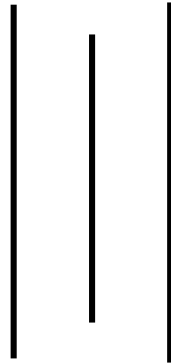


**PERFORMANCE EVALUATION OF
NEPAL INVESTMENT BANK**

**By
SUJATA PANTA
Shanker Dev Campus
Campus Roll No.: 36/063
T.U. Regd. No.: 7-1-274-388-2001
2nd Year Symbol No.: 2968**

**A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University**



***In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)***

**Kathmandu, Nepal
March 2011**

RECOMMENDATION

This is to certify that the thesis

Submitted by:

SUJATA PANTA

Entitled:

**PERFORMANCE EVALUATION OF
NEPAL INVESTMENT BANK**

*has been prepared as approved by this Department in the prescribed format of
the Faculty of Management. This thesis is forwarded for examination.*

.....
Asso. Prof. Ruchila Pandey
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head, Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by:

SUJATA PANTA

Entitled:

PERFORMANCE EVALUATION OF NEPAL INVESTMENT BANK

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

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Performance Evaluation of Nepal Investment Bank**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Asso. Prof. Ruchila Pandey** of Shanker Dev Campus, T.U.

.....

Sujata Panta

Shanker Dev Campus

Campus Roll No.: 36/063

T.U. Regd. No.: 7-1-274-388-2001

2nd Year Symbol No.: 2968

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This study is done in order to fulfillment of partial requirement for Master Degree in Business Studies under Tribhuvan University. The main objective of this study is to analysis financial position and performance of Nepal Investment Bank by using descriptive as well as quantitative techniques, employing financial and statistical tools.

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Finally, I assure you that this research paper is my original work. I do not claim that the study is perfectly satisfactory and complete. The Limitation and shortcoming were realized due to limited time and resources. For any error of this research work I alone should be held responsible.

Sujata Panta

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1.1

ABBREVIATIONS

A.D.	:	Anno Domini
ABBS	:	Any Branch Banking Service
ADB	:	Agriculture Development Bank
ATM	:	Automatic Teller Machine
B.S.	:	Bikram Sanbat
C.V.	:	Coefficient of Variation
EBIT	:	Earning Before Interest and Tax
EBL	:	Everest Bank Limited
IFIC	:	International Finance Investment and Commerce
MBL	:	Machhapuchchhre Bank Limited
N.G.	:	Nepal Government
NABIL	:	Nabil Bank Limited
NBBL	:	Nepal Bangladesh Bank Limited
NBL	:	Nepal Bank Limited
NGBL	:	Nepal Grindlays Bank Limited
NIBL	:	Nepal Investment Bank Limited
NIDC	:	Nepal Industrial Development Bank
NRB	:	Nepal Rastra Bank
P.Er	:	Probability of Error
r	:	Correlation Coefficient
r ²	:	Variance
RBB	:	Rastriya Banijya Bank
Rs.	:	Rupees
S.D.	:	Standard Deviation
SCBNL	:	Standard Chartered Bank Nepal Limited
SWOT	:	Strengths, Weakness, Opportunities and Threat
TC	:	Traveller Cheque
TU	:	Tribhuvan University

CHAPTER - I

INTRODUCTION

1.1 General Background

The beautiful natural sceneries of Nepal have widely attracted a number of tourists in the country. However, the economy of Nepal has remained stagnant because of poor development of infrastructural facilities in the country. In order to improve the living conditions of people, banks in Nepal came up with innovative banking schemes intended to upgrade the economic condition of the country. The banking institutions in Nepal offer modern banking facilities and some of the international banks also opened their branches in the capital city of Kathmandu to provide the needs of foreign travelers. These banks in Nepal offer money exchange value of almost all foreign currencies as well.

Looking at the definition of bank, one easily realizes that bank is an institution that provides financial services, particularly taking deposits and extending credit. The term bank is an institution that holds a banking license. The license provides them rights to conduct the most fundamental banking services such as accepting deposits and making loans. However, there are non-banking financial companies, which are financial institutions that provide certain banking services without meeting the legal definition of a bank.

The name bank derives from the Italian word Banco, A desk, used during the new beginning by Florentines bankers, who used to make their transactions above a Desk covered by a green tablecloth.

A bank is a business, which provides financial services, usually for profit. A commercial bank accepts deposits from customers in turn makes loans based on those deposits. Traditional banking services include receiving deposits of money, lending money and processing transactions. Some banks (called Banks of issue) issue banknotes as legal tender. Many banks offer ancillary financial

services to make additional profit for example: selling insurance products, investment products or stock broking. Currently most commercial banks are regulate and Operational authority is granted by bank regulatory authorities and provides rights to conduct the most fundamental banking services such as accepting deposits and making loans.

The banking sector is an important part of the national economy. Banks accept deposits, support the payment system and provide the largest source of funds in the market. Safe banking is essential for the financial stability and sustainable development. Nepal has a special characteristic of bank dominated financial sector. As the domestic capital market is in the initial stage of development, the banking sector largely dominates the entire financial sector.

1.1.1 Meaning of Commercial Bank

Banks are generally categorized as per their function and size. But people think bank are commercial bank because comparatively commercial bank have direct relation with public than other bank.

Usually all the definition of bank is matched with commercial bank. We know people earn money to meet their day-to-day expenses on food, clothing, education of children, housing, etc. They also need money to meet future expenses on marriage, higher education of children, house building and other social functions. Thus, people were in need of a place where money could save safely and would be available when required. Commercial Banks are such places where people can deposit their savings with the assurance that they will be able to withdraw money from the deposits whenever required. People who wish to borrow money for business and other purposes can get loans from the banks at reasonable rate of interest. Bank is a lawful organization, which accepts deposits that withdraw on demand of depositor. It also lends money to individuals and business houses those who need it. Commercial Banks also render many other useful services – like collection of bills, payment of foreign

bills, safekeeping of jeweler and other valuable items, certifying the credit-worthiness of business, and so on. Banks accept deposits from the public as well as from the business community. Any one who saves money for future can deposit his savings in a bank. Businesspersons earn from sales out of which they have to make payment for expenses. They can keep their earnings safely by deposited in banks to meet their expenses from time to time. Banks give two assurances to the depositors.

-) Safety of deposit, and
-) Withdrawal of deposit, whenever needed

Commercial Bank is Privately owned financial institution which (1) accepts demand and time deposits, (2) makes loans to individuals and organizations, and (3) provides services such as documentary collections, international banking, trade financing. Since a large proportion of a commercial bank's deposits is payable on demand, it prefers to make short-term loans instead of the long-term ones (which are handled by organizations such development finance companies and home mortgage companies).

Some definition of Commercial Bank from Bhisma Raj Subedi BBS 3rd Year Banking and Insurance are as follow:

Crowther, G. “A Bank is an institution which collects money from those who have it spare or who are saving it out of their income and tends this out to those who require it.”

This definition of bank has focused on general concept of bank and primary function of bank.

Horace White Outlise, “Bank is a manufacturer of credit and machine so facilitating exchange.”

This definition of bank has focused on credit transaction. It has expanded the function of bank.

Kinely, R.P. “ Bank is an establishment which makes to individuals such advance of money as may be required safety made and to which individuals entrust money when not required for use.”

This definition of bank has focused on the relation of bank and customer. It gives the importance of relationship of customer and bank.

Commercial Bank Act 2031; “Bank means a commercial bank establishment under this act.”

Commercial Bank is full-service institution that offers customers deposit, payment and credit services, in addition to other financial services (www.articlesbase.com).

In the same way, according to Webster’s new World Dictionary, “ An establishment for receiving, keeping, lending, or sometimes issuing money and making easier the exchange of funds by checks, notes, etc. Banks make profit by lending money at interest”.

“A commercial banker is a dealer in money and substitute money such as cheques or bill of exchange. He also provides a variety of financial services” (New Encyclopedia Britannica, 1986:600).

By above definitions, general concept about commercial bank can be ascertained as- It is an institution with the core objectives of generating profit by providing services to the public regarding their monetary activities.

The activities carried by banks are called banking activity. ‘Banking’ as an activity involves acceptance of deposits and lending or investment of money. It

facilitates business activities by providing money and certain services that help in exchange of goods and services. Therefore, banking is an important auxiliary to trade. It not only provides money for the production of goods and services but also facilitates their exchange between the buyer and seller. There are laws that regulate the banking activities in our country. Depositing money in banks and borrowing from banks are legal transactions. Banks are also under the control of government. Hence, they enjoy the trust and confidence of people. In addition, banks depend a great deal on public confidence. Without public confidence, banks cannot survive.

1.1.2 History of Commercial Bank

Nepal's first commercial bank, Nepal Bank Limited, established in 1937 B.S has headquartered in Kathmandu and had branches in other parts of the country. In initial, the government owned 51 percent of the shares in the bank and controlled its operations largely. Now Government share is only 41 percent. Being a commercial bank, it was natural that Nepal Bank Ltd paid more attention to profit generating business. However, it is the once government, to look into neglected sector too. Having felt the need of development & help to banking sectors the government formulated monetary polices. Nepal Rastra Bank established on Baishak 14, 2013 B.S as a central bank under Nepal Rastra Bank Act 2012 as a governing agency of government. The other government banking institution Rastriya Banijya Bank (National Commercial Bank), a state-owned commercial bank, established in 2022 B.S. There were two other specialized financial institutions. Nepal Industrial Development Corporation, a state-owned development finance organization headquartered in Kathmandu, established in 1959 with United States assistance to offer financial and technical assistance to private industry. Although the government invested in the corporation, representatives from the private business sector also sat on the board of directors.

The Co-operative Bank, which became the Agricultural Development Bank in 1967, was the main source of financing for small agribusinesses and cooperatives. Almost 75 percent of the bank was state-owned, 21 percent owned by the Nepal Rastra Bank and 5 percent by cooperatives and private individuals. The Agricultural Development Bank also served as the government's implementing agency for small farmers' group development projects assisted by the Asian Development Bank and financed by the United Nations Development Programmed.

Since the 1960s, both commercial and specialized banks have expanded. More businesses and households had better access to the credit market although the credit market had not expanded.

In the mid-1980s, three foreign commercial banks branch opened in Nepal. His Majesty's government allowed few foreign banks to operate in the country under joint venture with a view to bring latest technology & modern banking technical to know-how mobilize all scattered resources & to include healthy competition among banking sector.

The Nepal Arab Bank co-owned by the Emirates Bank International Limited (Dubai), Nepalese government and Nepalese public.

The Nepal Indosuez Bank jointly owned by the French Banque Indosuez, Rastriya Baniyya Bank, Rastriya Beema Sansthan (National Insurance Corporation), and the Nepalese public.

Nepal Grindlays Bank co-owned by British firm called Grindlays Bank, and Nepalese public.

Nepal Rastra Bank created in 1956 as the central bank function was to supervise commercial banks and to guide the basic monetary policy of the

nation. Its major aims were to regulate the issue of paper money, secure countrywide circulation of Nepalese currency and achieve stability in exchange rates, mobilize capital for economic development and for trade and industry growth, develop the banking system in the country, thereby ensure the existence of banking facilities, and maintain the economic interests of the public. Nepal Rastra Bank also oversees foreign exchange rates and foreign exchange reserves.

1.1.3 Role of Commercial Banking

Banks provide funds for business as well as personal needs of individuals. They play a significant role in the economy of a nation. Let us know about the role of banking.

-) It encourages savings habit amongst people and thereby makes funds available for productive use.
-) It acts as an intermediary between people having surplus money and those requiring money for various business activities.
-) It facilitates business transactions through receipts and payments by cheque instead of currency.
-) It provides loans and advances to businesspersons for short term and long-term purposes.
-) It also facilitates import export transactions.
-) It helps in national development by providing credit to farmers, small-scale industries and self-employed people as well as to large business houses, which lead to balanced economic development in the country.
-) It helps in raising the standard of living of people in general by providing loans for purchase of consumer durable goods, houses, automobiles, etc.

1.1.4 Brief Introduction of Nepal Investment Bank

Nepal Investment Bank limited (NIBL) is the foreign Joint venture bank in Nepalese banking history. Nepal investment bank ltd (NIBL), Previously Nepal Indosuez bank ltd established in 1986 as a joint venture between Nepalese and French Partners. The name of Bank has been changed to Nepal

Investment bank ltd. upon approval of bank's annual general meeting, Nepal Rastra bank and company register's office with the following shareholding structure;

-) A group of companies holding 50% of the capital
-) Rastriya Banijya bank holding 15% of the capital
-) Rastriya Beema Sansthan holding the same percentage
-) The remaining 20% being held by the general public

Which means the NIBL is a company listed on the Nepal Stock Exchange. NIBL has always provided innovative, enhanced and excellent product and services to its customers and looking ahead to the future with confidence. The bank intends to expand its international operations to tap into remittance flows and improve its range of product. They offer two more, in the form of visa credit card, visa debit card; this gives NIBL another first visa electronic debit card provider in Nepal, thereby providing our valued customers with further flexibility in payment. Nepal investment bank has many branches in major cities. In which bank added 11 new branches in FY 2008-09. Among the 11 new branches, five were opened within Kathmandu valley 6 in other areas outside Kathmandu. The banks target is to open upto 50 braches by 2010 all over Nepal. NIBL has 200-remittance agent in Kathmandu valley and in other cities. The bank appointed 45 new remittance disbursement agents during the year raising the total number of remittance disbursement location to 200 in order to facilitate banking services to Nepali workers overseas.

NIBL was incorporate with the objective of extending international standard modern banking services to various sectors of the society and is to be the most preferred provider of financial services in Nepal. While doing business NIBL is recognizes as premier financial institution in Nepal in terms of its range and quality of banking services, human capital, asset quality and income. The reorganization as the " bank of the year 2003" " Bank of the year 2005" , "Bank of the year 2008 "and "best presented account awards 2006" for Nepal. NIBL

offers fast and reliable money transfer services through SWIFT. The bank has launched total 57 ATM.

Being a financial institution, risk management is an integral part of Nepal Investment Bank Limited (NIBL). With the continuing increase in the scale as well as complexity of the banking business and the rapid growth in the volume of financial-related transactions, risk management has become essential.

Moreover the current financial crisis, which brewed due to financial institutions' high exposure to risky assets, and the collapse of venerable financial institutions such as Lehman Brothers, Wachovia and Bear Stearns, among others due to their inability to manage risky assets have further emphasized the need for prudent and effective risk management. The management team of NIBL manages the overall risk profile, aiming for a good balance between risk and return.

1.2 Statement of the Problem

Doing a research is not so easy work, while doing a work we have to face many problems. When we goes to unknown place we can lost our way as so while studying and make a research about performance evaluation of Nepal Investment Bank I have to face few problem which became limitation and problem for doing my research which are:

Coverage of Time

The study covers the time of last 5 years.

Financial & Time Constraint

The study fully based on the student's financial resources and it is to be conduct and submit with in a time constraint. Further, the study is not a final study on the subject.

Sample Size

There are 30 Commercial banks operating in Nepal until 2067 B.S. Among which Nepal Investment bank situated main branch at Durbarmarg, Ktm has selected as sample in the study.

Lack of Up- to-Date Data

The study primarily based on the secondary data such as annual reports of concerned banks, and other related journals, magazines, books etc. The up-to-date and complete data are very difficult to obtain due to inability of providing the required data by concerned authority. The reliability of conclusion of the study depends upon the accuracy of secondary data.

1.3 Objective of the Study

In the modern age, a bank cannot survive just as a business institution that just sells financial services to the customers and earns profit. It should run as a professional marketer that determines the target market and market opportunities, identifies the needs, wants of the target market, and then intends to maximize profit for survival and / or further growth.

Therefore, the main objective of the study is to find out how the Nepal Investment bank runs in market, as a situation is so complex. Therefore, the objective of study is listed below:

-) To assess the financial strength & weakness of Nepal Investment bank along with measures for improving the financial management of the company.
-) To know the trend of the different practice and activities of bank like Expenses, Deposit, NPA, Loan and advance, Liquidity, Profit
-) Provide appropriate suggestion on the bases of above analysis

1.4 Significance of the Study

Maximization of profit is the main objective of each organization. It is very necessary to earn maximum profit for the successful running of an organization. The profit is also important to preserve the existence of organization as well as strengthen and expand it. As financial analysis is the process of identifying the financial strength and weakness of a company by properly setting relationship between the actions of financial statement, so that this study would reflect clear picture of financial position of the Nepal investment bank. As per the data provided by the company, we make the study on this company which is able to find out the financial condition and we can evaluate the performance of the company. By the study of the performance evaluation of Nepal investment bank, we and other concerned persons can get more benefit from this study. The significance of the study is detailed below:

-) This study is performed for the partial fulfillment of MBS course requirement
-) This study makes us able to analyze the data which makes us perfect financial management student
-) After the completion, this report will be kept in library of the college, which will play the role of reference to students for making similar study in future.
-) This is our experimental study and final exam of MBS Course so it makes us so excited and it is a chance to enjoy as student
-) While doing this analysis we can stand in exact condition of financial areas of our country which makes us able to understand our financial condition, procedure and other related factors.
-) It improves our habit to read newspaper and analyzing way to of newspaper

1.5 Organization of the Study

This study comprises of five chapters, each devoted to some aspects of financial analysis of finance company. The titles of each of these chapters

summarized and the contents of each of these chapters of this study briefly mentioned here.

Chapter - I : Introduction

The first chapter deals with the subject matter consisting introduction, a brief profile of the Bank,, identification of the problem, significance of the study, objectives, limitations and chapter scheme of the study.

Chapter- II : Review of Literature

The Second chapter concerns with literature review that includes a discussion on the conceptual framework on financial aspects.

Chapter - III : Research Methodology

The third chapter describes the research methodology adopted in carrying out the present research.

Chapter IV : Presentation and Analysis of Data

The fourth chapter is concerned with analytical framework. It includes the analysis of financial indicators.

Chapter V : Summary, Conclusion & Recommendations

The fifth and the final chapter is concerned with the suggestive framework that consists with the overall findings, issues and gaps, conclusions and recommendations of the study.

The bibliography and appendixes incorporated at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

Literature review discusses published and unpublished information in a particular subject area, and sometimes information in a particular subject area within a certain time.

A literature review can be just a simple summary of the sources, but it usually has an organizational pattern and combines both summary and synthesis. A summary is a recap of the important information of the source, but a synthesis is a re-organization, or a reshuffling, of that information. It might give a new interpretation of old material or combine new with old interpretations. Or it might trace the intellectual progression of the field, including major debates. Moreover, depending on the situation, the literature review may evaluate the sources and advise the reader on the most pertinent or relevant.

This Chapter highlight on the literature that is relevant to the topic. The review of literature is important to know what is available and the gaps that exist in the literature. Scarcity of literature has been felt in the course of review however, this research has gone through various books, articles journals, research papered, periodicals, booklet, dissertation made on a particular field of study etc. the relevant findings of the academicians, researchers and professionals of related field are reviewed throughout this chapter. This chapter will be helpful to provide the foundation knowledge in order to undertake this research more precisely.

2.1 Conceptual Framework

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.

In simple terms, finance means money or an arrangement of money. In the business community the most common forms are bank loans and overdrafts, factoring and invoice discounting facilities, leasing, and investment. One facet of finance is through individuals and business organizations, which deposit money in a bank. The bank then lends the money out to other individuals or corporations for consumption or investment and charges interest on the loans. Another business decision concerning finance is investment, or fund management. An investment is an acquisition of an asset in the hope that it will maintain or increase its value. In investment management – in choosing a portfolio – one has to decide what, how much and when to invest. To do this, a company must: Identify relevant objectives and constraints: institution or individual goals, time horizon, risk aversion and tax considerations; Identify the appropriate strategy and measure the portfolio performance.

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

There are many different ways to measure financial performance, but all measures should be taken in aggregation. For banks Line items such as liquidity, Investment, risk, expenses, utilization of assets, fund management

2.1.1 Concept of Financial Performance Analysis

Financial management aspect is considered the vital and integral part of overall management of any enterprise, ensuring financial strength through adequate cash flow, liquidity and better utilization of assets. The financial management is the main indicator of the success or failure of any business firm. Financial condition of the business firm should from the point view of shareholders, financial institutions and nation as a whole. Financial analysis involves the use

of various financial statements- the first is the balance sheet, which represents a snapshot of firm's financial position at a moment in time and next is the income statement, that depicts a summary of the firms profitability over time (Vanhorne and Watchowicz, 1997: 20).

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

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account (Pandey, 1995: 96).

Financial statement analysis involves a comparison of a firm's performance with that of other firms in the same line of business, which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantages of its strength and correct its weakness (Weston et al., 1993: 78).

Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable situation of a business concern. Therefore, financial analysis reflects the financial position of a firm, which is the process of determining the operational and financial characteristics of a firm. Different types of financial statement analysis can be used on the basis of our objectives (Vanhorne and Watchowicz, 1997: 120).

Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data financial statements. Analyzing financial performance is a process of evaluating financial statements

to obtain a better understanding of a firm's position and performance. The goal of financial analysis is to determine the efficiency and the performance of the firms' management as reflected in the financial records and reports. The analysis makes an attempt to dissect the financial statement into their components on the basis of the purpose on one hand and between individual components and total of these items on the other. In course of studying and evaluating the financial position of the organization, a study of trends of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization (Srivastava, 1993:56).

Traditionally, banks act as financial intermediaries to channel funds from excess units to deficit units. Unlike other non-bank financial companies, commercial banks do not produce any physical goods. They produce loans and financial innovations to facilitate trade transaction. Because of special role they play in the economy, concerned authorities heavily regulate them. Analysis of bank's financial statements is different from that of other companies due to the special nature of assets and liabilities (Paudel, 2053:64).

The main focus of the financial analysis is on key figures contained in the financial statements and the significant relationship that exist between them (Khan and Jain, 1991:79).

Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firm, to identify problems, if any, in the past or present and/ or likely to be in the future, and to provide recommendations to solve the problems (Pradhan, 2000:120).

The financial statements of the bank should prepared with generally accepted accounting principles, well accepted banking norms/practices, provisions of

banks and financial institutions ordinance and directives issued by the Nepal Rastra Bank(Central Bank).

‘Commercial Bank Act 1974’ requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public. Analysis of financial statement is a purposeful and systematic presentation of information in the financial statements by developing relationship between one figure with other in order to measure the profitability, liquidity, solvency, operational efficiency and growth potentiality of the business organization.

Balance sheet, profit and loss account and the accompanying notes are the most widely aspects of financial statements of the bank. The bank’s balance sheet is composed of financial claims as liabilities in the form of deposit and as assets in the forms of loans. Fixed assets account for a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items. Interest received on loans and advances and investment and paid on deposit liabilities are major components of profit and loss account. The other sources of income are fee, commission, discount, service charges etc.

Most of the users of financial statements are interested in assessing the bank’s overall performance. Following factors affect the evaluation of bank’s overall performance.

-) The structure of balance sheet and profit and loss account.
-) Operating efficiency and internal management system.
-) Managerial decisions taken by the top management regarding interest rates, etc.
-) Environmental changes such as changes in technology, government, competition, economy etc.

There are various methods or techniques used in analyzing the financial statements.

One of them is the ratio analysis, which is regarded as most powerful tool of financial analysis to make quantitative judgment about the financial position and performance of the banks. Financial ratios themselves do not indicate position of the institution, a standard or norm is needed to judge them. Mostly used criterion is analyzing trend in performance and making comparison over time with similar banks by computing trends, industry average and a peer group rating.

2.1.2 Objectives of Financial Analysis

The main objective of financial analysis is to explore various facts related to the past performance of business and predict the potentials for achieving desired results. Some of the main objectives of financial analysis can be pointed out as follows;

-) The short term and long term solvency of the firm
-) The present and future profitability of the firm
-) Comparative study of one firm with another
-) Forecast the future and prepare budgets
-) The financial stability of business firm
-) The long term liquidity of its fund

2.1.3 Need of Financial Analysis

The analysis is mainly done in order to address the following questions

-) How was the past performance of the firm? Which are the problem existing areas?
-) What is the present performance of the firm? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in which areas?

- ↳ What will be the position of the firm in future? What are the projections? Is there any likely problem on the way in the future? What corrective actions can be taken now to solve the problems and improve the performance?
- ↳ What are the recommendations?

2.1.4 NRB Directives for Bank and Financial Institution

It has defined the right and responsibility of commercial bank, which clear the structure and works, legal issue of commercial bank, which says:

Nepal Rastra Bank is committed to strengthen and ensure the stability and soundness of the banking system. To this end, a number of circulars and directives have issued to banking institutions.

In performing the above role, the Bank, through the Banking Supervision Department attempt to formulate policy with the Bank and Financial Institutions Act-2063 (BAFIA-2063) to have a banking institution under its control. In order to achieve the role of protecting the interests of depositors, Nepal Rastra Bank has created a number of prudential requirements to comply with by banking institutions. The prudential requirements advised on banking institutions designed to limit risk taking to levels that are manageable and that do not place the individual banking institution and the banking system at risk.

NRB has continued to review the relevant legislations and regulations in 2007/08 in Order to put in place up-to-date regulatory framework that meets international Standards and resolves the issues of the banking industry. It adjusts; merge immediately to current legislation relating to banks and financial institutions. Promote the trust of the general public in the overall banking and financial system of the country and protect, promote the rights and interests of depositors, provide quality and reliable banking and financial intermediary services to the general public through healthy competition among

banks and financial institutions, minimize risks relating to the banking and financial sector. Now, therefore it enacted by the House of Representatives in the First Year of the issuance of the Proclamation of the House of Representatives, 2063(2006).This Act has 12 chapters.

Here we have trying to gather the entire Act in least:

A person who is wanting of incorporating a bank or financial institution by this Act may do so by getting the following documents and the fee prescribed by the Rastra Bank:

-) Memorandum of association of the proposed bank or financial institution;
-) Articles of association of the proposed bank or financial institution;
-) Feasibility study report of the proposed bank or financial institution;
-) Personal details of the promoters in the form prescribed by the Rastra Bank;
-) A certified copy of the agreement, if any, entered into between the promoters prior to the incorporation a bank or financial institution in relation to the incorporation of the bank or financial institution;
-) Evidence of tax clearance by the promoters up to the fiscal year immediately preceding the making application pursuant to this Section;
-) Such other particulars and documents as may be prescribed by the Rastra Bank in relation to the incorporation of a bank or financial institution.

The submitted documents, grant its approval to incorporate such bank or financial institution within one hundred twenty days after the making of application.

If any foreign bank or financial institution makes an application for the incorporation, of a bank or financial institution in joint investment with a corporate body incorporated in the State of Nepal or with a citizen, or as a subsidiary company subscribing cent per cent shares of the foreign bank or financial institution, under this Act, the Rastra Bank shall grant approval for

the incorporation of such bank or financial institution pursuant to Sub- section (1).

The rule directed by NRB are:

-)] Every bank or financial institution shall have a Board of Directors. The Board shall consist of not less than five and not more than nine Directors.
-)] All functions to be performed and all powers to be exercised by the bank or financial institution shall be performed and exercised by the Board., other than those to be performed by the general meeting of shareholders,
-)] The Board may delegate any of its powers to the chairperson, any director, a sub-committee formed pursuant to Section 16, chief executive or any person, firm, company or body acting as the chief executive on the condition that such powers shall be exercised under its supervision or direction.
-)] The directors of a bank or financial institution shall appointed by the general meeting of the bank or financial institution, subject to meetings of the Board shall be held at least 12 times in a year. The interval between any two meetings shall not exceed two-months. Every bank or financial institution shall maintain a separate register recording the personal details of its directors, and forward details and alteration of directors. No person shall use the name of a bank or financial institution for carrying on the financial transactions, without obtaining the approval of the Rastra Bank.
-)] A bank or financial institution desirous of carrying on financial transactions pursuant to this Act shall make an application to the Rastra Bank for a license, in the format prescribed by the Rastra Bank.
-)] The Rastra Bank shall classify the licensed institutions into “A”, “B”, “C” and “D” classes on the basis of the minimum paid-up capital required. The minimum capital, issued capital and paid-up capital of the licensed institutions shall be as prescribed by the Rastra Bank from time to time.
-)] A licensed institution shall maintain a risk- bearing fund in the proportion prescribed by the Rastra Bank in such a manner that it can cover the liability relating to its total assets and off- balance sheet transactions.

- J A licensed institution must maintain a general reserve fund. At least twenty per cent of the net profits of each year shall keep on such fund until the amount of such fund doubles the paid-up capital.
- J While issuing its securities for subscription by the general public, every bank or financial institution do all acts such as the sale, allotment, and recovery of amounts, of such securities in accordance with the laws in force relating to securities.
- J Every bank or financial institution shall file a copy of an agreement made with the Rastra Bank and the Securities Board through any institution dealing in securities, within seven days after the date of making of such agreement.
- J The Rastra Bank shall have full powers to regulate and systematize the functions and activities of licensed institutions. The Rastra Bank may frame Rules and Bye-laws on such matters it may consider necessary and issue necessary orders, directives, notices and circulars.
- J The Rastra Bank may issue directives to the licensed institutions from time to time in relation to the banking or financial system, currency and credit. It shall be the duty of the licensed institutions to comply with such directives. Rastra Bank has power to issue directives in relation to the rates of interest to be paid on deposits and to be charged on credits by the licensed institutions shall be as prescribed by the Rastra Bank.
- J The Rastra Bank may inspect and supervise, or cause to be inspected and supervised, any office of a licensed institution at any time. The Rastra Bank may carry out such inspection and supervision operations by deputing any of its officers or any expert designated by it.

2.2 Review of Article & Journal

Shrestha, Shyam Kumar (B.S. 2064) “*An Analytical Approach to Market Growth*” Published in KOSH:

Shyam Kumar Shrestha has share his articles about banking Business and marketing practices as an analytical approach to market grown in KOSH a yearly publication of EPF he says;

"Bank is financial institution that performs financial activities. Traditionally bank was regards as the institution that sells financial services to its customers and earns profit from these transactions in the form of interest. However, the situation has become more challenging and complicated because society has been changed and the competition has become tough in terms of both perception and practices.

The evolution of marketing concept has tough through it is late, the bankers to become more professional and focus on customer satisfaction in the banking sector. In this context, it is believed that Deryk Weyer of Barclays bank has taken the first step, who developed the concept of ' Bank Marketing' and defined the term more comprehensively.

His summarization for the existing market trends relevant to bank marketing is as follows;

-) Increasing number of banks (Including other financial institution) and creating tough competition among banks.
-) Declining interest rate on bank deposit cause to diverting their money on the purchase of share and assets.
-) Increasing income level of people and their expectations.
-) Changing people life style, consumption pattern and spending habit.

-)] Increasing political unrest in the country and killing investment opportunities and industrial and other genuine commercial sectors.
-)] Diversifying investment areas by some of the banks
-)] Introducing technologically advanced new banking facilities such as ATM, Debit Card, Credit Card, etc by some the leading banks.

As per him, in the banking sectors the key success factor may include;

-] Quality services to the customers
-] Gradual improvement in services
-] Provision of diversified services
-] Friendly behavior and positive attitude of bank staffs
-] Better benefits to the customers
-] Accountability and responsiveness of bank staffs
-] Attention on customer care and satisfaction
-] Maintain transparency in banking services
-] Become more communicative
-] Promptness and reliability in services

Gyawali, Kapil (2065) “*Rastriya Banijya Bank came up with IT*” Published in Cyber Sanchar.

Kapil Gyawali is informational manager in RBB, He has give his interview to Bharatraj a journalist of Cyber Sanchar in his interview he mentioned the importance of IT in this competitive market. He compares the old working system of RBB and their performance with now in It system. In his interview he says;

- J In the begging of bank RBB is one important bank which goes to measurable condition because of competition and inability to compete and increasing NPA makes bank to failure. But with the adoption of IT makes bank to face competition.

) Networking system of RBB makes easy to serve customer within 5 Minute as per other commercial banks which established our old stage.

As per his experience, Gyawali has share his view towards the problem to adopt the new technology in every sector in Nepal are;

) Political instability; Due to unclear rules and regulation makes difficult to bank to growing up

) Electricity and Lack of communicating facility ; Lack of electricity and communication facility Nepalese are out of convince of IT even they are unknown about all the innovation.

Bhandari, Ramesh Kumar (B.S 2066, Vol.29) *“Making Sense of Risk Management”* Published in BYAVASTHAPAN.

Ramesh Kumar Bhandari, A Deputy General Manager of GROWMORE Merchant Banker Limited which is related to investment banking activities such as IPO, Registrar to the shares services, Underwriting and Portfolio Management has given articles in BYAVASTHAPAN, A annual Journal of volume 29 published in 29th National Management convention about “Making sense of risk Management.”

Bhandari has introduces the risk associated with banks and financial institution facilitate and improve the distribution of funds, money and capital by extending services like payment mechanism, security trading, transmutation, risk diversification and portfolio management . The empirical study conducted has indication that the banking as business undertaking and financial markets has become globalized providing them with both new avenues of carrying on business ahead and competition for the same reason they have become vulnerable to economic problems emanating elsewhere. The turmoil and crises in the global financial system, which have been dominating the newspaper headlines demand, steeped up regulatory role while new competitors add to the existing crises in risk management activity. The umpteenth types of risk

overtaking financial firms followed by various types of market risk ensure operational exposures and receive enhanced attention.

For the risk management process Bhandari has focused in below guidelines;

-) Risk management is the process by which a bank identifies, measures, monitors and control its risk exposures to ensure that risks are understood, risk are within level of tolerance established by BOD. Therefore the BOD must understand the risks faced by the organization and satisfy themselves that the level of risk is acceptable, before developing a clear cut risk management policy
-) The policy should clearly define the lines of authority and the responsibility of BOD, CEO, Senior Management and other personnel responsible for managing risk while spelling out the risk management structure and activities while also identifying the risk management issues.
-) Use a statistical analysis that quantitatively estimates the probability of a loss occurring and probable amount of the total loss and apply to control system.
-) Many risks of a bank assumes are inherent to the business of banking and an essential part of the intermediation function that banks perform and can conclude credit risk for these. A bank wants to optimize the risk/return trade off by either maximizing return for a given level of risk or minimizing the risk required for a desired level of return.

Nepal Bank Association (NBA) (2067) “*Increasing Lending Rate*” Published in Hamro Palo:

Today in banking sector the lending rate has increasing accordingly. In market different issue has raised. So for this officially Nepal Bank Association and president of SBA Sashin Joshi has spokes their view against this issue At a time when customers are complaining over sudden and sharp rise in lending rates, a senior Nepal Bankers Association (NBA) official said that banks have not acted as unfairly.

NBA President Sashin Joshi said. “It is true that lending rates have gone up, but closer look of the interest rates movement shows banks have more than doubled their deposits rates, whereas lending rates have jumped by around 3.5 percent only over the last two years”.

“Rates of some of the banks might be slightly higher, but that is the industry average,” the average spread rate (gap between deposits and lending rates) in the industry has shrunk to less than 3 percent over the past few months. The liquidity crunch and other factors have forced banks to jack up deposit rates so dramatically that we are finding it tough to transfer the cost to the clients,”. According to Governor of Nepal Rastra Bank (NRB) Dr Yuba Raj Khatiwada, banks are still operating with spread rate of well over 5 percent.

According to the association, the industry average of corporate lending rate presently stands in the range of 10.5 to 13.5 percent, while personal lending rates stand in the range of 12.5 percent to 15.5 percent.

As for the cases of banks like Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL) that are still providing savings interest of around 3 percent but have jacked up the lending rates in line with the market trend, Joshi tagged them as cases of ‘exception’.

Joshi said “At surface, this might appear unfair. But if their clients are too loyal, what can others do? Otherwise, banks in general are finding it tough to retain their clients even with much higher interest rates than that,” NRB data also shows that banks’ deposit, which stood at around Rs 620 billion in mid-July 2010, currently stands at about RS 623 billion.

President of SBA Sashin Joshi has attributed the situation because of:

-) Long-running political instability and new policy announcements, which have driven money away to informal system, creating liquidity crisis in

the banks that lack of political instability has not helped them as well in managing liquidity problem..

-) Mainly provisions like income disclosure on large realty transactions and treatment of tax evasion as a money laundering case have impacted the market negatively
-) The problem has roots in lack of confidence in the system and hence, should be addressed at the political level
-) Bankers have been saying that high deposit rates offered by the savings and credit co-operatives are distorting the market. Currently, such co-operatives are mobilizing Deposits offering interest return of as high as 18 percent. That has forced the finance companies and development banks working at local level to announce equally competitive rate. This trend must be checked. Otherwise, it will drive the financial system to serious problems,

He suggest to government to take concrete steps to monitor and supervise the operation of co-operatives.

2.3 Review of Thesis

Before this, nominal thesis has been conducted by some students regarding the aspects of Commercial Bank such as interest rate structure and finance performance which are the most important to researcher for the purpose of study are below.

Earlier to this study, the several researchers have done various studies regarding performance evaluation through financial performance. In this topic, it tried to review the thesis that supposed to be important and relevant for the study, which have been conducted by previous researchers.

Thapa, Sarah (2004) conducted a research on “*Financial Performance of Commercial Banks in Nepal: A comparative Study of Nepal Bank Ltd. and*

Nabil Bank Ltd.” Sarah Thapa has conducted a research on Financial performance of commercial bank in Nepal with reference to Nepal Bank ltd and Nabil Bank ltd. In her research period she feels same problem as other researcher i.e. economic problem, lack of up to date data, constraints of time period although of her invisible objective she have doing this thesis to find out below and evaluate the performance of Nepal bank ltd and Nabil Bank ltd which are:

-) To analyze the risk and return of NBL in comparison to Nabil.
-) To analyze the liquidity position of the selected banks
-) To evaluate the financial ratios, to calculate efficiencies, valuation, profitability, capital structure ratios.
-) To recommend measure for the improvement of the financial performance and efficiency on the basis of the conclusion drawn from the research.

Through her research Miss Sarah had presented the following findings of the study which is as follows:

-) Analysis of activity ratio indicates better turnover position of Nabil. This implies that Nabil is efficiently utilizing its deposit on loans and advances and others.
-) Analysis of leverage or capital structure indicates that long term debt to net worth ratio of NBL is higher than Nabil and also total debt to total assets ratio of NBL is higher than that of Nabil. This proves both banks are extremely leveraged.
-) Capital adequacy ratio calculated for the banks stood below the prescribed adequacy ratio by NRB to absorb unexpected losses than can be incurred in the bank. Comparatively, Nabil’s position is better than NBL.
-) The price earning ratio, dividend payout ratio and MVPS to BVPS is better than NBL. So, the market judges Nabil’s performance and prospects better than that of NBL.
-) The rate of change of deposit, loans and advances, profit after tax, earning per share and market value per share of Nabil is higher than that of NBL.

Dahal, Indra Bahadur (2004) conducted a research on “*A Comparative Study of Financial Performance of Nepal Bangladesh Bank and Himalayan Bank Ltd*”. Indra Bahadur Dahal who is a student of Shanker Dev campus has prepared Thesis in 2004 on the topic of Financial Performance of Nepal Bangladesh Bank and Himalayan Bank Ltd he did his thesis passing through difficulties which one student felt in their studying period but the objective and improve to our self he finished his thesis which became a sample for us his objective while doing this thesis is as follows:

-) To analyze the financial performance through the use of appropriate financial and statistical tools.
-) To identify various aspects relating to financial performance of NBBL and HBL for the period of last 5 years.
-) To provide decisive and primitive suggestion to improve the financial performance of two joint venture bank.

Through his research Dahal had presented the following findings of the study which is as follows:

-) The liquidity position of the banks in terms of current ratio shows that the ratios of NBBL are always above than normal standard (i.e. 2:1) where as HBL's ratio is always below than normal standard. It shows that the liquidity position in term of current assets to current liability of NBBL is better than HBL.
-) The activity turnover of NBBL in terms of loan and advances to total deposit ratio is better than that of HBL. The NBBL has been successfully utilized their deposits in term of loan and advances for profit generating purpose as compare to HBL.
-) The turnover position in term of loan and advances to saving deposit ratio, NBBL is always greater than HBL within the study period of 5 years. So, it is concluded that NBBL has better turnover than HBL.

-) Capital structure ratio has clearly referred that total debt to shareholder's fund and total assets slightly higher for HBL as compared to NBBL.
-) Profitability in term of net profit to total assets ratio of NBBL is found higher than that of HBL. The yearly ratio of NBBL is in fluctuating trend over the study period.
-) The average rate of return of NBBL is higher than that of HBL, which concludes that NBBL has found better performance by utilizing overall resources.
-) The ROI of NBBL and HBL are in fluctuating trend. The average ratio of NBBL is 21.01% over the study period. Where as the average ratio of HBL is 13.52% over the study period. This shows that, NBBL seems better financing performance.

Sharma, Suman Prakash (2005) conducted a research on “*A Study on Financial Performance of Commercial Banks*” with followings objectives:

-) To evaluate the financial performance of Nepal SBI Bank (NSBL), NBB and EBL in terms of their liquidity, efficiency of assets management and profitability position of the banks under study.
-) To compare the performance of three banks
-) To provide meaningful suggestions and recommendations to these banks for the improvement of their future performance.

Through his research Sharma had presented the following finding of the study which is as follows:

-) Current ratio of three banks showed slightly fluctuating trend. The average ratio showed that the banks could not maintain the conventional standard of 2 to 1 except NBB.
-) Average cash and bank balance to current deposit of EBL appeared greater than NSBL and NBB. Average liquidity position of NBB and EBL is almost same during the study period. It indicates that solvency position of NBB and EBL is better than NSBL.

-) Debt-equity ratio of the banks depicted the employment of debt in their capital. Comparatively, capital structure of NSBL seemed more leverage than NBB and EBL.
-) The average total investments to total deposit ratio of EBL seemed higher among the three banks. The average ratio of NSBL seemed lower among the three banks. The average ratios of NBB and EBL do not differ significantly. The greater ratio of NBB and EBL do not differ significantly. The greater ratio indicates efficiency in utilizing total deposits for investment purpose.
-) Loans and advances to total deposit ratio appeared considerably higher in NBB. It indicates that NBB is more successful in utilizing the depositors fund to earn profit. The ratio of NSBL and EBL is almost same. The average ratios of the banks do not differ significantly.
-) The average return on shareholders equity ratio of NBB remained greater among the banks. The ratios of EBL were found in decreasing trend. The trend ratios of NSBL and NBB are fluctuating. The higher average ratios of NBB and EBL reveal that the banks have utilized the shareholders equity more efficiently than NSBL.

Joshi, Sami (2006) conducted a research on “*Financial Performance of Everest Bank Limited*” with the following objectives:

-) To analyze the financial indicators of the bank such as liquidity ratio, leverage ratio, capital structure ratio, profitability ratio, leverage of EBL.
-) To examine the structure and trend of income and expenditure of EBL.
-) To find the future trend of total deposit, loan and advances, net profit.
-) To identify financial strength and weakness of EBL.
-) To highlight the review of previous study.
-) To provide suggestions and recommendations for the improvement of the bank on the basis of the findings.

Through her research Joshi had presented following findings of the study which are as follows:

-)] Although EBL could not maintain conventional standard of 2:1, current ratio seems to be satisfactory. EBL has made enough investment in HMG securities like treasure bond, development bond and shares of debentures in the final years of the study period.
-)] Cash and bank balance to current and saving deposit ratio seems to be inconsistent. In year 2004/2005 the ratio was 15.68%. This exhibit that EBL may not be able to meet its immediate obligation as the bank balance is much lower than the current and saving deposit.
-)] Only 7.83% of total deposit was held as cash and bank balance in year 2003/2004 by EBL which shows weak liquidity position. EBL is very inconsistent in maintaining its liquidity position.
-)] EBL has maintained NRB balance to fixed deposit ratio above the standard prescribed by NRB.
-)] EBL has more debt than equity in the total capital as revealed by debt equity ratio. Debt assets ratio showed that more than 50% of the total assets had been financed by the outsider's fund.
-)] Return on assets ratio showed that profitability with respect to financial resources investment of the bank assets is unsatisfactory as well as unstable.
-)] Income analysis showed that interest remained dominant in EBL.
-)] Correlation coefficient between DPS and MVPS is negative coefficient of correlation is less than probable error that means the value of r is insignificant. The trend analysis of total deposit, loans and advances and net profit shows the increasing trend.

Maharjan, Mandira (2006) conducted a research on “*A Study on Financial Performance of Nabil Bank Limited*” with the following objectives:

-)] To analyze the liquidity, profitability, capital structure, capital adequacy, leverage, ownership ratios and operation of Nabil Bank.

-)] To analyze the relationship between dividend per share (DPS), EPS of Nabil Bank.
-)] To evaluate the soundness of profitability and operating efficiency of Nabil Bank.
-)] To analyze the Bankruptcy source of the bank.
-)] To provide recommendations and suggestions of improvement of financial performance of Nabil Bank for the future on the basis of study.

Through her research, Maharjan had presented the following finding of the study which is as follows:

-)] The current ratio analysis of the bank over the seven years period indicates that the bank has been able to meet its short term obligations and is in sound liquidity position.
-)] The analysis designates that the bank is mobilizing its total deposits in loans and advances adequately and it has efficiently utilized its Total Deposit for Loans and Advance purpose.
-)] Debt-Equity Ratio analysis indicated that the bank has the high debt ratio, which means the creditors have invested more in the bank than the owners.
-)] Net profit to Total Deposit Ratio reveals that the bank is mobilizing its funds effectively and efficiently.
-)] Earning Per Share of Nabil Bank is good in overall years.
-)] Dividend Per Share of NABIL Bank is low and the shareholder's are being compensated slowly.

Rajbhandari, Ekta (2006) conducted a research on “*Financial Performance of Selected Commercial Banks in Nepal*” with followings objectives:

-)] To measure liquidity, leverage, activity, profitability ratio and ownership ratio of NBL, HBL, Nabil.
-)] To analyze the comparative financial position of NBL, HBL, Nabil.

-) To examine whether there commercial banks are following NRB directives or not.
-) To provide suggestions and recommendation based on findings of the analysis.

Through her research Rajbhandari had presented the following finding of the study which is as follows:

-) The study reveals that the current ratio of all three banks show that though there is more or less fluctuating in the ratio they are able to maintain the industry liquidity.
-) Total debts to equity ratio of all three banks reveal that the claims of the outsiders exceed for more than those of the owners over the banks assets. Comparatively Nabil seems more levered over the study period.
-) According to the study, all three banks have been able to earn positive profit but not satisfactory level. The profitability ratios like interest earned to total assets ratio, Net profit to total deposit ratio, Net profit to Net worth(Return on Equity), Return on risky assets ratio of Nabil are greater than those of HBL and NIBL.
-) Analysis of activity ratios reveals that all three banks have been able to utilize and manage the resource or assets, satisfactory. Comparatively, loan and advance to total deposit ratio and loan and advance to total deposit ratio of NBIL is higher than that of Nabil and HBL, this implies that NIBL is more efficiently utilizing the outsiders fund in extending credit to profit generation.
-) The average ratio of Earning per share, dividend per share and dividend payout ratio of Nabil is higher than that of NBL and HBL. From, the view point of shareholders Nabil is giving higher dividend

2.4 Research Gap

For the student to do a research is the great opportunities. Many students have done many researches. In the context of Nepal, students of our Tribhuvan

University have done many research of different commercial bank in different topic. However, I cannot found the study of Nepal Investment bank in case of Performance evaluation. Many research have done under the performance evaluation of commercial bank .Few researcher evaluate one bank with another, few researcher have done only few ratio analysis to have performance evaluation. But these analyses are not enough to evaluate or find the performance of bank.

In the previous study Research are limited to few ratios which have their own constraints to define about statement, Trend analysis is not done which means they ignore to future of bank. Previous researcher ignores to Risk part but in actually risk management is most important. Because of risk, management implies the effectiveness and qualities of bank. In previous study I don't find the analysis of non performing assets so I am here going to analysis the NPA and to found performance evaluation of commercial bank in case of Nepal Investment. I have calculated more ratios, using trend analysis, analyzing sources of risk, Evaluating past performance, future performance, and comparative analysis of past with future performance.

CHAPTER - III

RESEARCH METHODOLOGY

Research Methodology defined as a systematic process that is adapted by the researcher in studying a problem with certain objective. The prime objective of this study is to evaluate and assess the financial performance of NIBL bank. Thus, this chapter contains those methods that makes convenient for comparison of performance made so far by analyzing the strength and weakness of the financial performance of NIBL Bank.

Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem, taking into consideration the objective of the company. It would be appropriate to mention here that research projects are not meaningful to any one unless they are in sequential order, which will be determined by the particular problem at hand.

The research methodology adopted for the present study is mentioned in this chapter, which deals with research design, population, nature and sources of data, data processing procedure, tools and techniques used for analysis.

3.1 Research Design

It is the main part of any research work, which states clearly how the work has planned, structured and going to be completed. "Research Design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances." Research design means preparing the framework or plan for a study that guides the collection and analysis of the data. The procedure applied for assessing the performance evaluation of NIBL based on the descriptive and analytical research design for the study. Some statistical and financial tools have also applied to examine the facts and descriptive technique has used to evaluate the performance of the NIBL Bank.

3.2 Data Collection Procedure

"The data collection is the taking information from reality and transferring it into some recording system so that it can later be examined and analyzed for patterns."

This study is based on facts and figure collected from profit and loss accounts, Income statement and Balance Sheet of the Nepal Investment Bank. Hence, most of the data used in this work are secondary in nature. Profit & loss accounts and Balance sheet are main sources of data. Beside these, certain data collected from the sources like books, journal and articles dissertations. Data has collected for 5 years period i.e. from fiscal year 2061/062 to 2065/066 for the analysis.

3.3 Data Processing Procedure

"The data are collected for five years period i.e. from fiscal year 2061/062 to 2065/066 are presented in tabular form in separate format under the specific headings. Tables are prepared to show various financial result of the same period. The tabulated data is analyzed and interpreted using various financial and statistical tools as required.

Statistical Tool such as arithmetic mean, percentage, graphs, tables, correlations, and probable error are adopted in this study. Simultaneously, financial tools such as ratio analysis has also used for the analysis.

3.4 Tools and Techniques of Performance Evaluation

Tools and techniques of performance analysis covers the basic methods used for analyzing and evaluating the information collected with the help of balance sheet, profit & loss account and other related materials as required. Different chart, diagrams, percentage, ratio and other appropriate statistical tools and techniques used as data analysis tools.

Two types of tools have considered in the study, which are:

3.4.1 Financial Tools

Financial tools are widely applicable method for the analysis of financial statements which used for the analysis and interpretation of financial data. These tools can used to get the precise knowledge of a business, which in turn, are fruitful in exploring the strength and weakness of policies and strategies. The data available will summarized at first. The hidden facts put forth by financial statement will be analyzed using financial tools such as ratio analysis, which is below.

Ratio Analysis

Financial ratio analysis involves the calculation and comparison of ratios, which derived from the information given in the company's financial statements. The historical trends of these ratios can used to make inferences about a company's financial condition, its operations and its investment attractiveness.

Financial ratio analysis groups the ratios into categories that tell us about the different face of a company's financial state of affairs. Some of the categories of ratios described below:

Liquidity Ratio

Liquidity ratio means a class of financial metrics that used to determine a company's ability to pay off its short-terms debts obligations. Generally, the higher the value of the ratio, is symbol of larger the margin of safety that the company possesses to cover short-term debts. Common liquidity ratios include the current ratio, the quick ratio and the operating cash flow ratio.

The different liquidity ratios are-

-) Current Ratio
-) Cash and Bank Balance to Total Deposits

Profitability Ratio

Profitability is an indicator of efficiency of business organization. Profit is the difference between total revenues and total expenses over a period. Profit is the engine that drives the business and indicates economic progress.

"A company should earn profits to survive & grow over a long period of time. It is a fact that sufficient profit must be earned to sustain the operations of the business; to be able to obtain funds from investors for expansion and growth; and to contribute towards the social overheads for the welfare of society. The profitability ratios are calculated to measure the operating efficiency of the company. Management of the company, creditors want to get interest and repayment of principle regularly. Owners want to get a reasonable return from their investment.

To meet the objectives of the study, following ratios are calculated in this group:

-) Return on Total Assets
-) Return on Investment
-) Return on shareholder's Equity
-) Earning Per Share

Leverage Ratio

Any ratio used to calculate the financial leverage of a company to get an idea of the company's methods of financing or to measure its ability to meet financial obligations. There are several different ratios, but the main factors looked at include debt, equity, assets and interest expenses is defined as leverage ratios.

-) Total Debt to Equity Ratio
-) Total Debt to Total Assets Ratio
-) Interest Expenses to Total Income Ratio
-) Operating Expenses to Total Income Ratio

Annual Rate of Growth

It analyze the either the company is in growing or not it can be analyze through growth rate of Loans and Advances, Total Deposits

Non- Performing Assets

It analyzes the utilization capacity of bank and taken back strategy of bank is successful or not. Through this analysis, we can found is bank invested in good sector or not, how much they are passing through the Credit risk.

3.4.2 Statistical Tools

The statistical tools have used for the analysis “Arithmetic Mean’ “Standard Deviation’ “Trend Analysis” “Correlation" "Probable Error" and "Regression analysis".

Arithmetic Mean (\bar{X})

Arithmetic mean also called ‘the mean’ or ‘average’ is the most popular and widely used measure of central tendency. Arithmetic mean represents the entire data by a single value. It provides the gist and gives the bird’s eye view of the huge mass of numerical data. A mean can obtained by adding together all the items and dividing this total by the number of items. It is denoted as () and formula used to calculate it is as follows:

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

Where,

X = Sum of observation

N = Number of observation

Standard Deviation (σ)

Standard Deviation (S.D.) is defined as the positive square root of the arithmetic means of the squares of the deviations of the given observations from their arithmetic mean. The S.D. measures the absolute dispersion or variability. It is said that higher the value of S.D. the higher the variability and vice versa. It is denoted as (σ) and formula used to calculate S.D. in sample case is as follows.

$$\sigma = \sqrt{\frac{\sum (x - \bar{x})^2}{N}}$$

Where,

N = No. of observations

Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the improvement or deterioration of its financial situation. Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term on the basis of the tendencies in the dependent variable in the past period. Straight- line trend implies irrespective of the seasonal, cyclic and irregular fluctuation the trend value increases or decreases by absolute amount per unit of time. Using this least square method, the projection for five years is done. For the estimation of linear trend, line following formula has been used;

$$y = a + bx$$

Correlation

The term correlation indicates the relationship between two such variables in which changes in values in one variable, the value of the other variable also change. Correlation is an analysis of the covariance between two or more variables and correlation analysis deals to determine the degree of relationship between variables. For the present study, correlation of following has analyzed:

) Total Deposits and Loans and Advances

-) Net worth and Total Assets
-) NPAT and Total Income
-) NPAT and Total Investment
-) Total Deposit and Total Investment

The formula for calculating correlation coefficient is mentioned below:

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

The coefficient of correlation always varies between the two limits of +1 and -1. When there is perfect positive correlation, its value is +1 and when there is perfect negative correlation, its value is -1. Its mid point is zero, which indicates absence of correlation. The value of this coefficient of correlation is always been +1 and -1.

Probable Error

Probable error is a measure of ascertaining the reliability of the value of coefficient of correlation. If r is the calculated correlation coefficient in a sample of n pairs of observation then its standard error, usually denoted by S.E (r) is given by:

$$\text{S.E(r)} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

In order to ascertain whether the coefficient of correlation is significant or not the following points should keep in mind.

If the coefficient of correlation is less than six times its probable error, it is not at all significant.

If the coefficient of correlation is more than six times its probable error, it is definitely significant.

If the probable error is not much and if the coefficient of correlation is 0.5 or more it is generally considered to be significant.

It should be taken into consideration that the coefficient of correlation expresses the relationship between two series, and not between individual items of the series.

3.5 Limitations of the Research Methodology

The study will be bounded by following limitations:

-) Among various CBs, the study has focused only on Nepal Investment bank Ltd. Hence, the result of the study will not be applicable for other CBs.
-) The analysis is mostly based on secondary data provided by the company. Hence, secondary data is not far from limitation due to inherent character of these data.
-) The study covers only a period of five years from fiscal year 2061/062 to 2065/066. Hence, it does not conclude anything for the period before and after the study period.
-) The study concentrates on financial position of the company for the said period and has analyzed with the various financial, accounting and mathematical tools. As it focuses only on financial aspects of the company, it does not cover all the aspects of the company.
-) The study has been started with a view to submit the report for the partial fulfillment of the MBS degree. Hence, the report of the study bases on the format required for the purpose.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

Financial analysis is performed by various users of financial statement. Investors and management performs the financial analysis to understand how profitably or productively the assets of the company are used. Lenders and suppliers of goods look for the ability of the firm to repay the dues on time. For instance, deposit holder of a bank would be interested in liquidity of the bank and would expect the bank to pay their amount when they needed. Customers would like to know the long-term solvency of the bank to get continued support. For example, borrower would like bank to be healthy and profitable since you will be depending on the bank for future needs. Employees would be interested in the profitability as well as liquidity of the bank. Financial manager not only prepare financial statements but also analyze the same to get further insight on the performance of the organization.

They need to examine the organization from the perspective of several users so that they can follow the needs of them and satisfy several stakeholders. Sometimes profitability might be affected when the managers try to satisfy the needs of various stakeholders but if you focus instance, we would expect that our deposit holder need liquidity. If we plan for more liquidity, it might affect profitability. On other hand, if we continue to have low liquidity, we may not get funds or we need to pay more interest to attract funds while financial analysis is often used for evaluation current or historical performance, management uses the input of such analysis for future planning exercise. For instance in preparing budgets, the inputs of financial analysis are extensively used. Financial analysis provided linkage between operational managers then determines the level of operations required to achieve the goal. It would be difficult to increase the level of operation without any investment s unless there is a huge idle capacity. Thus increased activity demand more additions to assets and this in turns puts demands for capital. The first step in this process is

to know how much of additional assets we need and how much of capital we need to mobilize from various sources, financial analysis which provides historical linkage between various financial components is useful. Suppose the top management fixes a goal to increase the net income by another 20% for the coming year. Using profit to sales linkage, we can estimate additional turnover required to achieve the goal. Once we know additional turnover it is possible for us to assess how much of additional assets are required and then additional funds that are required to buy the assets. Thus financial analysis is a prerequisite for financial planning.

Financial ratio analysis can help in making investment decision and predicting firm's future performance. It can also give early about the slowdown of firm's financial condition.

Research in finance shows that firms characteristics (such as growth, company size, efficiency) can predict the future stock price Johnson and Soenen (2003) analyzed 478 firms in USA during 1982-1988 and conclude that big sized and profitable firms with high level advertising expenditure have better performance in term of three measurements Hobart (2006) studied the correlation between financial and firms performance of listed firms in USA for 19 years period by using 17 financial indicator and three variable to measure firms' performance, namely market performance, cash flow performance (DPS) and profitability (ROI). The result shows that firms with low book to market ratio, efficient working capital management, and low liquidity more equity and less liability and high retained earnings have high profitability based on ROI. Firms with unqualified opinion from auditor, more liabilities and less equity, low total assets and retained earnings have better cash flow performance measured by cash dividend furthermore firms with low book to market ratio, efficient working capital management, more equity less liability, low total asset and high EBIT margin have better marketing performance Different research have done using ratio analysis so we here by going to use those ratios for performance evaluation of Nepal Investment Bank.

4.1 Financial Tools (Ratio Analysis)

4.1.1 Current Ratio

Here we are using current ratio for the performance evaluation of Nepal Investment bank. Current ratio shows the financial position of bank it shows the bank condition to meet their current obligation. It consists on current assets and current liability.

Table 4.1

Current Ratio

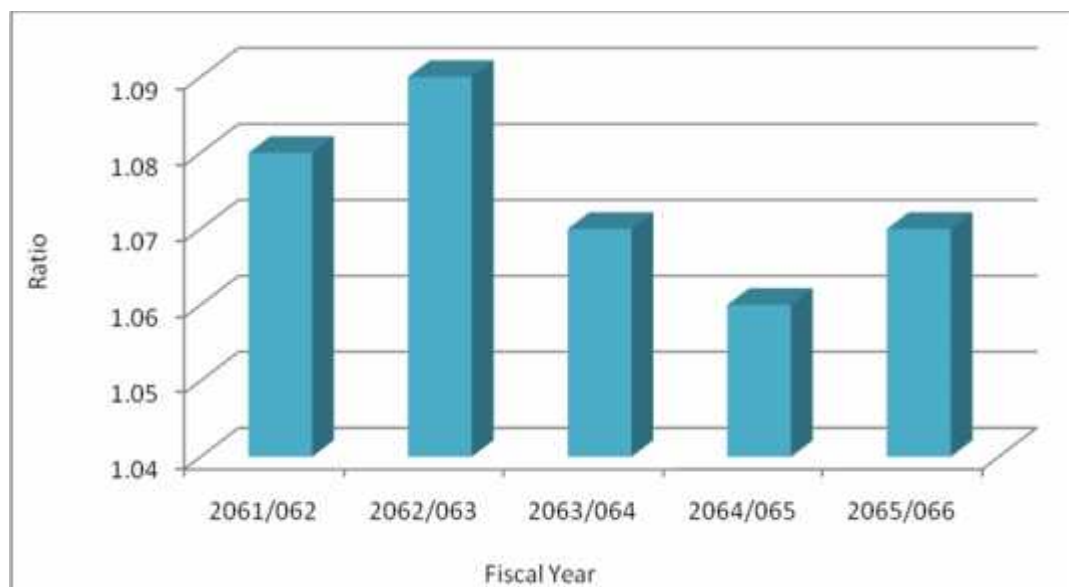
(Amount in '000')

Fiscal Year	Current Assets	Current Liability	Ratio (Times)
2061/062	16069	14882	1.08
2062/063	21307	19515	1.09
2063/064	27314	25542	1.07
2064/065	38435	36187	1.06
2065/066	52536	49103	1.07
Average Ratio (\bar{X})			1.07
Standard Deviation (σ)			0.01122
Coefficient of Variance (C.V)			1.049

Source: Financial Statement of NIBL, From Appendix I

Figure 4.1

Current Ratio



In the above table we calculate the current ratio which is presented in to the chart. From the above chart we can clearly find out the increasing and decreasing trend of current ratio. The perfect current ratio is 2:1 and in the above chart, we can see current ratio of Nepal Investment bank is above 1 from 5 year. It means the liquidity position of bank is good. In 061/062 it's current ratio is 1.08 and in year 062/063, 063/064, 064/065, 065/066 the current ratio is respectively 1.09, 1.07, 1.06 and 1.07 and the average ratio taken from 5 year period is 1.07 which is good. It means liquidity position of bank is good.

The mean ratio and standard deviation of NIBL was 1.07 and 0.01122 respectively. As concern with consistency, NIBL was success to maintain the consistency, because lower C.V of 1.049 % shows that the bank was able to maintain its consistency.

4.1.2 Cash and Bank Balance to Total Deposit Ratio

In cash and bank balance to total deposit ratio, cash and bank balance includes total cash in hand and total cash at Nepal Rastra bank and financial institution. Similarly total deposit includes all types of deposits. It is calculated by dividing cash and bank balance by total deposit. This ratio of NIBL is presented below in table 4.2.

Table 4.2

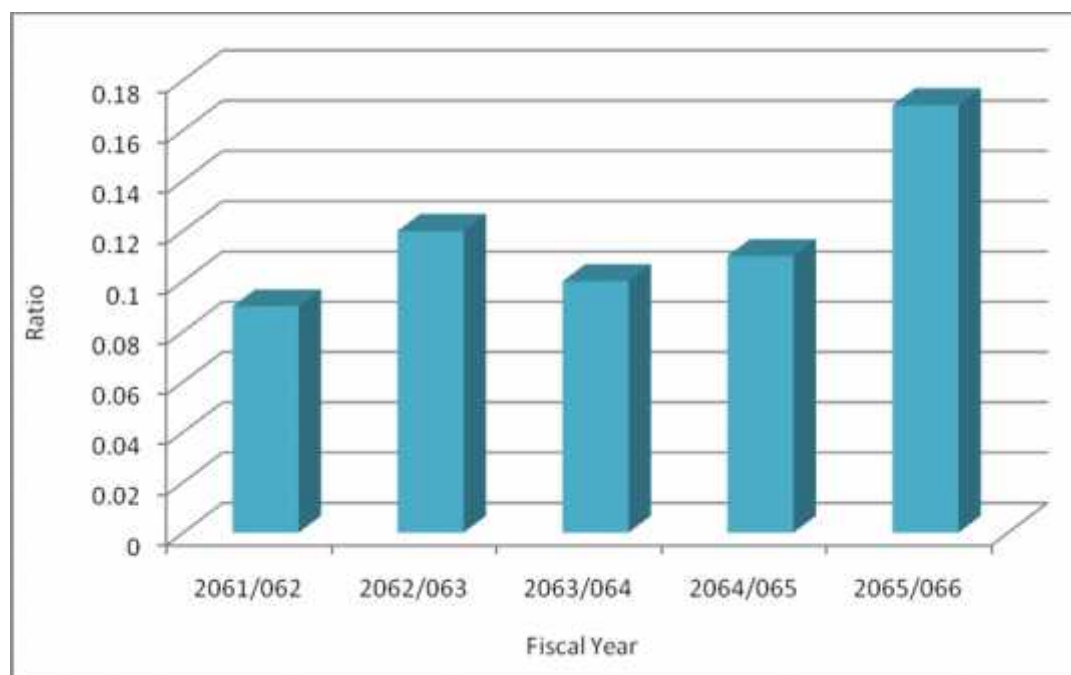
Cash and Bank Balance to Total Deposit

(Amount in '000')

Fiscal Year	Cash and Bank Balance	Total Deposit	Cash and Bank Balance To Total Deposit Ratio
2061/062	1340	14255	0.09
2062/063	2335	18927	0.12
2063/064	2441	24489	0.10
2064/065	3755	34451	0.11
2065/066	7918	46698	0.17
Average Ratio (\bar{X})			0.12
Standard Deviation (σ)			2.72%
Coefficient of Variance (C.V)			0.2266or 22.66%

Source: Financial Statement of NIBL, From Appendix II

Figure 4.2
Cash and Bank Balance to Total Deposit Ratio



The above table 4.2 shows the cash and bank balance to total deposit ratio which is shown below in chart for the purpose to present it clearly. Deposit is the liability for the bank and main sources of income and cash and bank balance is the current assets which can be affordable in any time to pay for important purpose. So this ratio is liquidity ratio it measure the liquidity position of bank. Is bank having sufficient liquidity to payback or return to deposit holder. How much they are liquid these questioner is solved by this ratio this is tools of calculation liquidity ratio.

From the above chart we able to find out the increasing and decreasing trend of cash and bank balance to total deposit ratio for year 2061/062, 062/063, 063/064, 064/065, 065/066 are respectively 0.09, 0.12, 0.10, 0.11, 0.17, 0.12

The higher ratio indicates the better liquidity strength and ability to cover the deposit and vice-versa. Cash and bank balance, Total deposit is fluctuating. Therefore, the ratio is being downed year-by-year and fluctuating. It shocked to bank because lesser ratio indicates the poor liquidity strength and disability to

meet the demand for deposit of its customers. In this situation, the bank might invest in more productive sector like short term securities, treasury bills etc.

And the ratios of Nepal Investment Bank are not so good. The data shows the liquidity position of bank is not good or favorable to the bank. As suggestion given in previous current Ratio again, I would like to suggest for making available balance of cash and bank balance for repayment of total deposit.

The mean ratio and standard deviation of NIBL was 0.12 and 2.72% respectively. As concern with consistency although bank have fluctuating trend, NIBL was success to maintain the consistency, because lower C.V of 22.66% shows that the bank was able to maintain its consistency.

4.1.3 Return to Total Assets

Return on Total Assets is the percentage of income from total assets employed it is obtain by dividing to Net profit by total assets which is calculated in below table and that is presented into below diagram.

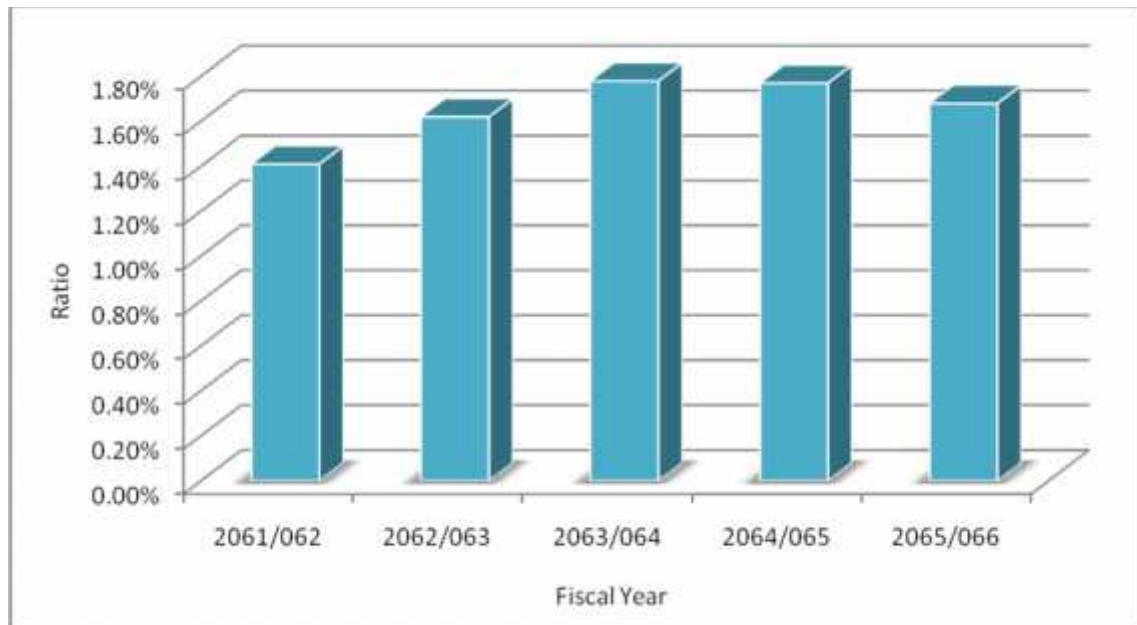
Table 4.3
Return on Total Assets

(Amount in '000')

Fiscal Year	NPAT	Total Assets	Return on Total Assets
2061/062	232	16390	0.0141 or 1.41%
2062/063	351	21732	0.0162 or 1.62%
2063/064	501	28073	0.0178 or 1.78%
2064/065	697	39405	0.0177 or 1.77%
2065/066	901	53596	0.0168 or 1.68%
Average Ratio (\bar{X})			0.0165 or 1.65%
Standard Deviation (σ)			0.0013416 or 0.13416%
Coefficient of Variance (C.V)			0.0813 or 8.13%

Source: Financial Statement of NIBL, From Appendix III

Figure 4.3
Return on Total Assets



All the assets employed in bank as shown in assets side of balance sheet are included in total assets. It has been computed on the basis of NPAT. This ratio shows the percentage of return on assets. It measures how efficiently the assets of business are utilized to income generation. The ratio informs the management and shareholders, if their investment on total assets is beneficial or not. It reveals the earning power of bank. Higher ratio shows high efficiency on utilization of assets and vice versa. It has been calculated dividing the NPAT by amount employed in total assets. In the above figure we can found that ROA is satisfactory because the average ROA is 1.65 which is not so bad. The growing rate of return on total assets is not so big means in 5 year period return on total assets is similar just negligible differences occur in these year. So as per this calculation I would like to suggest to bankers to work hard than these year.

The mean ratio and standard deviation of NIBL was 0.0165 or 1.65 and 0.0013416 or 0.13416% respectively. Higher mean shows that the bank was

successful in mobilizing the assets to profitable sector. As concern with consistency, NIBL was success to maintain the consistency, because lower C.V of 8.13% shows that the bank was able to maintain its consistency.

4.1.4 Return on Investment

Return on Investment is the percentage of income generated from the total investment. It is calculated by dividing Net profit after tax by total investment which is calculated in the below table and shown in diagram

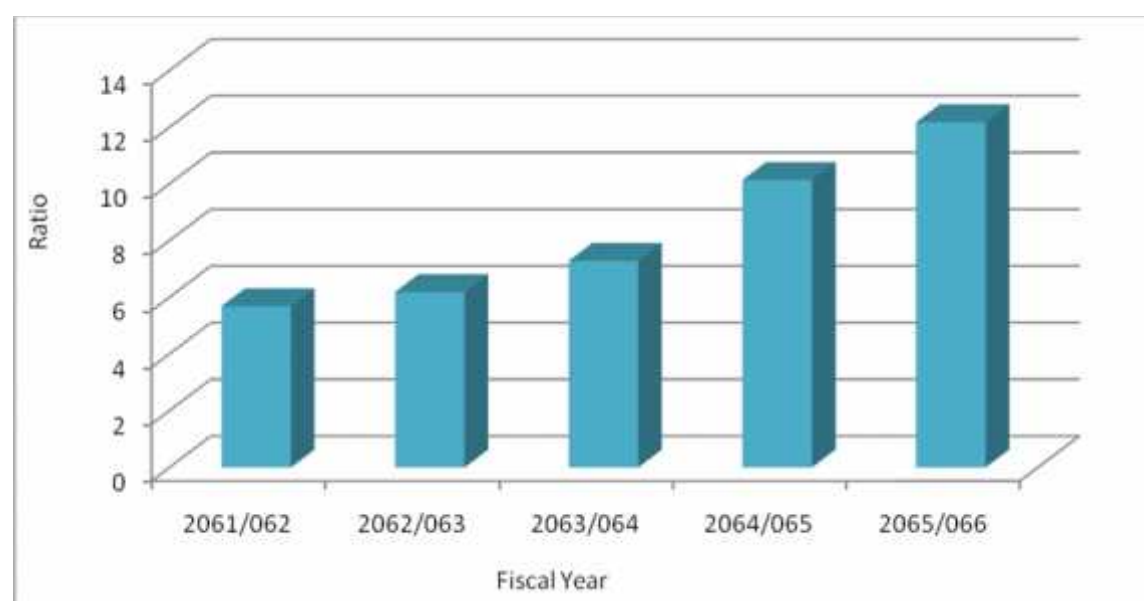
Table 4.4
Return on Investment

(Amount in '000')

Fiscal Year	NPAT	Total Investment	Return on Investment
2061/062	232	4074.18	0.0569 or 5.69
2062/063	351	5672.87	0.0619 or 6.19
2063/064	501	6868.87	0.0729 or 7.29
2064/065	697	6874.02	0.1014 or 10.14
2065/066	901	7399	0.1218 or 12.18
Average Ratio (\bar{X})			0.0830 or 8.30
Standard deviation (σ)			0.02478 or 2.478%
Coefficient of Variance (C.V)			29.85%

Source: Financial Statement of NIBL, From Appendix IV

Figure 4.4
Return on Investment



The bank has invested their fund in different profitable sector to generate more profit if it can't get expected return or unable to recover invested amount, they suffer. NIBL invests their fund on treasury bills, Nepal Government development bonds and other investment too. The investment directly returns to bank, however, the cost of arranging investment like interest payment and other additional expenses like income tax payment and bad debts provision reduce the gross return. Hence, the NPAT is taken to measure the return on investment. It informs the bank, its return is adequate to meet the obligations created by investment like interest payment, bad investment provision etc. in the above table we have calculated the ROI which is shown in chart. From those above chart we can see the increasing ROI. It means banks profitable position is becoming good.

But to say the good or bad return on investment we have to evaluate this with cost of capital. If return on investment is higher then cost of capital that is good for any organization. So I would like to suggest to bank to use the funds which are not so much costly.

The mean ratio and standard deviation of NIBL was 0.0830 and 0.02478 respectively. Higher mean shows that the bank was successful in mobilizing its fund in profitable sector. As concern with consistency, NIBL was success to maintain the consistency, because lower C.V of 29.85% shows that the bank was able to maintain its consistency.

4.1.5 Return on Shareholder's Equity

Return on shareholder's Equity is the amount of benefit to the shareholders because of investing their money. It is calculated by dividing Net profit after tax by net worth which is explain below with table 4.5 and presented into figure 4.5.

Table 4.5
Return on Shareholder's Equity

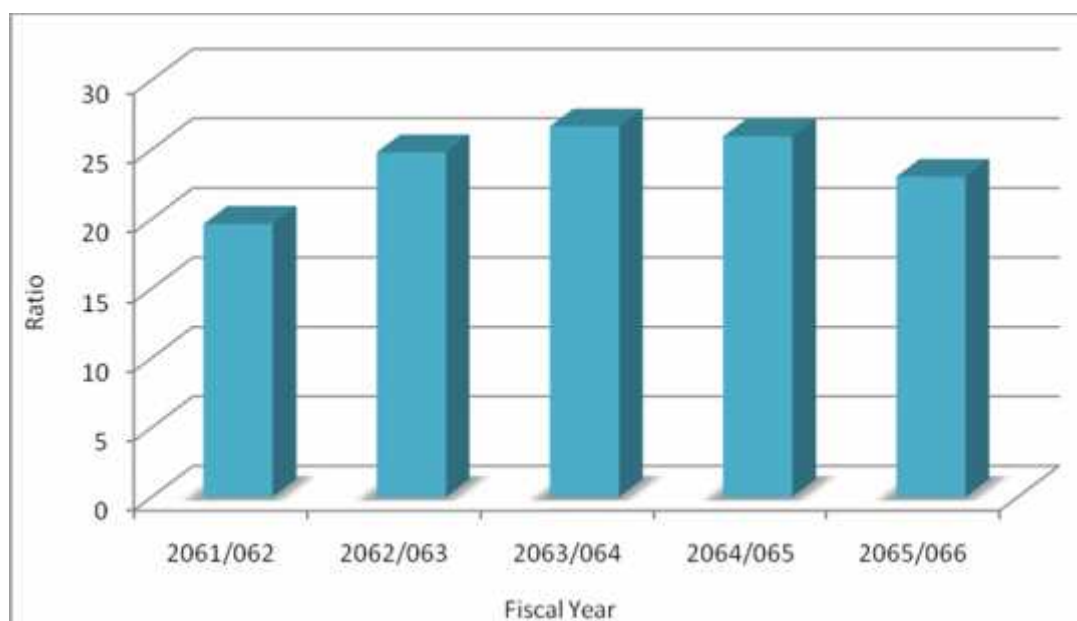
(Amount in

‘000’)

Fiscal Year	NPAT	Net Worth	Return on Shareholder's Equity
2061/062	232.00	1180.00	0.1966 or 19.66
2062/063	351.00	1415.00	0.2480 or 24.81
2063/064	501.00	1878.00	0.2668 or 26.68
2064/065	697.00	2686.00	0.2595 or 25.95
2065/066	901.00	3907.00	0.2306 or 23.06
Average Ratio (\bar{X})			0.2403 or 24.03
Standard deviation (σ)			0.02449
Coefficient of Variance (C.V)			10.19 %

Source: Financial Statement of NIBL, From Appendix V

Figure 4.5
Return on Shareholder's Equity



In the above table we calculate the return on shareholder's equity. Shareholders are those who are expecting profit from their investment in those banks. So Bank's have to share the profit on their gain by investing capital of shareholders equity. So to find out the profitability position in the view of shareholder's capital we have to calculate return on shareholders equity. We found the average ratio of return on shareholder's equity of Nepal investment

bank is 24.03 which is not so bad. So in average the profitability position of bank is good but it is in fluctuating trend because in some year it is increasing trend and the other year it is in decreasing trend.

The mean ratio and standard deviation of NIBL was 0.2403 and 0.02449 respectively. As concern with consistency, NIBL was success to maintain the consistency, because lower C.V 10.19% shows that the bank was able to maintain its consistency although the data is in fluctuating by few amounts.

4.1.6 Earning Per Share

The EPS shows the portion of profit to equity shareholders. Due to the absence of Employment of preference shareholder, the NPAT has been taken for the calculation. So, EPS is calculated by dividing NPAT by numbers of share outstanding. The amount of EPS measures the efficiency of a firm in relative terms. It is a measuring tool of organizational overall performance, how far an organization is able to use its resources to generate profit. EPS is determined by the amount of profit it has earned. Thus, it determines the market value of share, the attitude of outsiders and high amount of EPS increases the good will of the organization. Also, higher the EPS denotes the high profit margin to shareholder's wealth and vice versa.

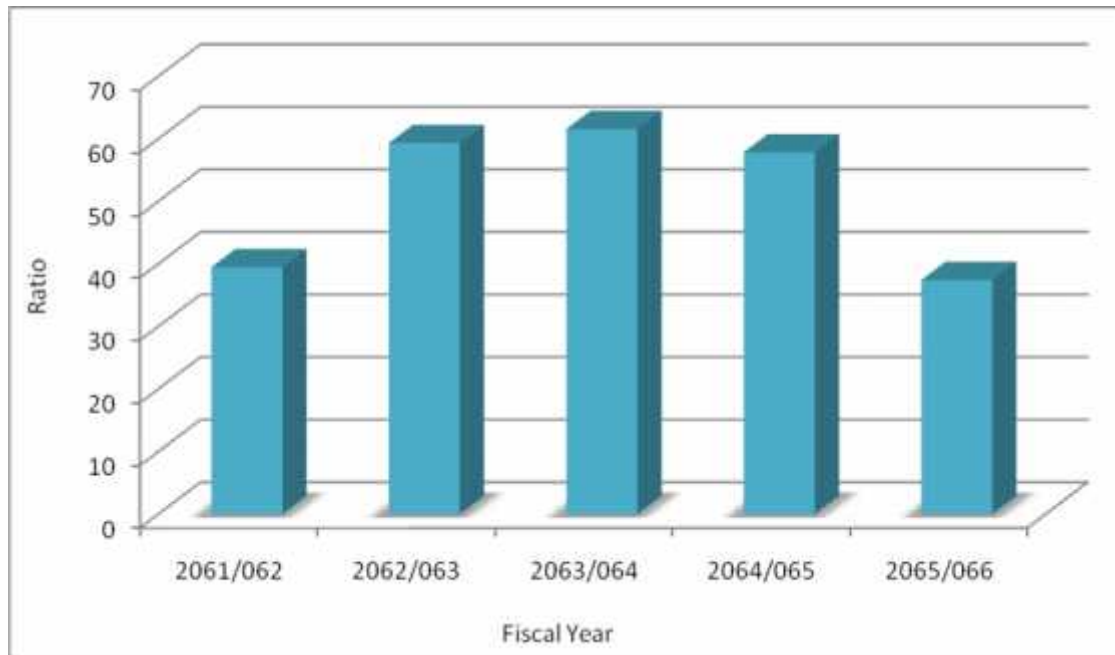
Table 4.6
Earning Per Share of NIBL

(Amount in '000')

Fiscal Year	NPAT	No of Equity Share	EPS
2061/062	232.00	587.34	0.3950 or 39.5
2062/063	351.00	591.41	0.5935 or 59.35
2063/064	501.00	813.71	0.6157 or 61.57
2064/065	697.00	1204.42	0.5787 or 57.87
2065/066	901.00	2407.00	0.3743 or 37.43
Average Ratio (\bar{X})			0.5114 or 51.14
Standard Deviation (σ)			0.330
Coefficient of Variance (C.V)			64.70%

Source: Financial Statement of NIBL, From Appendix VI

Figure 4.6
Earning Per Share of NIBL



In the above chart from analysis of last 5 year data we can found that between 3 year EPS is high but first one year and last one have low EPS as a comparison to 5 year so bank should try to increase the EPS level. In average the EPS level is good.

The mean ratio and standard deviation of NIBL was 0.51 and 0.330 respectively. As concern with consistency, NIBL was unable to maintain the consistency, because higher C.V of 64.70% shows that the bank was not able to maintain its consistency.

4.1.7 Debt-Equity Ratio

This ratio shows the financial structure of bank. Banks used both Debt and Equity to finance the fund and proportion of funds used affect the profit of bank. The banks that used more Debt have to earn more profit because of interest bearing sources. So for the bank low Debt to Equity ratio is favorable.

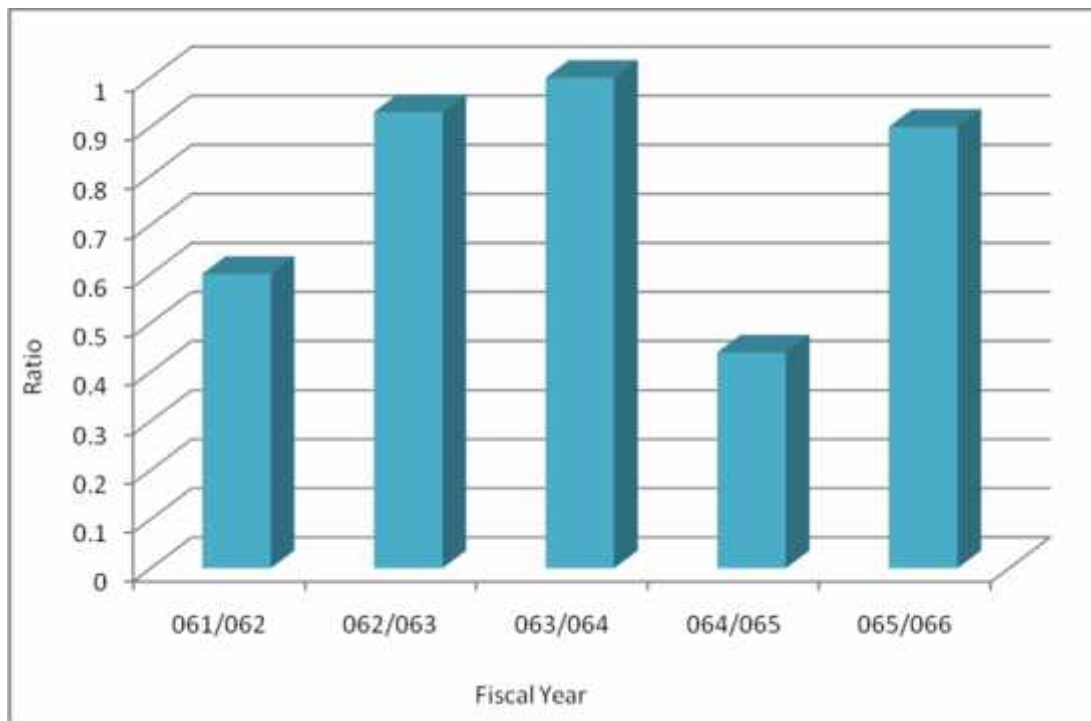
Table 4.7
Debt-Equity Ratio of NIBL

(Amount in '000')

Fiscal Year	Long Term Debt	Shareholder's Equity	Debt-Equity Ratio
2061/062	350.00	587	0.60
2062/063	550.00	590	0.93
2063/064	800.00	801	1.00
2064/065	1050.00	2407	0.44
2065/066	1088.00	1203	0.90
Average Ratio (\bar{X})			0.77
Standard deviation (σ)			0.21
Coefficient of Variance (C.V)			27.27%

Source: Financial Statement of NIBL, From Appendix VII

Figure 4.7
Debt –Equity Ratio



In the above table in every year bank used more equity than Debt either they are less different or more. But in year 063/064 they used Debt and Equity in

equal basis. So if we see the profitability position of bank in this year that would less in comparison to other because banks have to share their profit to pay interest. So here we would like to suggest to bank to use less Debt than Equity.

The mean ratio and standard deviation of NIBL was 0.77 and 0.21 respectively. As concern with consistency, NIBL was success to maintain the consistency, because lower C.V of 27.27% shows that the bank was able to maintain its consistency.

4.1.8 Interest Income to Total Income Ratio

Bank mobilizes their money to interest earned sector. The weighted of interest income shows the success of bank investment. It is the mirror of bank investment decision either it is right or wrong. And the interest income to total income ratio is the financial ratio which evaluate the bank's return on investment.

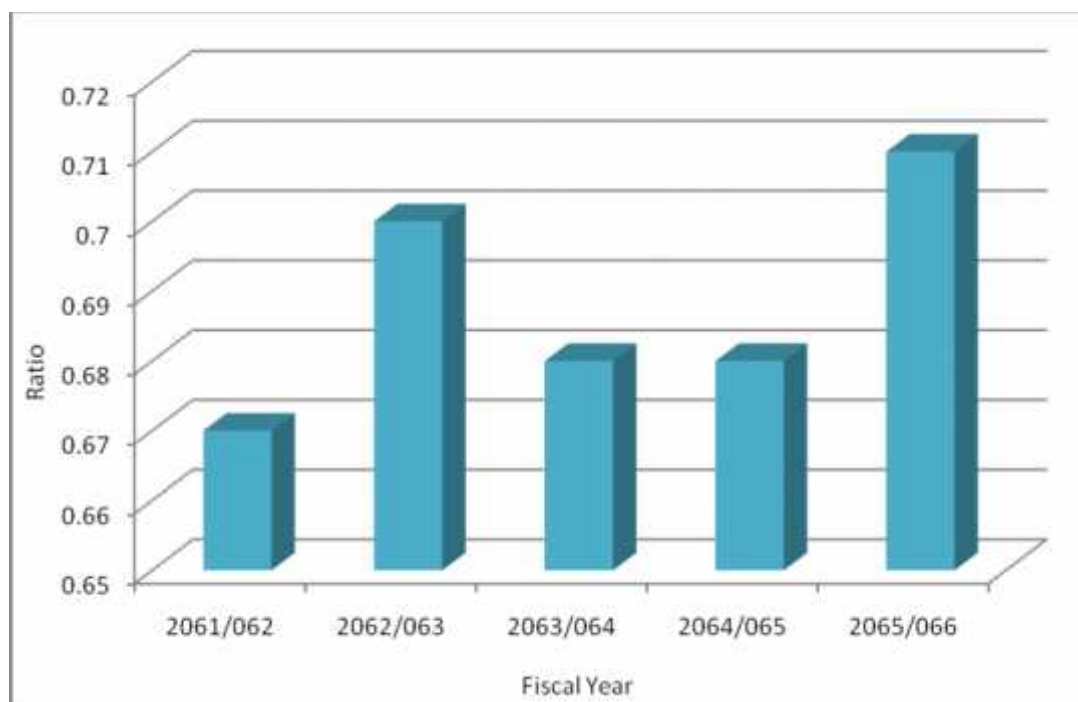
Table 4.8
Interest Income to Total Income Ratio

(Amount in '000')

Fiscal Year	Interest Income	Total Income	Interest Income to Total Income Ratio
2061/062	532.25	791.08	0.67
2062/063	681.79	970.48	0.7
2063/064	899.46	1314.23	0.68
2064/065	1202.12	1758.25	0.68
2065/066	1580.97	2234.27	0.71
Average Ratio (\bar{X})			0.69
Standard deviation (σ)			0.01288
Coefficient of Variance (C.V)			1.86%

Source: Financial Statement of NIBL, From Appendix VIII

Figure 4.8
Interest Income to Total Income Ratio



In the above table we calculate the interest income to total income ratio. Higher the ratio shows success of bank and low ratio is the symbol of failure of bank. So from the above calculation we can found bank's average ratio is above 0.50 it means role of interest income or interest bearing investment is more than 50% in total income which is good. In the view of investment decision of bank among the 5 year survey we can found in year 065/066 banks have more interest income as per to others year data. May be in this year bank has invest in profitable sector and good environment of the country makes bank to have investable sector. So now bank have to invest or search the other interest-earning sector to have more interest income.

The mean ratio and standard deviation of NIBL was 0.69 and 0.01288 respectively. As concern with consistency, NIBL was success to maintain the consistency, because lower C.V of 1.86% shows that the bank was able to maintain its consistency.

4.1.9 Debt-Assets Ratio

Banks arrange funds by debts and equity to have an asset. Debt to assets ratio refers to the assets manages through debt. If the bank uses a lot of debt to finance, a bank should earn more profit to meet the interest, generate by debt. If bank cannot have, so much earning more than interest bank will fall in loss and it reduces the profit .So high debt-asset ratio is not a beneficiary to bank.

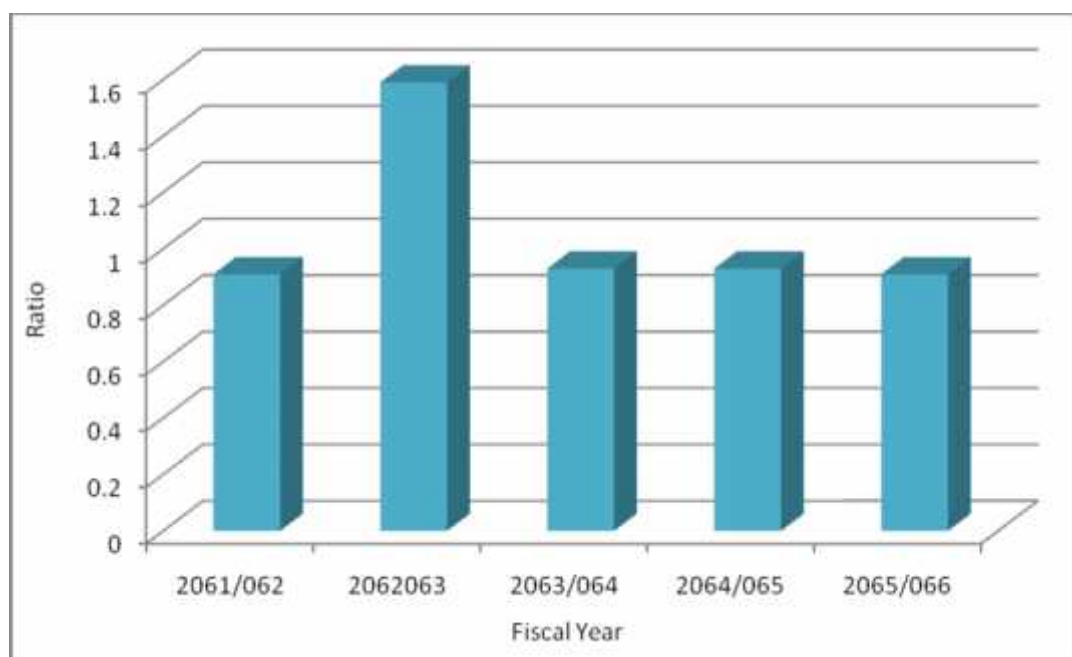
Table 4.9
Debt-Assets Ratio

(Amount in '000')

Fiscal Year	Total Debt	Total Assets	Debt-Assets Ratio
2061/062	14955.00	16390.00	0.91
2062063	34633.00	21732.00	1.59
2063/064	26090.00	28073.00	0.93
2064/065	36553.00	39405.00	0.93
2065/066	48990.00	53596.00	0.91
Average Ratio (\bar{X})			1.06
Standard deviation (σ)			0.269
Coefficient of Variance (C.V)			25.37%

Source: Financial Statement of NIBL, From Appendix IX

Figure 4.9
Debt-Assets Ratio



In the above table in all 4 year bank use less than 1 Debt to finance Assets but in year 061/062 bank use more Debt and in Average bank use more debt to finance assets that is 1.06 which is not good. So I would like to suggest to banker to use less debt to finance the budget or they can use the debt which bear less interest.

The mean ratio and standard deviation of NIBL was 1.06 and 0.269 respectively. As concern with consistency, NIBL was success to maintain the consistency, because lower C.V of 25.37% shows that the bank was able to maintain its consistency.

4.1.10 Operating Expenses to Total Income Ratio

Operating expenses is the expenses occurred from running of organization. It occurred for operation of organization. It occupies more parts in total expenses and deducts the total income.

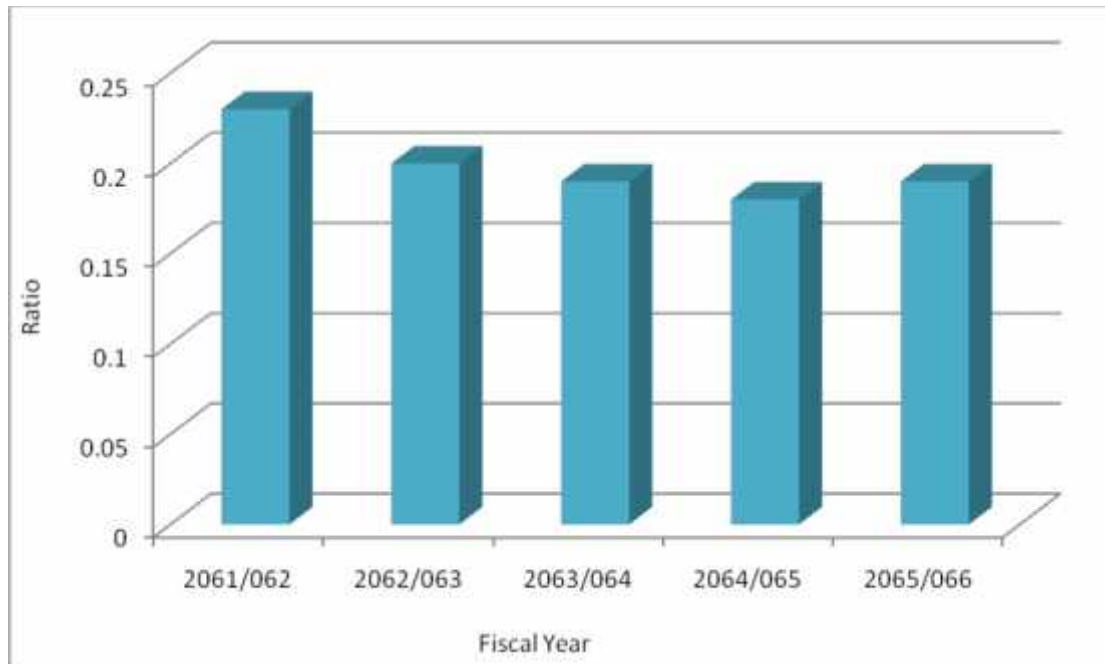
Table 4.10
Operating Expenses to Total Income Ratio

(Amount in '000')

Fiscal Year	Operating Expenses	Total Income	Operating Expenses to Total Income Ratio
2061/062	182.92	791.08	0.23
2062/063	190.6	970.48	0.20
2063/064	243.43	1314.23	0.19
2064/065	313.15	1758.25	0.18
2065/066	413.88	2234.27	0.19
Average Ratio (\bar{X})			0.20
Standard deviation (σ)			0.0194
Coefficient of Variance (C.V)			9.7%

Source: Financial Statement of NIBL, From Appendix X

Figure 4.10
Operating Expenses to Total Income Ratio



In the above table we can find that operating expenses to total income ratio is in decreasing trend. Sometimes it is increasing but that is in fewer amounts. We can see that in year 061/062 the ratio is 0.23 which is downed to 0.19 in year 065/066. Bank should try to deduct the operating expenses but the working capacity shouldn't be hamper.

The mean ratio and standard deviation of NIBL was 0.20 and 0.0194 respectively. As concern with consistency, NIBL was not success to maintain the consistency, because lower the C.V of 9.7% shows that the bank was able to maintain its consistency.

4.1.11 Interest Coverage Ratio

Interest coverage ratio deals with the portion of interest paid through EBIT. As the higher interest coverage ratio shows that bank has paid more interest and bank has arranged funds in loan. And bank's profit has decreased by interest

payable. The interest coverage ratio has calculated in below table no 11 by dividing EBIT by Interest.

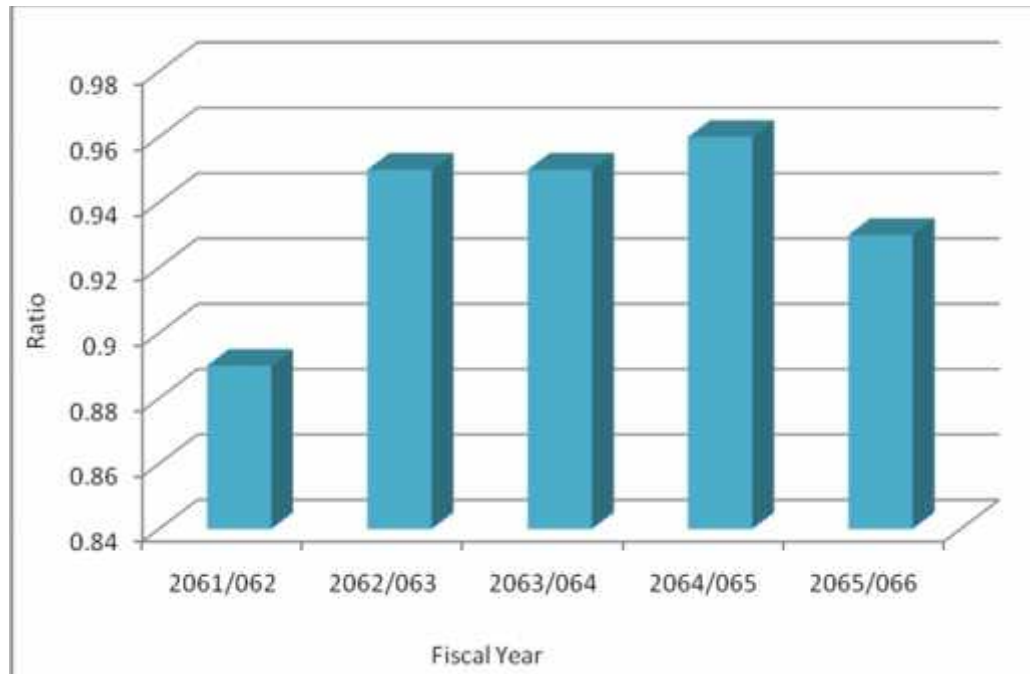
Table 4.11
Interest Coverage Ratio

(Amount in '000')

Fiscal Year	EBIT	Interest	Interest Coverage Ratio
2061/062	474.00	532.00	0.89
2062/063	648.00	681.00	0.95
2063/064	857.00	899.00	0.95
2064/065	1149.00	1202.00	0.96
2065/066	1477.00	1580.00	0.93
Average Ratio (\bar{X})			0.94
Standard deviation (σ)			0.0245
Coefficient of Variance (C.V)			2.61%

Source: Financial Statement of NIBL, From Appendix XI

Figure 4.11
Interest Coverage Ratio



Higher the ratio less will be interest and less ratio denotes the high interest. So the higher ratio will be beneficiary to the bank. From the above analysis we can see in the all year the ratio is higher than 0.50% which is good for organization

and average ratio is 0.94 that is good and in yearly basis this ratio is in decreasing trend in year 061/062 it is 0.89 in year 062/063, 063/064, 064/065, 065/066 respectively 0.95, 0.95, 0.96, 0.93 and 0.94.

The mean ratio and standard deviation of NIBL was 0.94 and 0.0245 respectively. As concern with consistency, NIBL was success to maintain the consistency, because lower C.V of 2.61% shows that the bank was able to maintain its consistency.

4.2 Statistical Tools

The statistical tool that has been used for the financial analysis of Nepal Investment Bank is correlation. The term correlation indicates the relationship between two such variables in which change in the values in one variable, the values of the other variable also change. The correlation analysis refers the closeness of the relationship between the variables. Among the various types of correlation the positive and negative correlation has been deal for the study. If the both series move in the save direction and the variations are proportionate there would be perfect positive correlation between them. On the other hand, the two series move in a reverse directions, and the variations in their values are proportionate, it is an example of perfect negative correlation. It is also likely that there may be no relationship between the variation of the two series in such a case there is a no correlation between them. In the study the correlation of deposit & loans and advances and net worth and total assets has been analyzed.

4.2.1 Correlation Coefficient Analysis

a. Correlation of Total Deposits and Loans and Advances

The basic foundation of the financial Institution is deposit that comes from the general public and business houses. Deposits are the major source of the fund for the investment in the form of loans and advances. Here the attempt has

been made to know how far deposit, loans, and advances are correlated. This is shown in below table 4.12 (see in Appendix XII).

Table 4.12
Correlation of Total Deposits and Loans and Advances

Particular	r	P.Er.	6*P.Er.	Remarks
NIBL	0.998	0.996	0.0072	$r > 6P.Er.$

Source: Appendix XII

Since value of $r = 0.998$ which is greater than $6PE$ 0.0072 the co-efficient of correlation between Total Deposits and Loan and Advance is positive and significant. So it has move in same direction.

From this analysis, if total deposit was increase than loan and advances will increase and vice versa (Appendix XII). Here, the calculated P.E.r is 0.996. Since correlation (r) is more than more than 6 P.E.r, so it was considered as significant. Hence we can conclude that there is highly positive correlation between total deposits and loans & advances of Nepal Investment Bank.

b. Correlation Coefficient between Net worth and Total Assets

Net worth is the sum total of paid up capital, general reserve and inappropriate profit. Total assets includes the items like current assets, investment, loans and advances fixed assets other assets, expenses written off and profit and loss account. Here the attempt has been made to know how far net worth and total assets are correlated. This is shown in table 4.13 (see in Appendix XIII).

Table 4.13
Correlation between Net worth and Total Assets

Particular	r	P.Er.	6*P.Er.	Remarks
NIBL	0.99	0.006	0.036	$r > 6P.Er.$

Source: Appendix XIII

Since value of $r = 0.99$ which is greater than $6PE\ 0.036$ the co-efficient of correlation between net worth and total assets was positive and significant. So it has move in same direction.

From this analysis, if net worth was increase than total assets was also increased and vice versa (Appendix XIII). Here, the calculated P.E.r is 0.006. Since correlation (r) is more than more than 6 P.E.r, so it was considered as significant. Hence we can conclude that there is highly positive correlation between net worth and total assets of Nepal Investment Bank.

c. Correlation Coefficient between Total Deposit and Investment

This ratio indicates the proportion of deposits utilized for the purpose of income generation. A high ratio indicates the success to mobilize deposits in investment and vice-versa. Here we are trying to examine the correlation between total deposit and investment. This is shown in table 4.14 (See in Appendix XIV).

Table 4.14
Correlation between Total Deposit and Investment

Particular	r	P.Er.	6*P.Er.	Remarks
NIBL	0.84	0.089	0.534	$r > 6P.Er.$

Source: Appendix XIV

Since value of $r = 0.84$ which is greater than $6PE\ 0.534$ the co-efficient of correlation between total deposit and investment is positive and significant. So it has move in same direction.

From this analysis, if total deposit was increase than investment increase and vice versa (Appendix XIV). Here, the calculated P.E. is 0.089. Since correlation (r) is more than more than 6 P.E.r, so it was considered as significant. Hence we can conclude that there is highly positive correlation between total deposits and investment of Nepal Investment Bank.

d. Correlation Coefficient between NPAT and Total Income

NPAT is the Net profits after all expenses and taxes are paid. Many people refer to this line item as the "bottom line," since it appears at the end of the Income Statement. And Total income includes interest income and non interest income. Here we are trying to examine the correlation between NPAT and Total Income. This is shown in table 4.15 (See in Appendix XV).

Table 4.15
Correlation between NPAT and Total Income

Particular	r	P.Er.	6*P.Er.	Remarks
NIBL	0.99	0.006	0.036	$r > 6P.Er..$

Source: Appendix XV

Since value of $r = 0.99$ which is greater than $6PE\ 0.036$ the co-efficient of correlation between net profit after tax and total income is positive and significant. So it has move in same direction.

From this analysis, if net profit after tax is increase than total income will increase and vice versa (Appendix XV). Here, the calculated P.E.r is 0.006. Since correlation (r) is more than more than 6 P.E.r, so it was considered as significant. Hence we can conclude that there is highly positive correlation between net profit after tax and total income of Nepal Investment Bank.

e. Correlation Coefficient between NPAT and Total Investment

We already talked about NPAT so Total investment is the altogether value of investment in all sector. So here we are going to examine the correlation between NPAT and Total Investment. This is shown in below table 4.16 (See in Appendix XVI).

Table 4.16
Correlation between NPAT and Total Investment

Particular	r	P.Er.	6*P.Er.	Remarks
NIBL	0.89	0.063	0.378	$r > 6P.Er.$

Source: Appendix XVI

Since value of $r = 0.89$ which is greater than $6PE\ 0.378$ the co-efficient of correlation between NPAT and total investment is positive and significant. So it has move in same direction.

From this analysis, if NPAT is increase than total investment will increase and vice versa (Appendix XVI). Here, the calculated P.E.r is 0.063. Since correlation (r) is more than more than 6 P.E.r, so it was considered as significant. Hence we can conclude that there is highly positive correlation between NPAT and total investment of Nepal Investment Bank.

4.2.2 Trend Analysis

Trend Analysis is a statistical device with the help of estimate or prediction of the unknown value of one variable from the known value of other variable. It is one of the scientific techniques and is considered as a useful tool for determining the variable. This tool has been employed for the study purpose. It helps in find out the trend of different variables. For the analysis here divided the trend analysis into past and future trend.

a. Trend Analysis of Total Deposit

Deposits are collected from general public and provided loans to the general public as well. If deposits are utilized properly it will increase the profit of the bank. This analysis helps to find out trend of deposit.

Deposit = y

Time (year) = x

Using least square equation,

$$Y=27764+8041X$$

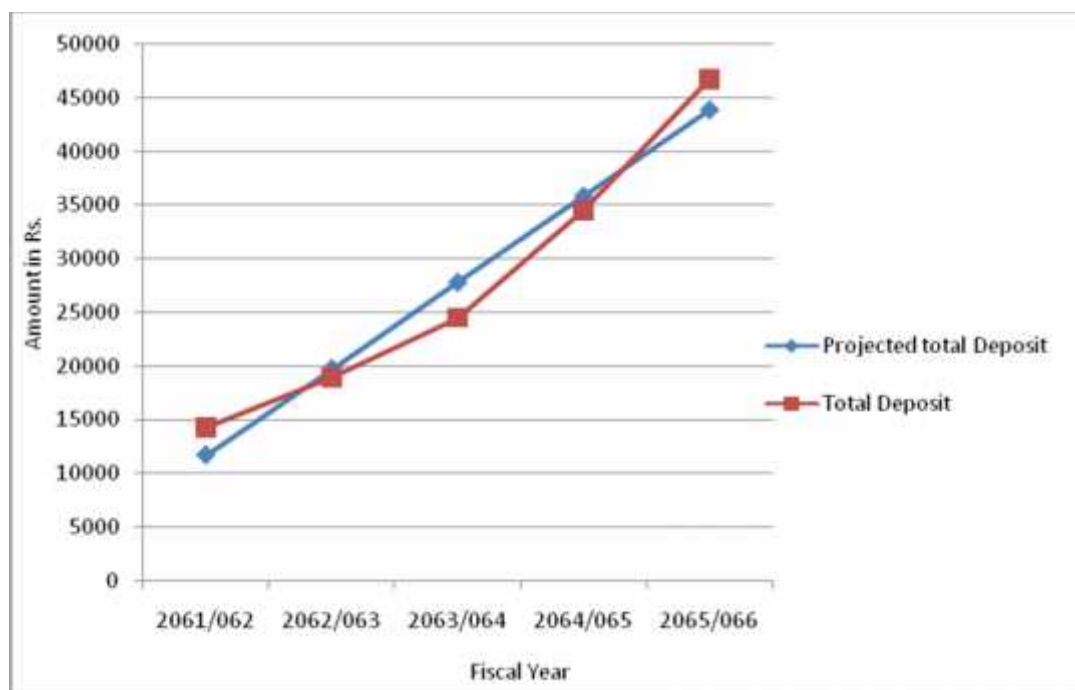
According to this equation trend of deposit indicated that deposits (y) are increasing every year by Rs.8041 million in average. Any change on time in year (x) period will change or increase the deposit by Rs.8041 million. So from this equation we have projected the total deposit of 5 year from 061/062 to 065/066 so let's analyze our projected value with real one total deposit of NIBL on the table 4.17 (See in Appendix XVII).

Table 4.17
Comparative Analysis of Trend Value of Total Deposit
 (Amount in '000')

Fiscal Year	Trend Value($Y_c = a + bX$)	Total Deposit
2061/062	11682	14255
2062/063	19723	18927
2063/064	27764	24489
2064/065	35805	34451
2065/066	43846	46698

Source: Appendix XVII

Figure 4.12
Comparative Analysis of Trend Value of Total Deposit



The above table and figure shows that the projected total deposits and real total deposit of NIBL bank were slightly matching but in last year 065/066 that is

vast difference between our total deposit and projected total deposit. From the above analysis of 5 year period we can say from the study of past performance we can make forecast the future because just one year is totally wrong but in other year it is matched so let's predict the future of Nepal Investment bank. The trend analysis of several year from 2062 to 2071. Which are given in below or table 4.18.

Table 4.18
Future Trend Analysis of Total Deposit

(Amount in '000')

Year	Trend Value ($Y_c = a + bX$) $Y_c = 27764 + 8041X$
2062	11682
2063	19723
2064	27764
2065	35805
2066	43846
2067	51887
2068	59928
2069	67969
2070	76010
2071	84051

Source: Appendix XVII

The above figure shows the trend value of the Total Deposit for next 5 year. Because of the good condition of bank the trend line of NIBL is upward. This is good symbol for bank because it attracts to rational investor and depositor in bank

b. Trend Analysis of Loan & Advances

Loan and advance are the main sector of mobilizing collected deposit. Increase in loan and advance may increase on return from them. This analysis helps to find out trend of Loan and advances.

Loan and Advanced =Y

Time in year =X

By using least square method,

$$Y = 21151.342 + 6709.883X$$

Trend analysis shows that loan and advances (y) are increasing every year by Rs. 6709.883 Million in average. Any change in year or time (x) will change loan and advance (y) by Rs. 6709.883 Million. The trend of loan and advance of NIBL was presented as table below (See in Appendix XVIII).

Table 4.19

Comparative Analysis of Trend Value of Loan and Advance

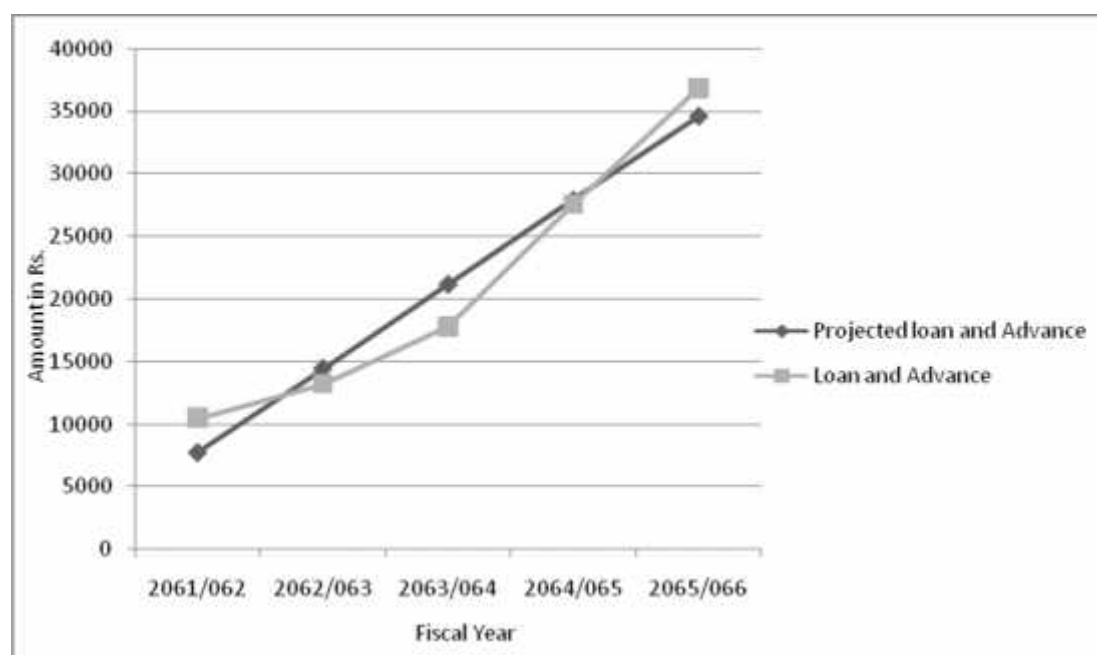
(Amount in '000')

Fiscal Year	Trend Value($Y_c = a + bX$)	Real Loan and Advance
2061/062	7731.576	10453.16
2062/063	14441.459	13178.15
2063/064	21151.342	17769.10
2064/065	27861.225	27529.30
2065/066	34571.108	36827.00

Source: Appendix XVIII

Figure 4.13

Comparative Analysis of Trend Value of Loan and Advance



The above table and figure shows that the projected Total Loan and Advance and Real Loan and Advance of NIBL bank were slightly matching between our total Loan and advance and projected total Loan and advance. From the above analysis of 5 year period we can say from the study of past performance we can make forecast the future because our prediction is near about to matched so let's predict the future of Nepal Investment bank. The trend analysis of several years from 2062 to 2071 which are given in below or table 4.20.

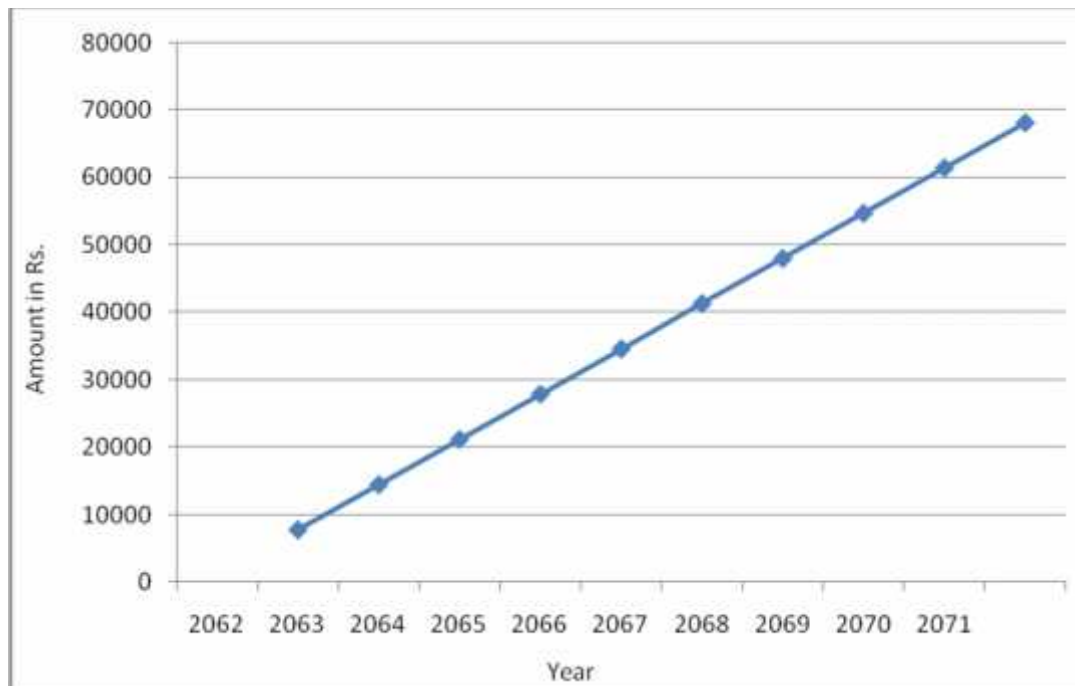
Table 4.20
Future Trend Analysis of Loan and Advance

(Amount in '000')

Year	Trend Value ($Y_c = +bX$) $Y_c = 21151.342 + 6709.883X$
2062	7731.576
2063	14441.459
2064	21151.342
2065	27861.225
2066	34571.108
2067	41281.00
2068	47990.87
2069	54700.75
2070	61410.64
2071	68120.523

Source: Appendix XVIII

Figure 4.14
Future Trend Analysis of Loan and Advance



The above figure shows the trend value of the Total Loan and Advance for next 5 year. Because of the good condition of bank the trend line of NIBL is upward. This is good symbol for bank because it attracts to rational investor and Customer of bank.

d. Trend Analysis of Non –Performing Assets

Non-performing assets, also called non-performing loans, are loans, made by a bank or finance company, on which repayments or interest payments are not being made on time.

A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments than a bank makes its profits.

Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time a loan is classified as past due. Once

a payment becomes really late (usually 90 days) the loan classified as non-performing.

A high level of non-performing assets compared to similar lenders may be a sign of problems, as may a sudden increase. However, this needs to be looked at in the context of the type of lending being done. Some banks lend to higher risk customers than others and therefore tend to have a higher proportion of non-performing debt, but will make up for this by charging borrowers higher interest rates, A mortgage lender will almost certainly have lower non-performing assets than a credit card specialist, but the latter will have higher spreads and may well make a bigger profit on the same assets, even if it eventually has to write off the non-performing loans. Trend analysis of NPA shows the increasing and decreasing trend of NPA with time period.

NPA =Y

Time in year =X

By using least square method,

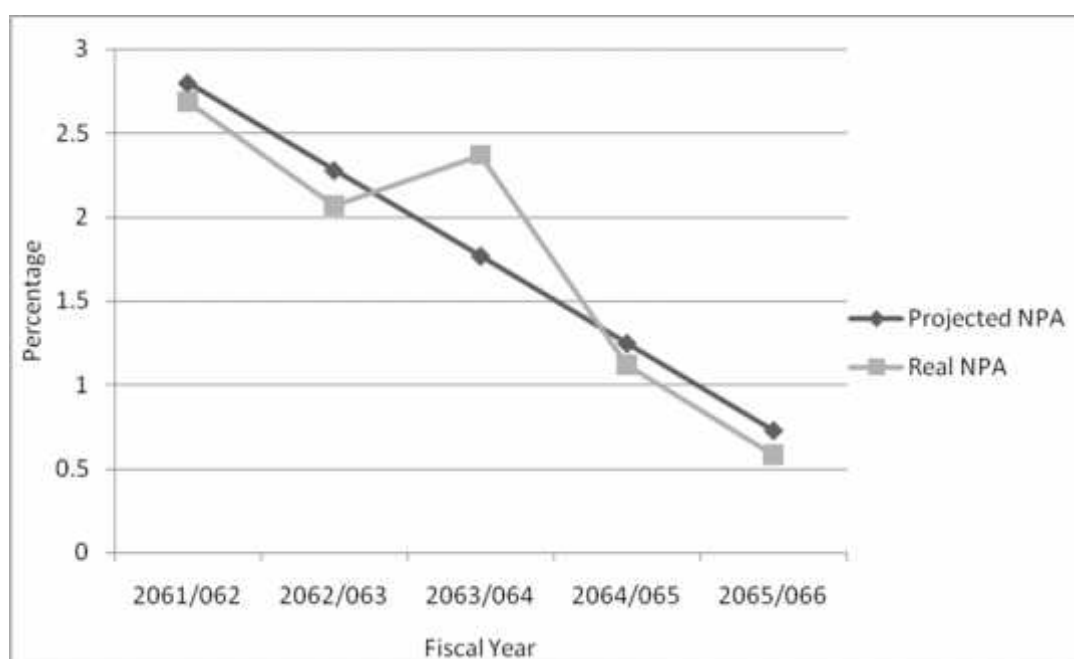
$$Y= 1.77-0.517X$$

Trend analysis shows that NPA (y) are decreasing every year by Rs. 0.517 in average. Any change in year or time (x) will change NPA (y) by 0.517. The trend of NPA of NIBL was presented as table below. (See in Appendix no. 19) In case of Nepal Investment bank let's compare the Real NPA with projected NPA from Trend analysis whether it gives true value or not. This is presented in below table 4.21 (See in Appendix XIX).

Table 4.21**Comparative Analysis of Trend Value of NPA with Real NPA**

(In '%')

Year	Trend Value ($Y_c = a + bX$)	Real NPA
2061/062	2.8	2.69
2062/063	2.28	2.07
2063/064	1.77	2.37
2064/065	1.25	1.12
2065/066	0.73	0.58

*Source: Appendix XIX***Figure 4.15****Comparative Analysis of Trend Value of NPA with Real NPA**

The above table and figure shows that the projected Total NPA and Real NPA of NIBL bank were matching between our total NPA and projected NPA. From the above analysis of 5 year period we can say from the study of past performance we can make forecast the future because our prediction is near about to matched so let's predict the future of Nepal Investment bank. The trend analysis of several years from 2062 to 2071 which is given in below or table 4.22.

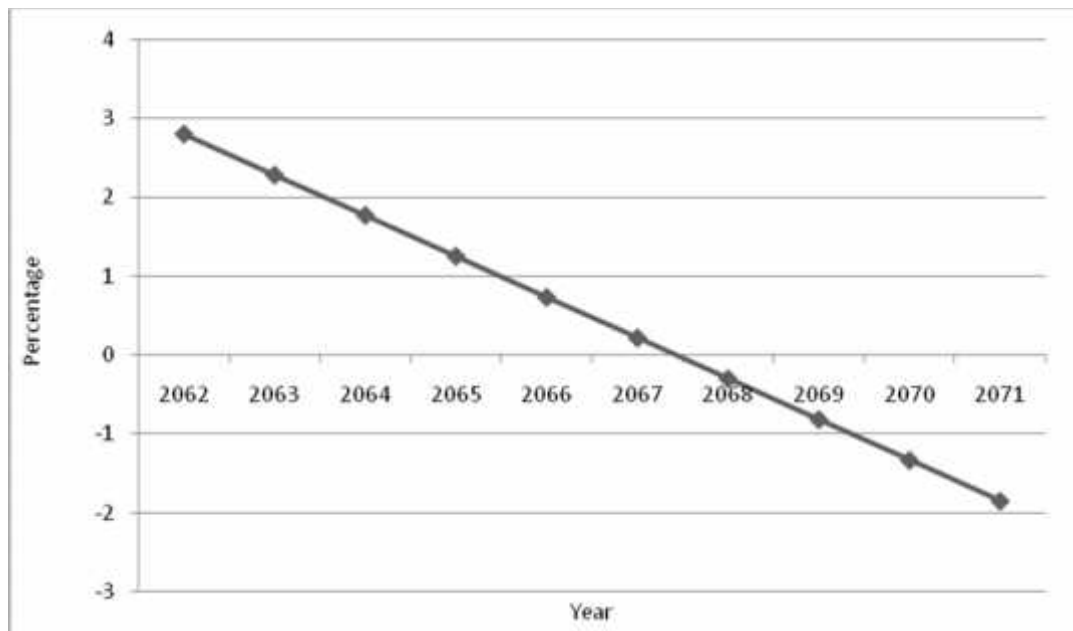
Table 4.22
Future Trend Analysis of NPA

(In %)

Year	Trend Value ($Y_c = a + bX$)
2062	2.8
2063	2.28
2064	1.77
2065	1.25
2066	0.73
2067	0.215
2068	-0.302
2069	-0.819
2070	-1.336
2071	-1.853

Source: Appendix XIX

Figure 4.16
Future Trend Analysis of NPA



In the above figure, we can find that as a year past the NPA of bank is in decreasing trend so it is good for bank that their investment will not converted to Non Performing Assets.

Table 4.23
Income Analysis

(In ‘000’)

Fiscal Year	2061/062	2062/063	2063/064	2064/065	2065/066
Interest Income	769195.00	964689.00	1302122.00	1907261.00	2906055.00
	67.14%	66.01%	65.11%	69.34%	52.00%
Other Income	117605.00	208053.00	282865.00	287014.00	361886.00
	10.27%	14.24%	14.14%	10.44%	6.48%
Exchange Income	102518.00	125747.00	135355.00	165839.00	1853027.00
	8.95%	8.60%	6.77%	6.03%	3.316%
Commission	93551.00	115942.00	163899.00	215292.00	262792.00
	8.17%	7.93%	8.20%	7.83%	4.70%
Other Operational Income	56567.00	46607.00	114096.00	167953.00	202228.00
	4.94%	3.19%	5.71%	6.11%	3.62%
Non Operational Income	6192.00	391.00	1426.00	7048.00	2953.00
	0.54%	0.03%	0.07%	0.26%	0.05%
Total	1145628.00	1461429.00	1999763.00	2750407.00	5588941.00

Interest Income

Interest income is the main source of commercial banks. These banks charge interest on loans and advance provided by them. Interest income also includes interest earned from investment in government securities, interest on balance with others banks, money at call and inter bank lending.

The above table shows that interest income of NIBL were 67.14%, 66.01%, 65.11%, 69.34% and 52.00% in the respective year of the study period. The interest incomes of the banks Interest income occupied the large portion in the total income of the bank. It seems to cover fourth sixth of the total income all the time. The highest rate of income from interest received indicates the better operating efficiency of bank.

Exchange Income

Transaction of foreign currency is one of the major functions of commercial bank. Commercial banks can purchase and sell foreign currencies under the NRB direction. It includes trading gain due to fluctuating in the exchange rate. The above table shows that exchange incomes of NIBL were 8.95%, 8.60%, 6.77%, 6.03%, and 3.316% of total income in the respective year of the period study. NIBL had highest income from exchange of 8.95% in 2061/062 and lowest exchange of 3.316% in 2065/066.

Other Income

Income other than above comes under other incomes. Other income of banks includes safe deposit vault rental income, Telex/ T.T charges and other services. The above shows that other income of NIBL were 10.27%, 14.24%, 14.14%, 10.44% and 6.48% of total income in the respective year of the study period. NIBL had highest percentage in other income in 2062/063 and lowest in 2065/066.

Commission and Discount

Banks provide remittance facility, purchase and discount of bills exchange, letter of credit, guarantees, standing instructions, agency functions for which they charge in form of commission and discount. The above table shows that the commission and discount earned by NIBL in the respective year of the study remained 8.17%, 7.93%, 8.20%, 7.83%, and 4.70% respectively. NIBL had highest percentage in 2063/064 which was 8.20% and lowest in 2065/066 which was 4.70%.

Expenditure Analysis

Various expenses are borne by banks in course of granting services to its customers. Banks need to pay interest for the deposits and borrowings. It has to pay salaries and provide other facilities to its staffs. It also has to spend significant amount for day to day operation.

Table 4.24
Expenditure Analysis

(In '000')

Fiscal Year	2061/062	2062/063	2063/064	2064/065	2065/066
Interest Expenses	354549.00 52.80%	490947.00 57.58%	685530.00 59.78%	992158.00 62.23%	1686973.00 68.68%
Operational Expenses	182915.00 27.24%	190605.00 22.35%	243431.00 21.23%	313154.00 19.64%	413884.00 16.85%
Staff Bonus	37075.00 5.52%	50491.00 5.92%	72338.00 6.31%	101996.00 6.40%	129860.00 5.29%
Staff Expenses	97004.00 14.44%	120664.00 14.15%	145371.00 12.68%	187150.00 11.74%	225721.00 9.19%
Total	671543.00	852707.00	1146670.00	1594458.00	2456438.00

Interest Expenses

Commercial banks pay interest on various types of deposits and loan taken from other banks and financial institution. It is the major part of the bank's expenses. The above table shows that the interest expenses of NIBL were 52.80%, 57.58%, 59.78%, 62.23% and 68.68% of total expenses in respective study period. NIBL had in increasing trend in the study period. The high rate of expense in interest indicates that the bank has collected more deposits. Thus, NIBL had collected more deposits. Because its interest expenses is more than 50%

Operating Expenses

Considerable amount is spent in routine work of bank. Operating expenses includes expenses such as rent, water and electricity, repair and maintenance, insurance premium, postage, telephone, telex, office equipment, traveling expenses, painting and stationary, newspaper, advertisement, meeting expenses, depreciation, amortization, security, etc.

The above table shows that the Operating expenses of NIBL were 27.24%, 22.35%, 21.23%, 19.64% and 16.85% of total expenses in respective study period the overhead expenses of NIBL were in decreasing trend.

Staff Expenses

In return, of the services provided by the staff they need to be paid remuneration. Staff expenses include salary, allowances, PF contributions, training expenses, uniform, medical allowances, insurance, gratuity, dhashian allowances and leave encashment. The above table shows that the staff expenses of NIBL were 14.44%, 14.15%, 12.68%, 11.74% and 9.19% of total expenses in respective study period.. The staff expenses of NIBL were in decreasing trend as well as their percentage in total expenses.

Bonus Facility

Banks pay a portion of profit to the staff as bonus that is reward for their services. It motivates the staff but it also increases the expenses of the bank.

The above table shows that bonus facilities of NIBL were 5.52%, 5.92%, 6.31%, 6.40% and 5.29% of total expenses.

NIBL had highest bonus facilities with respect to total expenses in 2064/065 with 6.40

4.3 Major Findings

From the financial analysis we have present the findings of analysis, which shows that:

-) The current ratio analysis of the bank over the five years period indicates that the bank has been able to meet its short-term obligations and is in sound liquidity position. Because the average current ratio is 1.07 which is between the standard ratio. In every year the current ratio is above 1 i.e. in year 061/062 to 065/066 the current ratio is respectively 1.08, 1.09, 1.07, 1.06 and 1.07.
-) The cash and bank balance to total deposit ratio is less. Because the average cash and bank balance to total deposit ratio is 2.72 and in yearly from 061/062 to 065/066 is respectively 0.09,0.12,0.10,0.11and 0.17

- J) Return on Total assets of NIBL bank is good as I compare to previous researcher finding of other commercial bank i.e. Shrestha Amar Kumar, 2007 financial performance of commercial bank with reference to Machapuchhre bank and Nepal Bangladesh Bank Mean ratio of Return on Total assets of NBBL is (1.11) and MBL is 0.19 and the average ratio of NIBL is 1.65 and in year wise from 061/062 to 065/066 it is 1.41, 1.62, 1.78, 1.77, and 1.68. Its C.V is 8.13% which reflects that the variability of the return on total assets is less means Return on Total Assets is stable.
- J) Return on Investment of NIBL is good. Because the average ratio of Return on Investment is 8.30 which is good. And its variability is slightly high as compare to return on total assets because C.V of Return on Total Assets is 8.13 % and C.V of Return on Total Investment is 29.85% because Return on Investment is in increasing trend. And the return on total assets is less because bank has not invest in Assets which control to volatility of assets it makes stable to Return on Assets.
- J) Return on Shareholders Equity of NIBL is good. Because the average ratio of Return on Shareholders Equity is 24.03% and the Return on Shareholders Equity from year 061/062 to 065/066 is 19.66, 24.81, 26.68, 25.95 and 23.06 and the variability of Return on shareholders is not so big its increasing in same-same rate so its C.V is 10.19%
- J) EPS of NIBL bank is good. Because the Average EPS is more than 50 and from year 061/062 to 065/066 it is 39.5, 59.35, 61.57, 57.87 and 37.43 and the variability of EPS is high as per we see the increasing and decreasing trend of EPS which is says by C.V of 64.70 %
- J) Debt to Equity ratio of bank is not so good. It should be less because as a less used of Debt that is good but in this calculation of Debt to Equity Ratio of NIBL we get the average ratio is more than 50 that is 0.77 and from year 061/062 to 065/066 it is 0.60, 0.93, 1.00, 0.44, and 0.90 and variability of debt to equity ratio which shows through C.V is only 27.27. It means the variability as seen from 5 year says that NIBL has used in same ratio of debt to equity Ratio.

-) Operating Expenses to Total Income is not so bad because operating cost is also should take place. As NIBL has spend 20% for operating expenses from total income is good and variability is not occur as C.V is only 9.7%
-) Interest coverage ratio and Interest Income to Total Income is good but bank's Debt to Total Assets should decrease
-) Statistical analysis made for this performance evaluation of NIBL bank shows that all the variables which is study under this analysis are positively correlated with one another as time passed ie Correlation of Total Deposit and Loan and Advance is 0.998, NPAT and Total Income is 0.99, NPAT and Total Investment 0.89, Total Deposit and Investment 0.84 and Net worth and Total Assets 0.99
-) Interest Income is more high than interest expenses so it shows that bank has earn more from investment giving interest. Which is good for bank
-) Operating expenses and Staff expenses is in decreasing and Interest expenses and Bonus facility is increasing it means bank is deducting their expenses but they are still trying to motivate to staff through Bonus
-) The trend of Total Deposit, Loan and advance is upward so bank is secure till year 2071 from my analysis and as a NPA is downward it shows the good symbol in minimization of risk against investment

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A bank is a business which provides financial services, usually for profit a commercial bank accepts deposits from customers and in turn makes loans based on those deposits. Traditional banking services include receiving deposits of money, lending money and processing transactions. Some banks (called Banks of issue) issue banknotes as legal tender. Many banks offer ancillary financial services to make additional profit; for example: selling insurance products, investment products or stock broking. Currently in most jurisdictions commercial banks are regulated and require permission to operate Operational authority is granted by bank regulatory authorities and provide rights to conduct the most fundamental banking services such as accepting deposits and making loans. A commercial bank is usually defined as an institution that both accepts deposits and makes loans; there are also financial institutions that provide selected banking services without meeting the legal definition of a bank (see banking institutions). Banks have a long history, and have influenced economies and politics for centuries.

Among many of the commercial banks one joint venture bank have been chosen to evaluate its profitability position that is Nepal Investment Bank Ltd. NIBL is the first foreign bank operating in Nepal to collect scattered money from the public. Since the establishment in 2002, Nepal Investment Bank Ltd. has been serving by investing them on development of national economy. In the competitive market like of today; it has proved itself as the banking with a difference with use of the latest technology and great efforts. The main objective of this study is to know the actual profitability position of NIBL. This study has been conducted setting objectives to evaluate the trend and correlation of various items of the bank, to evaluate their liquidity asset

utilization, capital structure and profitability position and to recommend some measure, on the basis of analysis and findings for improvement in their future performance. Profitability Position is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the Balance Sheet and the Profit and Loss account. It includes the various types of ratio of last five years from fiscal year 2061/62 to 2065/66. The data for the analysis is taken from various publication of NIBL as well as publication of government and various types of magazines, bulletin etc. Limitation of the study can be said that only five year's trend is taken due to lack of space, time period and financial support comparative study is not done. In order to carry out this study, dates have been basically obtained by the secondary data as well as primary data. For the analysis and interpretation of the data, the financial tools statistical tools are used. Under financial analysis, various financial ration related to the profitability of commercial banks have been used and under statistical analysis, the trend analysis and co-efficient of correlation analysis have been used.

5.2 Conclusion

It can be concluded that the role of banking sector is very crucial in the total economy of the country. The proper operation of banking transaction in regular and systematic way results good to individuals and communities. In the operation of any bank, profitability position occupies important place and controls major part of banking activities. The observation and analysis of above data shows the same. Therefore, it is very important for the policy makers to adopt appropriate policy with calculated interest rate, so that, the large capital can be mastered at very low cost. It will encourage the industrial and commercial activities, eventually, leading to better economic growth, socio-economic development, employment opportunities etc.

NIBL is a foreign joint venture bank in Nepalese banking sector. As a commercial bank, NIBL plays vital and important role for the rise of economic development. Thus, the role of NIBL in commercial banking sector is

remarkable. While comparing this bank with other commercial banks; NIBL is found to be the large organization, fast growing , successful operating and properly collected deposit and utilization of the their fund. Its profitability position is satisfactory. Their contribution in national economy is outstanding. The management team of this bank is always hard for their better performance to introduce the bank as the best commercial bank in Nepal. It means the bank has good manpower and capital. NIBL has been utilizing the resources of the country and its people in the proper way by making all the policy properly. Being customer oriented, the bank has been provided various types of facilities to customers. So, it is trying to expand its branches and trying to reach every corner of the country. NIBL provides its service in rural areas too. Most of the branches are established in urban sector or area. In such a situation NIBL has to face many difficulties and situations remained to perform in future. NIBL has to face many challenges.

From the findings of the study, it has been concluded that profitability position of NIBL is good. Because in this economic condition of the country bank is possible to maintain its liquidity position although collection of deposit is decrease. Its profit is increasing gradually two years before but at now it is in decreasing way and it must maintain its high profit margin in future. Nepal Investment bank has maintained more liquidity that means Cash and bank balance to total deposit ratio, Cash and bank balance to current deposit ratio, fixed deposit to deposit ratio are more efficient in liquidity management of this year as compared to previous year. Therefore, NIBL has more chance to fulfill the demand of depositors. So, the liquidity ratio has been better as increased in current year than previous year. In this year Interest income to total income ratio is in better position than previous year because it is in increasing trend although the economic condition is not good. And the profitability ratio indicators Return on loan and advance, EPS, ROA is in decreasing and ROI, ROFA is quite in increasing trend. As a whole, Nepal Investment Bank's profitability position is enhancing.

The year 2065/066 is successful year for Nepal Investment Bank because bank got the good position from collection of Deposit, Loan and advance, profit and services although the big competition, Political instability.

5.3 Recommendations

After finishing, the entire study about the profitability position of NIBL along with the gathering of some valuable and timely suggestions and recommendations can be place forward, on the basis of findings and conclusion or literally their financial pictures, to overcome weaknesses and inefficiency and to improve present financial performance of the same.

-) Considering the present economic condition of the country, the bank should play vital roles for the economic development of the country. They should promote balanced regional development by financing funds in remote areas and other priority sectors. In that case, NIBL should give much priority in expanding its branches in the rural areas so that the people in the rural areas will also be able to have the facilities provided by the bank. It should open branches in order to income its transition and to provide financial services to more customers and for expansion of economic activities of NIBL, it should try to extend its commercial activities in near future. So, the bank should grab more opportunities as soon as possible by adopting efficient and latest marketing strategies.
-) Economic condition of the country is deteriorating; there is danger in slacking of the business and industrial activities. So, the bank should not be interested only in collecting huge amount of deposit by increasing the interest rate. The bank should develop is the fast services. Which will of course, encourage the people to deposit their money as well as they will be interested to take a loan. The bank should search out the new sectors of investments because only increase in deposits is meaningless. The increase in deposits should be related to the investment. The investment of this bank is not very excellent so, to achieve success it must mobilize its fund in various sectors, such as purchasing share and debentures of

other financial and nonfinancial company. Though cash and bank balance to total deposit and current deposit is better, the bank should maintain more cash and bank balance in time and the bank should maintain balance between the liquidity and profitability position.

- J The most important thing is that as a bank of prelate sector, NIBL cannot stop earning profit. So, it must increase its profitability. Thus, the bank is recommended to utilize its assets and shareholders' fund to profit generating purpose. The bank should increase the percentage of profit. In that case, the bank must adopt customer oriented new programs like bonus programs, special offers etc. High interest rate is tool to attract customers, but the bank should follow an ideal interest rate policy instructed by Nepal Rastra Bank's policy. Within the range of interest rate, a bank should be flexible enough to set the suitable interest rate to exist in competitive market. The cash deposited by the customers are liquid assets, which help to maintain adequate liquidity position of the bank.
- J NIBL should use the SWOT analysis effectively to find out the strengths, weakness, opportunities and threat and should try to eliminate all its weakness and take the opportunities for the future growth and development of the organization. The bank should follow the discipline and adopt direction of NRB. This helps to maintain harmonious relationship between other joint venture banks as well. The bank should persuade various kinds of welfare program for its staff and the society, excellent staff should be promoted in order to inspire, society welfare programs like sponsorship, giving funds etc. should be organized. So, the staff facilities should be increased in order to motivate them. This helps to earn goodwill of the bank. If Nepal Investment Bank follows those recommendations, it will satisfy customers as well as staff and it will increase its goodwill.

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