet and Profit & Loss A/C: Nabil See Annex No. 1& 2

The earning available to the common shareholders is in increasing trend for the first three years and in decreasing trend for remaining years of the study period of five fiscal years. Earnings per Share of the NABIL Bank varies from maximum of 137.07 per share in the year 2063/64 and minimum of 105.48 per share in the year 2061/62 with an average of 117.36 per share. The above analysis indicates that the EPS of NABIL Bank Ltd. is good in overall years.

II. Dividend Per Share (DPS)

Dividend per share is calculated to know proportion of the earnings distributed to the common shareholders.

Table 4.21
Dividend Per Share (Rs. In Thousands)

Year	Earning Paid to the share holders	No. of Common Stock	Ratio (Rs.)
2061/62	344,158	4,917	70.00
2062/63	417,906	4,917	85.00
2063/64	688,316	4,917	140.00
2064/65	689,216	6,892	100.00
2065/66	820,885	9,657	85.00
Average	**592,096.20**	**6,260**	**96.00**

Source: Annual Report of Nabil Bank

The table above shows that the Dividend paid to the common shareholders is in increasing trend during the first three years of study period and then in decreasing trend. Dividend Per Share of the NABIL Bank varies from maximum of Rs. 140 per share in the year 2063/64 from Rs. 70 per share in the year 2061/62 with an average of Rs. 96 per share. The above analysis indicates that the DPS of NABIL Bank Ltd. is good in overall years.

III. Tax Per Share (TPS)

Tax Per Share is obtained by dividing tax paid to government by number of common share outstanding. The following table shows the dividend per share of Nabil of five financial years.

Table 4.22

Tax Per Share (Rs. In Thousands)

Year	Tax Paid to the Govt.	No. of Common Stock	Ratio (Rs.)
2061/62	239,149	4,917	48.64
2062/63	262,562	4,917	53.40
2063/64	314,527	4,917	63.97
2064/65	340,625	6,892	49.42
2065/66	470,702	9,657	48.74
Average	**325,548.80**	**6,260**	**52.84**

Source: Balance Sheet and Profit & Loss A/C: Nabil See Annex No. 1& 2

From above table, it is clear that the Tax per share paid to the government by common shareholders is in fluctuating trend during the study period of five fiscal years. Tax Per Share of the NABIL Bank varies from maximum of Rs. 63.97 per share in the year 2063/64 and minimum of Rs. 48.64 per share in the year 2061/62 with an average of Rs. 52.84 per share. The above analysis indicates that the TPS of NABIL Bank Ltd. is good in overall years.

IV. Dividend Pay Out Ratio (DPR)

It measures the relationship between the earning belonging to the ordinary shareholders and the dividend paid to them. This ratio can be calculated by dividing the total dividend paid to the owners by the total profit/earning available to them.

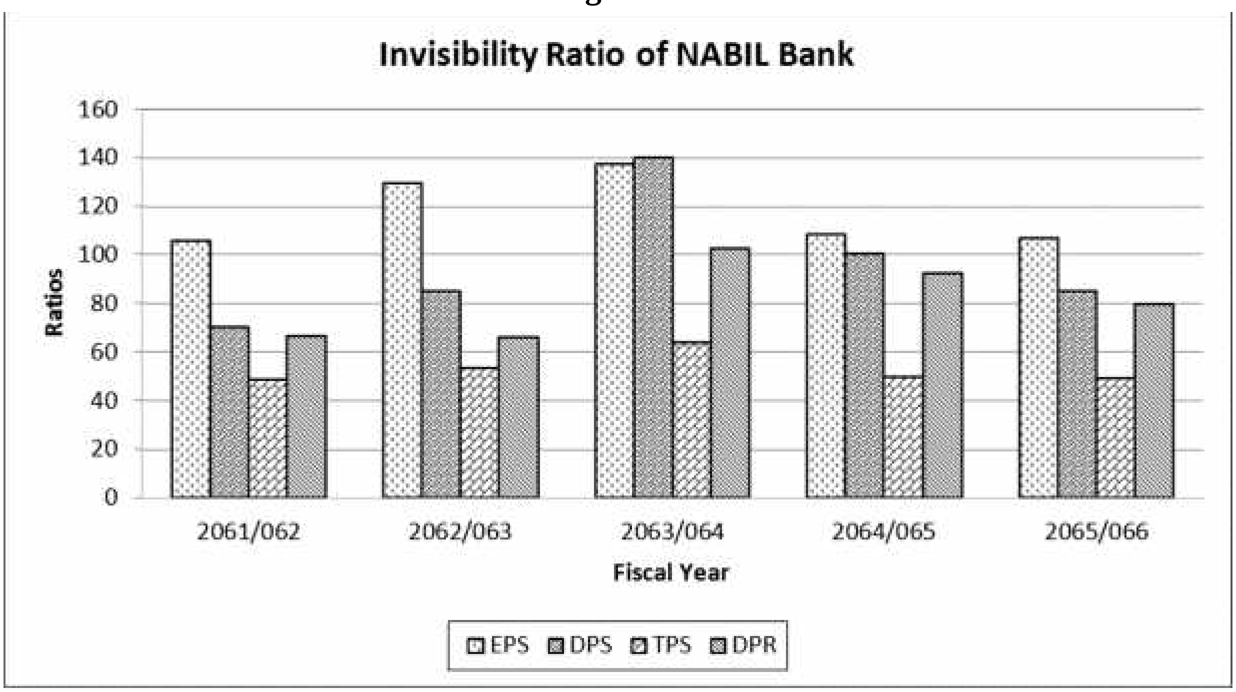
Table 4.23

Dividend Pay Out Ratio (Rs. In Thousands)

Year	DPS	EPS	Ratio (Percentage)
2061/62	70.00	105.48	66.36
2062/63	85.00	129.20	65.79
2063/64	140.00	137.07	102.14
2064/65	100.00	108.31	92.33
2065/66	85.00	106.76	79.62
Average	**96.00**	**117.36**	**81.25**

The above calculation shows that dividend payout ratio of the NABIL Bank Ltd varies from maximum of 102.14% in the year 2063/64 to the minimum of 65.79% in the year 2062/63 with an average of 81.25 during the study period. From above analysis NABIL was successfully and consistently providing higher percentage of dividend to investors.

Figure 4.6



The above bar diagram shows the years in x-axis and invisibility ratios (in rupees) in y-axis. The highest EPS and DPS are in the year 2063/64 i.e. Rs.137.07 and Rs.140 respectively. The bar diagram shows positive correlation between EPS and DPS. When earnings of the bank increases dividend per share also increase and vice versa. The above analysis indicates that dividend paid is regular that means company is concentrated to give regular return to the shareholders.

4.2 Income and Expenditure Analysis

Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. Therefore, all attempts have been made to analyze the income and expenditure statement of Nabil of 5 financial years from 2061/062 to 2065/066. In this study the analysis of operating income and expenditure has been made and as detailed below.

I. Operating Income

Especially, the main work of the commercial banks is the transaction of money. They provide interest and dividend to the debtors and depositors in term of their cash deposits and investment. Therefore, the banks generate income through investment in returnable sectors as well as loan and advances. sources of the operating income are interest earning, commission earnings, exchange earnings and other operating incomes.

Different incomes of NABIL Bank for different sampled years have been presented in the table 4.24.

Table 4.24
Income Analysis of NABIL Bank Ltd. (Rs. In Thousands)

Year	Interest Income		Commission & Discount		Exchange Income		Other Income	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%
2061/62	1,068,747	70.75	128,377	8.53	184,879	12.24	128175	8.48
2062/63	1,309,999	74.81	138,294	7.90	185,484	10.59	117435	6.71
2063/64	1,587,759	75.87	150,609	7.20	209,926	10.03	144517	6.91
2064/65	1,978,697	77.63	156,235	6.25	196,487	7.71	214407	8.41
2065/66	2,798,486	81.57	179,693	5.24	251,920	7.34	200494	5.84
Average	**1,748,737.60**	**76.13**	**150,641.60**	**7.02**	**205,739.20**	**9.58**	**161005.60**	**7.27**

Source: Profit & Loss A/C: Nabil See Annex No. 2

The interest earning is the main source of income of the bank. The interest earnings are from loans, advances and overdrafts, government securities and others. The total income of the bank largely depends on the interest earned. The average of 76.13% of the total income is covered by the interest earned. The high rate of income from the interest received indicates the better operational efficiency of the bank.

Generally, commercial banks purchase and sell foreign currency from the customers under laws, rules and regulations of NRB because of its fluctuation of exchange rate. This kind of income has been included in foreign exchange earnings. This consists of gain on sale of foreign exchange and revaluation of gain. The average of 9.58% of the total income comes from the exchange earnings.

The income from commission earnings constitutes is another income source of the bank. Commission and discount are received from the letter of credit, letter of guarantee, fees collection, remittance fees and other commissions associated with the service provided by the bank. The average earnings from commission and discount are 7.02% of the total income of the bank during the study period of five years. This concludes that bank is providing efficient and effective service to its clients.

Besides above incomes, non–operating i.e. sale of investment and assets, subsidies from NRB etc. have been included under other income. The income from other sources contributes an average of 7.27% of the total income of the bank. From above analysis, it is cleared that income from other sources of NABIL is in fluctuating trend throughout the study period of five years.

II. Operating Expenses

Basically, commercial banks extend money in daily office operation, salary and other facilities. They also pay interest and dividend to depositors and investors. The operating expenses heads of the bank are interest expenses, personnel expenses, operating expensed and other expenses.

Expenditure analysis of NABIL Bank for different sampled years has been presented in table 4.25.

Table 4.25

Expenditure Analysis of NABIL Bank Ltd. (Rs. In Thousands)

Year	**Interest Expenses**		**Staff Expenses**		**Operating Exp.**	
	Rs	%	Rs	%	Rs	%
2061/62	243,545	32.35	283,715	37.68	225,640	29.97
2062/63	357,161	41.85	309,581	36.28	186,645	21.87
2063/64	555,710	50.32	339,666	30.76	208,948	18.92
2064/65	758,436	41.88	480,706	32.88	222,676	15.23
2065/66	1,153,280	59.79	487,765	25.29	287,793	14.92
Average	**613,626.4**	**47.24**	**380286.60**	**32.58**	**342436**	**20.18**

Source: Profit & Loss A/C: Nabil See Annex No. 2

The interest expenses are the main heading of the expenses of the bank. The interest expenditure is interest paid to depositors, loans and advances and short-term borrowings from other financial institution. As per the data presented, the interest expense is 47.24% of the total expenditure on an average. The high rate of expenditure in interest indicates that the bank has collected more deposits.

Banks need sufficient personnel to continue office and other operation. They pay salaries, gratuity, provident fund and other allowances etc. to their staff in terms of services. Moreover, the banks expend uniform, libraries and other various related field. These all have been included in staff expenses. When banks are capable to earn appropriate profit, they pay extra bonus to their staffs to motivate them. Those all expense have been included in under this heading. The personnel expenses constitute 32.58% on an average of the total expenditure.

One more important heading for the operating expenditure is office operating expenses, which includes rent, utilities, insurance, maintenance, legal, stationery expenses etc.,which is necessary to run the bank smoothly and effectively. The heading constitute, on an average of 20.18% of the total expenses.

Table 4.26

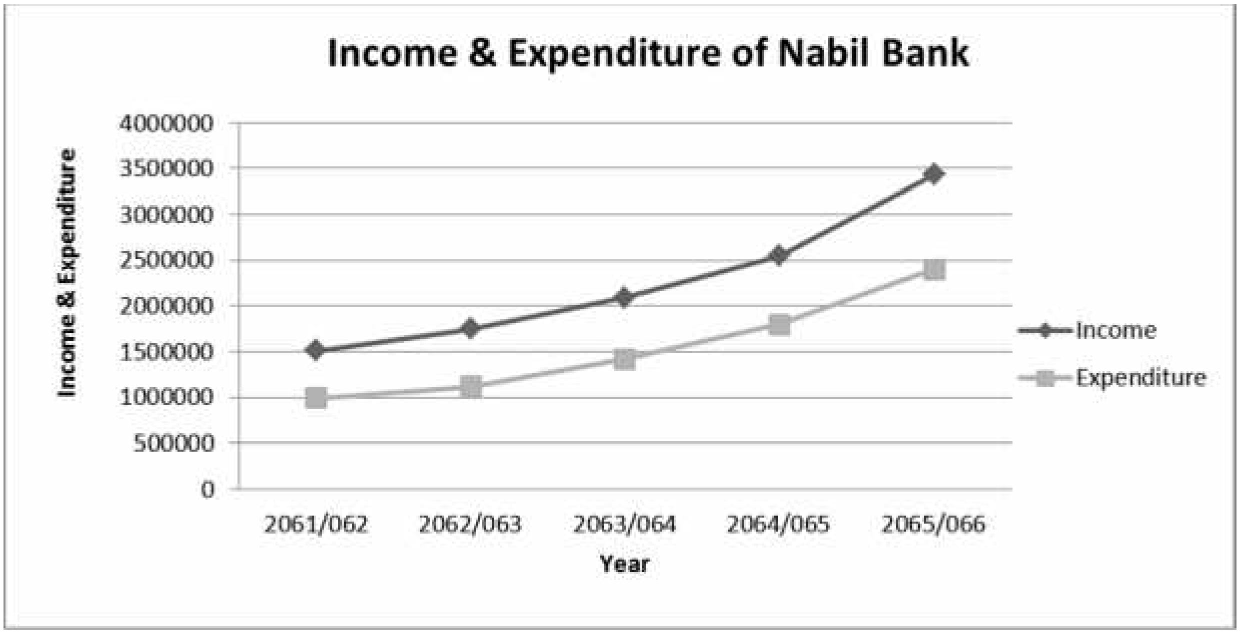
Income to Expenditure (Rs. in 000)

Year	Income(in Rs)	Expenditure(Rs)	ratio (times)
2061/062	1,510,684	992,049	1.52
2062/063	1,751,212	1,115,949	1.57
2063/064	2,092,811	1,418,851	1.48
2064/065	2,548,911	1,802,443	1.41
2065/066	3430,593	2,399,540	1.43
Average	2,266,842.2	1,545,766.40	1.47

Source: Annual report of Nabil

The above table shows that income to expenditure ratio of the bank varies from maximum of 1.57 times in year 2062/063 to minimum of 1.41 times in year 2064/065 with an average of 1.47 times during the study period of 5 years. The above analysis indicates Nabil is making a profit throughout the study year.

Figure 4.7



The above bar diagram shows the Years in x-axis and Income and Expenditure (in rupees) in y-axis. The highest Income and expenditure are in the year 2065/66 i.e. Rs. 3,430,593 and Rs. 2,399,540 respectively. The above analysis indicates that earning and expenditure are increasing.

4.3 Correlations Analysis

Correlation is a statistical tool that measures the relationship between/among variables; it shows the degree and direction of such relationship for the total deposit and loan and advances.

The relation between the data may be either positive or negative. It can be determined by different ways such as graphical representation, formula method etc. When both variables deviate in the same direction, it is said to be the condition of positive correlation and vise- versa is said to be negative. The correlation coefficient is denoted by symbol 'r' and following formula is used for the calculation of coefficient of correlation.

$$r = \frac{n\sum XY-(\sum X)(\sum Y)}{\sqrt{n\sum X^2-(\sum X)^2}\sqrt{n\sum Y^2-(\sum Y)^2}}$$

where,

r = the coefficient of correlation

ΣXY = Sum of product of observations in two series

ΣX = Sum of observation in X series

ΣY = Sum of observation in Y Series

$\Sigma X2 =$ *Sum of square of observations in X series*
$\Sigma Y2 =$ *Sum of square of observations in Y series*

The relationship between these two categories of variables has been developed for study purpose.

I. Total Deposit (X) and Investment (Y)
II. Total Deposit (X) and Loan and Advance (Y)
III. Loan and Advances (X) and Net Profit (Y)

I. Correlation between Total Deposit and Investment

Total deposit and investment variables of NABIL Bank for different sampled years have been presented below.

Table 4.27

Correlation between Total Deposit and Investment (Rs. In Million)

Year	Total Deposit X	Investment	ΣXY	ΣX^2	ΣY^2
2061/62	14,587	4,267	62,242,729	212,780,569	18,207,289
2062/63	19,347	6,179	119,545,113	374,306,409	38,180,041
2063/64	23,345	8,945	208,821,025	544,989,025	80,013,025
2064/65	31,915	9,940	317,235,100	1,018,567,225	98,803,600
2065/66	37,348	10,826	404,329,448	1,394,873,104	117,202,276
Sum	**126,542**	**40,157**	**1,112,173,415**	**3,545,516,332**	**352,406,231**

Source: Annual report of Nabil (2062/2066)

$$r = \frac{n\Sigma XY - \Sigma X\,\Sigma Y}{\sqrt{(n\Sigma X^2-(\Sigma X)^2)}\,\sqrt{(n\Sigma Y^2-(\Sigma Y)^2)}}$$

$= 0.947$

$P.E.(r) = 0.031$

Correlation coefficient came higher than six times than the probable error 0.947 > 6 X 0.031. It shows high degree of positive correlation. According to the above calculation, it is clear that there is a significant correlation between deposit and investment in NABIL. NABIL is successful to raise the volume of investment with rise in the volume of total deposit.

II. Correlation between Total Deposit & Loan & Advances

Table 4.28

Correlation between Total Deposit & Loan & Advances (Rs. In Million)

Year	Total Deposit X	Loan & Advances Y	ΣXY	ΣX^2	ΣY^2
2061/62	14,587	10,586	154,417,982	212,780,569	112,063,396
2062/63	19,347	12,923	250,021,281	374,306,409	167,003,929
2063/64	23,345	15,546	362,921,370	544,989,025	241,678,116
2064/65	31,915	21,365	681,863,975	1,018,567,225	456,483,225
2065/66	37,348	27,590	1,030,431,320	1,394,873,104	761,208,100
Sum	**126,542**	**88,010**	**2,479,655,928**	**3,545,516,332**	**1,738,416,766**

Source: Annual report of Nabil (2062/2066)

$$r = \frac{n\,\Sigma XY - \Sigma X\,\Sigma Y}{\sqrt{(n\Sigma X^2-(\Sigma X)^2)}\sqrt{(n\Sigma Y^2-(\Sigma Y)^2)}}$$

$= 0.99$

P.E.(r) = 0.03
Significant of r
= 6 X 0.03
= 0.18

Since r is much greater than 6 x P.E, (r), the value of r is highly significant. On the basis of above calculation, the value of r (0.99) shows the high degree of positive correlation between total deposit and loan and advances. Therefore, we can say that the change in total deposit highly effects loan and advances policy of NABIL bank Ltd.

III. Correlation between Loan & Advances & Net Profit

Total Deposit and loan and advances for different sampled years have been presented below.

Table 4.29

Correlation between Loan Advance and Net Profit (Rs. In million)

Year	Loan & Advances X	Net Profit Y	ΣXY	ΣX^2	ΣY^2
2061/62	10,586	519	5,494,134	112,063,396	269,361
2062/63	12,923	635	8,206,105	167,003,929	403,225
2063/64	15,546	674	10,478,004	241,678,116	454,276
2064/65	21,365	746	15,938,290	456,463,225	556,516
2065/66	27,590	1,031	28,445,290	761,208,100	1062,961
Sum	**88,010**	**3,605**	**68,561,823**	**1,738,416,766**	**2,746,339**

Source: Annual report of Nabil (2062/2066)

$$r = \frac{n\,\Sigma XY - \Sigma X\,\Sigma Y}{\sqrt{(n\Sigma X^2 - (\Sigma X)^2)}\;\sqrt{(n\Sigma Y^2 - (\Sigma Y)^2)}}$$

$= 0.968$

$P.E.(r) = 0.019$

Significant of r

$= 6 \times 0.019$

$= 0.114$

Since r is much greater than 6 X P.E, (r), the value of r is highly significant. On the basis of above calculation, the value of r (0.968) shows the high degree of positive correlation between Loan and Advances and Net Profit. Therefore we can say that the change in Loan Advances highly affects Net Profit Earned by NABIL bank Ltd.

4.4 Least Square Linear Trend Analysis

Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative items. On the basis of tendencies in the dependent variables in the past periods, the future trend is predicted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variables are repeated in the future or past events the future events significantly. The future trend is forecasted by using the following formula,

$$Y = a + bX$$

where,

$Y = \text{the dependent Variable}$

$a = \text{the origin i.e. arithmetic mean}$

$b = \text{the slope coefficient i.e. rate of change}$

Hence, future value of coming years have been analyzed and forecasted with the help of trend analysis. They are;

I. Total Deposits

II. Loan & Advances

III. Investment

IV. Net Profit

I. Least Square of Linear Trend of Total Deposits

Table 4.30

Least Square of Linear Trend of Total Deposits (Rs. In Thousand)

Fiscal Year X	Total Deposits y	x = X - 2063	x2	xy
2061	14,586,609	-2	4	-21,172,340
2062	19,347,399	-1	1	-12,922,543
2063	23,345,285	0	0	0
2064	31,915,047	1	1	21,365,053
2065	37,348,256	2	4	55,179,866
Sum	**126,542,596**	**0**	**10**	**42,450,036**

Since,

$\Sigma x = 0$

$a = \frac{\Sigma y}{5} \;=\; Rs.\,25{,}308{,}519.20$

$b = \frac{\Sigma xy}{\Sigma x^2} \;=\; 4{,}245{,}003.60$

Substituting these values in the following formula,

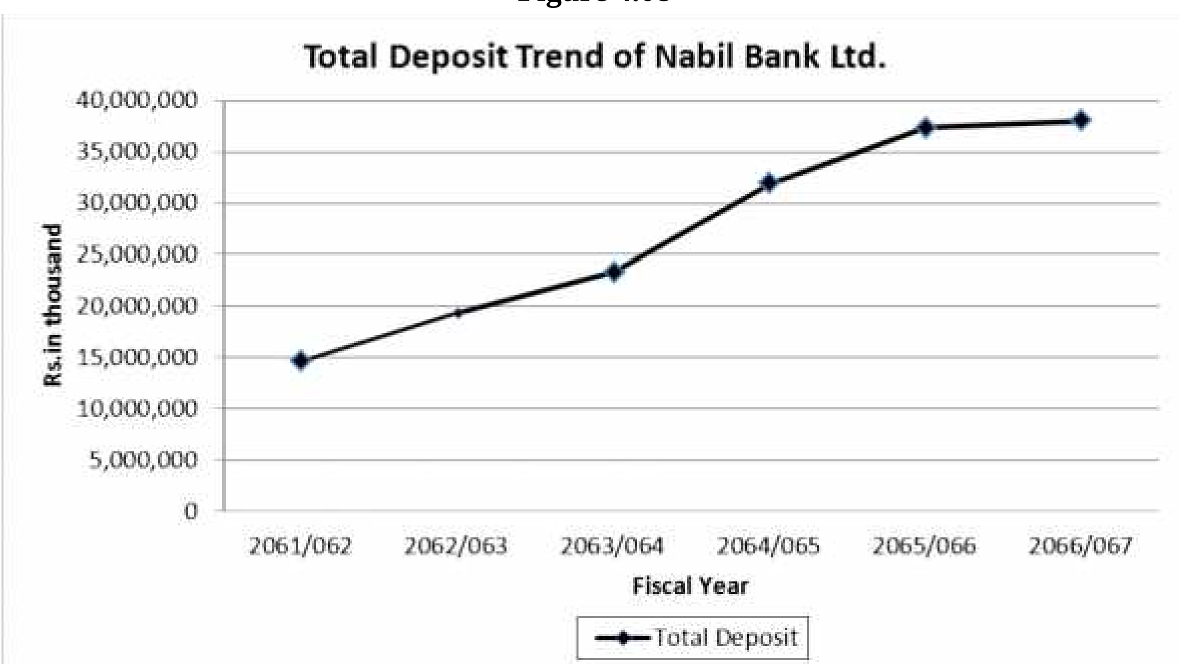
$Y \;=\; a \;+\; bx$

$\;=\; 25{,}308{,}519.20 \;+\; 4{,}245{,}003.60 \;X\; 3$

$\;=\; Rs.\,38{,}043{,}530$

Hence, estimated Total Deposit of NABIL for the year 2066 would be Rs.38,043,530 thousand.

Figure 4.08



II. Least Square of Linear Trend of Loan & Advances

Table 4.31

Least Square of Linear Trend of Loan & Advances (Rs. In Thousand)

Fiscal Year X	**Loan & Advances y**	**x = X - 2063**	**x2**	**xy**
2061	10,586,170	-2	4	-21,172,340
2062	12,922,543	-1	1	-12,922,543
2063	15,545,778	0	0	0
2064	21,365,053	1	1	21,365,053
2065	27,589,933	2	4	55,179,866
Sum	**88,009,477**	**0**	**10**	**42,450,036**

Since,

$\Sigma x = 0$

$$a = \frac{\Sigma y}{5} \quad = Rs. 17{,}601{,}895.40$$

$$b = \frac{\Sigma xy}{\Sigma x^2} \quad = 4{,}245{,}003.60$$

Substituting these values in the following formula,

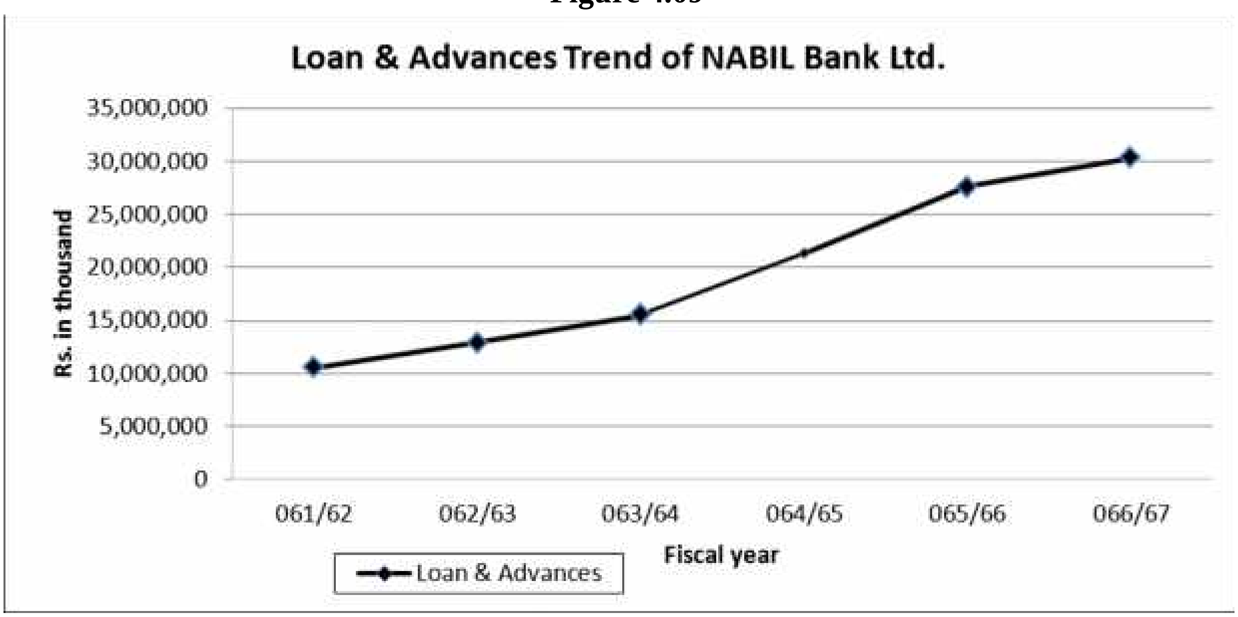
$Y = a + bx$

$= 17601895.40 + 4245003.60\ X\ 3$

$= Rs. 30336906.20$

Hence, estimated Loan and Advances of NABIL for the year 2066 would be Rs. 30,336,906.20 thousand.

Figure 4.09



III. Least Square of Linear Trend of Investment

Table 4.32

Least Square of Linear Trend of Investment (Rs. In Thousand)

Fiscal Year X	Investment y	x = X - 2063	x2	xy
2061	4,267,233	-2	4	-8,534,466
2062	6,178,533	-1	1	-6,178,533
2063	8,945,310	0	0	0
2064	9,939,771	1	1	9,939,771
2065	10,826,379	2	4	21,652,758
Sum	**40,157,226**	**0**	**10**	**16,879,530**

Since,

$\Sigma x = 0$

$a = \frac{\Sigma y}{5} \quad = Rs. 8031445.20$

$b = \frac{\Sigma xy}{\Sigma x^2} \quad = 1687953$

Substituting these values in the following formula,

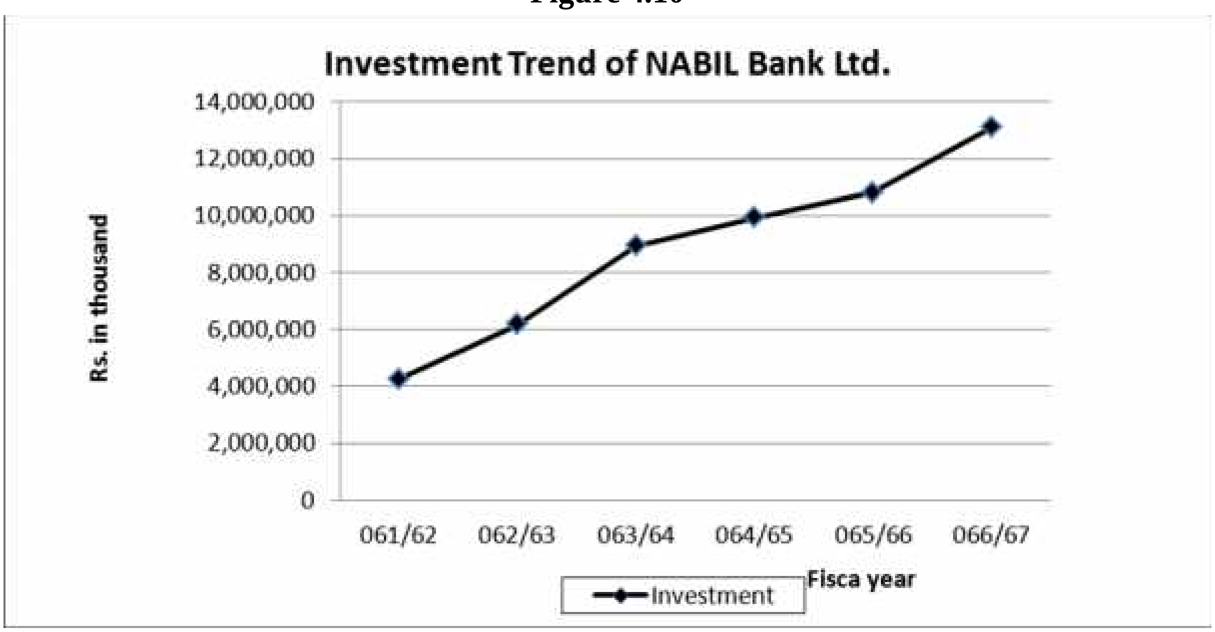
$Y = a + bx$

$= 8031445.20 + 1687953 X 3$

$= Rs. 13095304.20$

Hence, estimated Investment of NABIL for the year 2066 would be Rs. 13,095,304.20 thousands.

Figure 4.10



IV. Least Square of Linear Trend of Net Profit

Table 4.33
Least Square of Linear Trend of Net Profit (Rs. In Thousand)

Fiscal Year X	Net Profit y	x = X - 2063	x2	xy
2061	518,636	-2	4	-1,037,272
2062	635,262	-1	1	-635,262
2063	673,960	0	0	0
2064	746,468	1	1	746,468
2065	1,031,053	2	4	2,062,106
Sum	**3,605,379**	**0**	**10**	**1,136,040**

Since,

$\Sigma x = 0$

$a = \frac{\Sigma y}{5} = Rs. 721075.80$

$b = \frac{\Sigma xy}{\Sigma x^2} = 113604$

Substituting these values in the following formula,

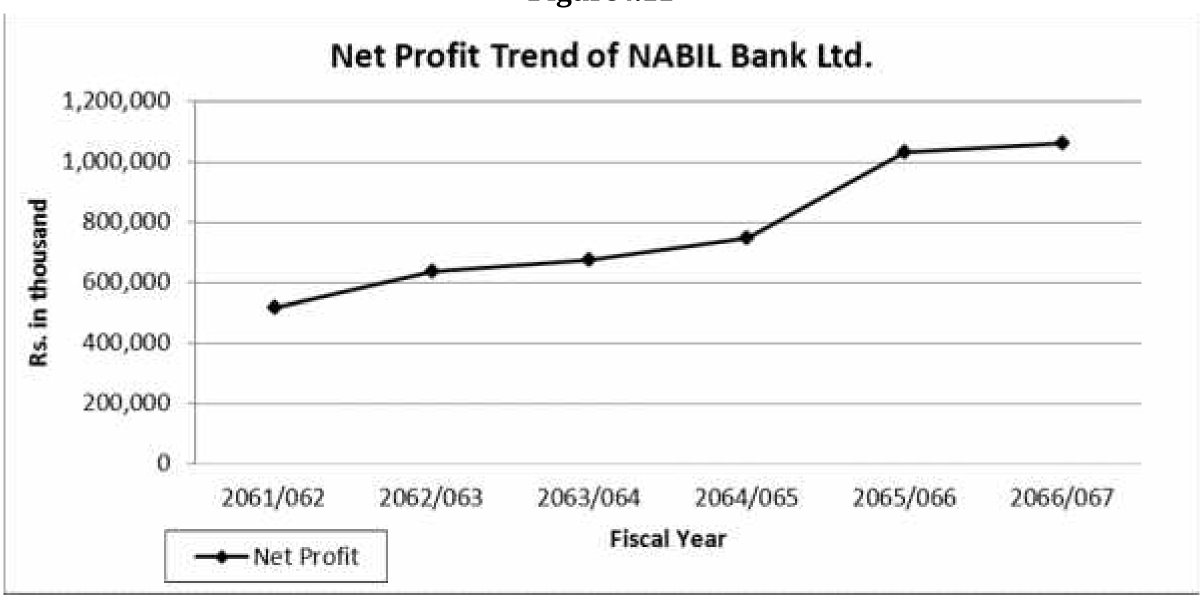
$Y = a + bx$

= 721075.80 + 113604 X 3

$= Rs. 1061887.80$

Hence, estimated Net Profit of NABIL for the year 2066 would be Rs. 1,061,887.80 thousand.

Figure4.11



4.5 Findings of The Study

The following findings have been derived from the analysis and interpretation of the data, during the study period.

Findings From the Ratio Analysis

Ratio Analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The following are the findings from the ratio analysis;

- NABIL Bank Ltd. has highest current ratio current ratio of 1.11 in 2063/64 and 2065/66 and the lowest current of 1.08 in 061/62 with an average current ratio of 1.10 during the study period. The current ratio analysis of the bank over the five year period indicates that the bank has been able to meet its short-term obligations and is in sound liquidity position.

- The cash reserve requirement in most of the developed and developing countries has been used extensively as a means to control commercial banks credit. Regarding cash reserve, Nepal Rastra Bank has guided all the commercial banks to maintain at least 12% of their deposit liabilities as reserve (vault cash in 4% and central bank balance is 8% of total deposit). The cash reserve ratio of the Nabil varies from maximum of 9.03% in year 2065/66 to minimum of 3.26% in year 2062/63 with an average of 6.10% during the study period of five years. The analysis specifies that the bank is volatile to maintain cash reserve ratio as per NRB directives. The analysis indicates that the bank has invested large amounts in various business sectors.

- NRB balance to current and saving deposit ratios of NABIL were 3.97%, 2.73%, 8.20%, 10.49%, and 13.18% with mean ratio of 7.71%. Commercial Banks are required to hold certain proportion of current and saving deposits in NRB’s account. It is to ensure the smooth functioning and sound liquidity position of the Bank. But in an average, NABIL Bank failed to maintain minimum deposit liabilities of 8% as cash reserve with Nepal Rastra Bank in the first two years.

- The bank has the highest ratio of 16.78 percentage in 2065/66 and the lowest ratio of 5.40 percentage in the fiscal year 062/63 with an average ratio of 10.70 percent during the study period. In general terms, the bank has been able to meet its short-term obligations. The above analysis indicates that the bank is in sound liquidity position. High ratio of NABIL indicates sound liquidity position of the bank but too high ratio is not good as it reveals the underutilization of fund.

- Fixed deposit is the high interest bearing deposit which can be withdrawn only after its maturity. The above table shows that the fixed deposit to total deposit ratio of the NABIL Bank differ from maximum of 26.52 %in the year 2064/65 to the minimum of 14.25% in the year 2061/62 with an average of 2083% during the study period of five years. The analysis indicates that the portion of fixed deposit in the total deposit is in fluctuating trend.

- Investment to total deposit ratios of NABIL remained 29.25, 31.93, 38.32, 31.14 and 28.99 in the respective years with the average of 31.93 in the study period. NABIL seems successful to utilize the depositor's fund in investment. The higher average shows that NABIL is successful in managerial efficiency regarding the utilization of deposits.

- Loan and advances to total deposit ratio measures the extent to which the bank is successful to utilize the outsiders fund (Total Deposit). Loans and advances to total deposits of the NABIL Bank fluctuates from maximum of 73.87 percentage in the fiscal year 2065/66 to the minimum of 66.59 percentage in the year 2063/64 with an average of 69.36 percentage. The analysis shows that the bank is mobilizing its total deposits in loan and advances adequately and it has efficiently utilized its total deposits for loan and advances. Higher ratio reveals that it is efficient to utilize the financial resources in productive sectors.

- The ratios of NABIL were 61.60%, 57.87%, 57.04%, 57.54% and 62.89% with an average of 59.39% in the respective years of study period. The higher average ratio indicates that NABIL is efficient in utilization of total assets in profitable sector. It can be determined that ratios of NABIL fluctuate to a greater extent in the study period.

- Total income generating assets to total assets ratio was higher in NABIL which indicates the sound profitability position i.e. the utilization of assets in returnable sector. Ratios of NABIL were 91.48%, 93.31% 91.93%, 89.56% and 88.83%, in the respective years of study period with the mean of 90.02%.

- Net worth or Shareholders Equity Ratios refers to the owner's claim on the assets of the bank. Net worth to total assets ratio of NABIL remained 9.65%, 8.40%, 7.55%, 6.56% and 7.82% in the respective years of study period with the average of 7.99%. The greater ratio indicates that NABIL has greater contribution to investors fund and strong capital adequacy position. This ratio measures the percentage of shareholder fund in relation to total assets owned by banks. High ratio shows greater contribution of investors’ fund and strong capital position.

- Net Worth to Total Deposits ratio of Nabil Bank is fluctuating from maximum of 11.36 percent in the fiscal year 2061/62 to the minimum of 8.39 percentage in the year 2064/65 with an average of 9.49 percentage. According to the NRB directives to the capital adequacy ratio 11 percent NABIL fails to be maintained the ratio as prescribed by the Central Bank except in the fiscal year 2060/61.

- Debt to equity ratio indicates the relationship between the long-term funds provided by creditors and those provided by the firm's owners. Debt to equity ratio of NABIL bank differ from maximum of 12.87 times in the year 2064/65 to the minimum of 9.37 times in the year 2061/62 with an average of 11.44 times during the study period. The analysis indicates that the bank has the high debt ratio, which indicates that the creditors have invested more in the bank than the owners.

- Total debt to Total Assets ratio exhibits the relationship between creditor's funds and owners' capital. This ratio shows the proportion of outsider's fund used in financing total assets. The Debt to Total Assets of the NABIL Bank differs from maximum of 92.45% in the year 2063/64 to the minimum of 90.35% in the year 2061/62 with an average of 91.88% during the study period. This analysis indicates that the bank has the high debt equity ratio, which means creditors have invested more in the bank than the owners. So this shows role of creditors in the bank is higher than the owners in investing sector of Bank.

- The interest coverage ratios of NABIL Bank remained 4.11, 3.51, 2.78, 2.44 and 2.28 respectively during the study period. The ratio differs from maximum of 4.11 times in the year 2061/62 to the minimum of 2.28 times in the year 2065/66 with an average of 3.03 times during the study period. This analysis indicates that the bank has sufficient operation of debt and can pay interest easily.

- The Return on Total Assets or Net profit to Total Assets ratio is a useful measurement of the profitability of all financial resources invested in the assets. The analysis reveals the Return on Total Assets of the NABIL Bank differ from maximum of 3.02% in the year 2061/62 to the minimum of 2.01% in the year 2064/65 with an average of 2.54% during the study period of five years from 2061/62 to 2065/66. This analysis indicates that the net profit earned in comparison to the total assets is in fluctuating trend which means the ratio is in decreasing and increasing trend during the study period.

- Net worth or shareholder's equity refers to the owner's claim on the assets of the bank. The net profit to net worth (ROE) measures the income on the owner’s investment. This ratio indicates how well the banks have used the resources of the owners. The return on the equity of the bank varies from maximum of 33.88% in year 2062/63 to the minimum of 27.88% in year 2064/65 with an average of 31.17% during the study period of 5 years. The analysis indicates that the profit earning in relation to the shareholder's equity of NABIL is in better position, which exhibits the better utilization of shareholder's resources. This analysis indicates that the net profit earned in comparison to the total Equity is in fluctuating trend which means the ratio is decreasing and increasing trend during the study period. NABIL Bank is earning reasonable profit by utilizing its funds of total equity.

- Interest earning is the major source of income of a commercial bank. Interest earned to total assets ratio reflects the proportion of interest earned by the bank from the total income. The interest earned to total assets of the bank varies from maximum of 6.38% in year 2065/66 to the minimum of 5.33% in year 2064/65 with an average of 5.92% during the study period of 5 years. The analysis indicates that the interest earned in comparison to total assets is in fluctuating trend during the study period. The analysis indicates that the bank has the high debt- equity ratio, which means the creditors have invested more in the bank than the owners.

- The interest expenses to interest income ratio of the NABIL bank varies from maximum 41.21% in the fiscal year 2065/66 to the minimum of 22.79% in the year 2061/62 with an average of 32.92% during the study period. The analysis indicates that the interest expense in comparison to interest income is in increasing trend during the study period. The higher ratio shows unfavorable profitability situation of the bank.

- Net profit to total deposits ratio indicates the percentage of profit earned by using the total deposit. The net profit to total deposit of the NABIL Bank varies from maximum of 3.56% in the year 2061/62 to the minimum of 2.34% in the fiscal year 2064/65 with an average of 2.97% during the study period. The analysis indicates that the net profit earned in comparison with the total deposit in fluctuating trend. In general, the average return ratio shows that NABIL is successful to earn constant profit over the study period.

- The firm's earning per share is generally of interest to present or prospective stockholders and management. The EPS represents the amount earned on behalf of each outstanding share of common stock. The EPS of the NABIL Bank varies from maximum of 137.07 per share in the year 2063/64 from 105.48 per share in the year 2061/62with an average of 117.36 per share. The above analysis indicates that the EPS of NABIL Bank Ltd. is good in overall years.

- Dividend per share is calculated to know proportion of the earnings distributed to the shareholder per share. The DPS of the NABIL Bank varies from maximum of Rs. 140 per share in the year 2063/64 from Rs. 70 per share in the year 2061/62 with an average of Rs. 96 per share. The above analysis indicates that the DPS of NABIL Bank Ltd. is satisfactory and the shareholders are being compensated with good return.

- The analysis shows the Tax per share paid to the government by common shareholders is in fluctuating trend during the study period of five fiscal years. Tax per Share of the NABIL Bank varies from maximum of Rs. 63.97 per share in the year 2063/64 from Rs. 48.64 per share in the year 2061/62 with an average of Rs. 52.84 per share. The average TPS in NABIL appeared sharply high which shows that it succeeded to contribute more in the government revenue.

- Dividend payout ratio represents the percentage of the profits distributed as dividend and the percentage retained as revenue and surplus for the growth of the bank. The dividend payout ratio of the bank varies from maximum of 102.14% in year 2063/64 to minimum of 65.79% in year 2062/63 with an average of 81.25% during the study period of 5 years. The above analysis indicates that the payout ratio of the bank is high.

Findings from Income & Expenditure Analysis

- Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating result during the period specified. The interest earning is the main source of income of the bank. The average of 76.13 % of the total operating income is covered by the interest earned. The high rate of income from the interest received indicates the better operation efficiency of the bank. The second main income source is from foreign exchange income earnings. The average of 9.58% of the total operating income comes from the exchange earnings. The incomes from commission earnings represent another income source of the bank. The average earnings from commission and discount is 7.02% of the total operating income. The income from other sources constitutes an average of 7.27 % of the total operating income of the bank. This concludes that bank is providing efficient and effective services to its clients.

- The expenditure head of the bank are interest expenses, personnel expense and other expenses. The interest expense is the main major source of expense of the bank. The interest expense is 47.24 % of the total operating expenditure on an average. The high rate of expenditure in interest indicates that the bank has collected more deposits. Another main expenditure heading of the bank is staff expenses. The office personnel expense constitutes 32.58% of the total Operating Expenses. Another important heading of expenditure is office operating expenses. The office operating expenses remains 20.18% in an average during the study period.

Findings from Statistical Analysis

- Correlation coefficient came higher than six times than the probable error 0.947 > 6 X 0.031. It shows high degree of positive correlation. According to the above calculation, it is cleared that there is a significant correlation between deposit and investment in NABIL. NABIL is successful to raise the volume of investment with rise in the volume of total deposit.

- The value of r (0.99) shows the high degree of positive correlation between total deposit and loan and advances. Therefore we can say that the change in total deposit highly effects loan and advances policy of NABIL bank Ltd.

- On the basis of calculation of correlation coefficient of loan and advances, the value of r (0.968) shows the high degree of positive correlation between Loan and Advances and Net Profit. Therefore we can say that the change in Loan Advances highly affects Net Profit Earned by NABIL bank Ltd.

- Trend analysis of Total Deposits, Loan & Advances, Investment and Net Profit gives the conclusion that total deposit, loan and advances and net profit were in increasing trend but trend of investment is in fluctuating trend.

CHAPTER 5
SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

In this chapter, summary of this thesis study is presented. The study had been undertaken to examine and evaluate the performance of NABIL Bank. The researcher had used the financial tools and statistical tools to make this study more effective and informative. The bank has successfully installed and launched Automated Teller Machine (ATM). The bank continues to strive in order to maintain its position in the country as the market leader in the credit card arena. The number of cards issued by the bank is increasing and the bank now has critical mass in its account base. This study has covered five years data from 2061/62 to 2065/66 of NABIL Bank Ltd. In this section, the researcher has tried to summarize the financial performance of Nabil bank.

The current ratio of the bank over the 5 years is 1.10 on an average. The current ratio of 2.0 is occasionally cited as acceptable, but acceptability of the value depends on the industry in which a firm operates. For the banks and the utility firms, current ratios of 1.0 or above would be considered acceptable. Therefore, the liquidity position in terms of current ratio of Nabil is in normal standard. The loans and advances are the bills purchased and discounted, local and foreign currencies, loan and advances and overdrafts, which are the main sources of income in the commercial banks. The result of the analysis indicates that the loans and advances disbursement with respect to the current assets is satisfactory. The low share of fixed deposit in the total deposit indicates that the bank is minimizing its cost of fund, because the fixed deposit is the highest interest bearing deposit of the bank. The analysis also reveals that the share of saving deposit is higher than the fixed deposit in the total deposit, which again indicates that the bank is reducing its interest expenses. The cash and bank balance to total deposit ratio shows that the bank is maintaining its cash reserve as per the central bank directives. The result of the analysis also indicates that the investment of the funds is high. Overall, the liquidity position of Nabil is good and bank is able to meet its short-term obligations.

Loan and advances to total deposit ratio measures the extent to which the bank is successful to utilize the outsider's fund (total deposit) in profit generating purpose. The result indicates that the bank is mobilizing its total deposit in loans and advances satisfactorily. Loan and advances to highest interest bearing deposit is utilized for income generating purpose. The result of the analysis indicates that the bank has better mobilization of its saving deposit in loans and advances for income generating purpose. Loans and advances to fixed deposit ratio measures how many times the amount is used in loans and advances in comparison to fixed deposit. The result of the analysis indicates that the bank has the best mobilization of its fixed deposit in loans and advances for income generating purpose. Overall, the activity ratio of Nabil indicates that the bank has utilized its resources in a best way to maximum its wealth.

The debt-equity ratio indicates the relationship between the long- term funds provided by creditors and those provided by the firm's owners. The result of the analysis indicates that the bank has the high debt-equity ratio, which means the creditors have invested more in bank than owners, total debt to total asset exhibits the proportion of outsiders' fund used in financing total asset. The result of the analysis indicates that the bank has the high debt- total assets ratio, which again reveals that the creditors have invested more in the bank than the owners. Shareholder's equity to total assets ratio indicates the proportion of the assets, which is financed from ownership capital of firm. The result of the analysis indicates that 7.99% of the total assets of the bank are financed through equity capital and remaining from debt capital. This implies that the shareholder's stake in the bank is very low. The creditors have dominated in the bank's financial mix.

Interest earning is the major source of income of a commercial bank. Interest earned to total assets ratio reflects the proportion of interest earned by the bank form the total income. The result of the analysis indicates that the interest earned in comparison to the assets is quite low. Net profit to total deposit indicates the percentage of profit earned by using the total deposit. The result of the analysis indicates that the net profit earned in comparison to the total deposit is in fluctuating trend. The return on asset (ROA) or profit to assets of all financial resources invested in the assets. The result of analysis indicates that the net profit earned in comparison to the total assets is quite low. Net worth or shareholder equity refers to the owner's claim on the assets of the bank. The net profit to net worth (ROE) measures the income on the owners' investment. This ratio indicates how well the banks have used the resources of the owners. The result of the analysis indicates that the profit earning in relation with the shareholders' equity of Nabil is in better position, which exhibits the better utilization of shareholders' resources. Net operating profit is the profit before interest and taxes (EBIT). The result of the analysis indicates that the net operating profit earned in comparison to the total assets is quite low. Risk assets refer to those assets, which are invested in loans and advances and bill purchased and discounted. The result of the analysis indicates that the Nabil has superior quality to earn profit on the risky assets. Therefore, the result of the profitability ratio analysis of Nabil indicates that the overall performance of the bank is effective in generating the profit and hence maximizing its wealth.

The EPS represents the amount earned on behalf of each outstanding share of common stock. The result of the above analysis shows that the earnings per share of Nabil are quite good. Dividend per share is calculated to know proportion of the earnings distributed to the shareholder per share. The result of the analysis indicates that the dividend per share of Nabil is satisfactory and the shareholders' are being compensated with good return. Dividend Payout Ratio represents the percentage of the profits distributed as dividend and the percentage retained as revenue and surplus for the growth of the bank. The result of the analysis indicates that the dividend payout ratio of the bank is high.

Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. The interest earning is the main source of income of the bank. The second main income source of the bank is from the foreign exchange earnings. The income from commission earnings and other income are the two another income source of the bank. This shows that bank is generating maximum profit from the interest earning and sale of foreign exchange. The bank is earning profit from commission and discount by providing efficient and effective services to its clients.

The expenditure heads of the bank are interest expenses, personnel expense and office operating expense. The interest expense is the main heading of the expenses of the bank. The high rate of expenditure in interest indicates that the bank had collected more deposits. The second main expenditure heading of the bank is staff expenses. And one more important heading for the operating expenditure is the office operating expenses for smooth and efficient running of the office.

The income expenditure analysis shows that the bank's main income sources are interest income, foreign exchange and commission earning where its main expenditure items are interest expenses, personnel expenses and office expenses. Analyzing the credit sector and the bank guarantee, the bank is trying to avoid unnecessary risk, thus categories itself as a risk avert bank. By mobilizing its funds more in loans and advances, the bank could have increased its profit. But from the tabulated figures, it is evident that Nabil had preferred to invest in secured sectors like government securities, share and debentures than in lending.

The statistical analysis shows the coefficient of correlation between the Deposit and Investment, Deposit and Loan and Advances and Loan and Advances and Net Profit. The correlation coefficient between Total Deposit and Investment, Total Deposit and Loan and Advances and Loan and Advances and Net Profit is positive. By application of the coefficient of determination, it indicates that 98.01% of the variation in the loan and advances has been explained by the deposit. Moreover by considering the probable errors, the value of r is greater than 6P.E in all three cases. So it can say that there is significant relationship between Total Deposit and Investment, Total Deposit and Loan and Advances and Loan and Advances and Net Profit

5.2 Conclusion

The present study is a conclusion oriented study of financial analysis of NABIL Bank Ltd. The bank has been able to maintain its position in the country as one of the leading joint venture commercial bank. Moreover, competition in the financial sector is getting tougher day by day. Instead of political instability, domestic unrest and threats, the bank is making all possible efforts to consolidate its business portfolio and cut down the cost in all operating areas to maintain the profitability. The principal activities of the bank in the past five years continued to be consumer and corporate banking, trade and finance, credit card services and foreign exchange dealing. There are ongoing efforts and commitments in enhancing its products and services both, the issuance and acquiring business. The capital base figure of the bank is more than adequate and exceeds both NRB's capital adequacy requirements (i.e. NRP 1000 million) and internationally recognized standards, enabling it to deal with unpredictable economic environment of the country.

As per the data analysis, deposits increased tremendously, it is greater in last year of observation in comparison to first year of observation. However the rate of the increment is fluctuating during the study period. The total investment of the bank has been increasing over the year, which is mainly due to the bank's strategy of sate lending and also as a result of increase in customer deposits and limited opportunities in present scenario with increase in loans and advance; the bank has been holding adequate provisions for loan loss. A very high debt to net worth ratio is unfavorable because debts are considered to be more risky than equity funds in the sense that the bank has a compulsory legal obligation to pay interest to the debt holders irrespective of the profit made or losses incurred. Therefore, appropriate mix of debt and owners' fund is desired by the bank. The profitability of the bank has been good and increasing during the study period of 5 years. However the grown rate is fluctuating.

The operating income and expenditure analysis indicates that the bank is reducing its operating expenditure and increasing its profit year by year to maximize the shareholder's equity.

Statistical tools are one of the most important tools to analyze the data. Correlation analysis, probable error and least square linear trend are used as statistical tools in this research. The coefficient of correlation indicates that there is a positive correlation between total deposit and investment, total deposit and loan and advances and loan and advances and net profit. Similarly, there is a significant relation between all deposit and investment, total deposit and loan and advances and loan and advances and net profit.

In short, financial condition of Nabil Bank is good enough which means it has good command in the market. Overall, the financial position of Nabil Bank is able to provide the general public and firm their amounts that have deposited their amount for security with full confidence of receiving back on demand.

5.3 Recommendation

In period of operation of 26 years, it has been successful to form a network of 43 branches up to fiscal year 2065/66, the bank is further planning to expand its network in the current fiscal year too. Effective and comparative banking activities have not been reached to different corners of country. In such a situation the banks network expansion plan is worth appreciation. This JVB has already established itself as a leading private bank in the country and the financial indicators shows that banks performance in the past is more than satisfactory and the future of Nabil Bank is positive and financially secured. The following further recommendations are made from the study made about the bank in this chapter.

- The fluctuation of ratio must be stabilized after proper diagnosis of the quality. Nabil Bank should focus in investing short-term marketable securities which yield more return than merely maintaining cash and bank balance.

- The decreasing ratio of investment to total deposit indicates that Nabil Bank has not been able to mobilize its available funds properly therefore, it is suggested to mobilize the funds properly in productive and profitable sectors.

- The bank should keep up the act of wealth maximization of the shareholders as they are true owners of the bank. The bank should always abide the directives given by NRB.

- The bank is advised to introduce new product lines and services to further attract the customers. It should keep in mind that it is competing with other banks and finance companies and other competitors, so the management should be alert to either comprehend customer philosophy or to manipulate them through introduction of new, efficient and convenient services.

- The bank should never forget that customer is a king of the market so its objectives should be to conduct more training, seminars, workshops and managerial development schemes to help the local bank compete with the foreign bank.

- Being the part of the society, it has a great responsibility in the social development, therefore it is recommended to Nabil Bank to participate in social events such as in education, health program, environment protection etc., so that more customers are attracted towards it.

- All imperfect practices inherent from the past mistakes should be avoided to re-orient the bank to new discuss of change and other further improvement.

Appendix 1

Nabil Bank Limited

Consoldated Balance Sheet

Fiscal Year 2061/062 to 2065/066

Partiulars	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Capital and Liabilities:					
Paid up capital	491,654	**491,654**	**491,654**	**689,216**	**965,747**
Reserve and Surplus	1,165,984	1,383,341	1,565,395	1,747,983	2,164,494
Borrowings	17,063	173,202	882,573	1,360,000	1,681,305
Deposits	14,586,609	19,347,399	23,342,285	31,915,047	37,348,256
Current Account	2,799,185	2,910,590	3,395,240	5,284,368	5,480,533
Saving Account	7,026,334	8,770,759	10,187,354	12,159,966	14,620,407
Fixed Account	2,078,535	3,449,094	5,435,190	8,464,086	8,310,708
Calls and Short Deposits	2,341,329	3,851,160	3,961,633	5,563,441	8,438,271
Margin Account	296,976	322,900	312,060	361,782	463,015
Other	44,249	42,896	50,808	81,404	35,320
Bills Payable	119,753	112,608	83,515	238,422	463,139
Other Liabilities	805,268	821,767	887,970	1,182,091	1,244,457
Total Capital and Liabilities	***17,186,331***	***22,329,971***	***27,253,392***	***37,132,759***	***43,867,398***

Current Assets					
Cash Balance	146,354	237,819	270,407	511,427	674,395
Balance with banks	413,028	392,420	1,129,419	2,159,714	2,698,117
Money at call	868,428	1,734,901	563,533	1,952,361	552,889
Investment	4,267,233	6,178,533	8,945,311	9,939,771	10,826,379
Loans Advances and Overdrafts	10,586,170	12,922,544	15,545,779	21,365,053	27,589,933
Other Assets	361,235	319,086	286,895	598,039	660,989
Fixed Assets	543,883	544,668	512,050	606,394	864,696
Total Assets	***17,186,331***	***22,329,971***	***27,253,394***	***37,132,759***	***43,867,398***

Appendix 2

Nabil Bank Limited

Consoldated Profit and Loss Account

Fiscal Year 2061/062 to 2065/066

Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
Income statement					
Interest Earning	1,068,747.00	1,309,999.00	1,587,759.00	1,978,697.00	2,798,486.00
Commission & Discounts	128,883.00	138,294.00	150,609.00	159,320.00	179,693.00
Exchange Gain	184,879.00	185,484.00	209,926.00	196,487.00	251,920.00
Other Income	128,175.00	117,435.00	144,517.00	214,407.00	200,494.00
Gross Income (A)	1,510,684.00	1,751,212.00	2,092,811.00	2,548,911.00	3,430,593.00
Expenditure Statement					
Interest Expenses	243,545.00	357,161.00	555,710.00	758,436.00	1,153,280.00
Personnel Expenses	283,715.00	309,581.00	339,666.00	480,706.00	487,765.00
Other Operating Expenses	225,640.00	186,645.00	208,948.00	222,676.00	287,793.00
Other Non-Operating Expenses	-	-	-	-	-
Total Expenditure (B)	752,900.00	853,387.00	1,104,324.00	1,461,818.00	1,928,838.00
Profit before Tax and Provision (C = A – B)	757,784.00	897,825.00	988,487.00	1,087,093.00	1,501,755.00
Tax and Provision (D)	239,149.00	262,562.00	314,527.00	340,625.00	470,702.00
Net Profit (Loss) after Tax and Provision(C-D)	518,635.00	635,263.00	673,960.00	746,468.00	1,031,053.00

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