CHAPTER - I

INTRODUCTION

1.1 Background of the Study

For decades Nepalese banking sector comprised of few large government banks which provided only traditional banking services. During recent years this sector has undergone significant changes. Competition has intensified a lot. However due to conflict and security problems most of banks and financial institutions have been concentrated in few urban cities sharing same market segment and customers. This has led to congestion in the market.

At the same time real estate market has been in peak over a decade. Due to the stiff competitions and lucrative returns from real estate market most banks have pursued a risky strategy to increase lending in real estate market. Recently Central Bank of Nepal has come into action to control over lending by banks in risky real estate sector. Also for the first time Central Bank has changed rules and now it's possible for foreign bank to open branch in Nepal without joint venture. This has increased uncertainty in banking sector and adversely affected profitability of banks and their share prices.

Business analysis and financial performance analysis is the main quantitative and qualitative judgment process of identifying the strengths and weakness of the firm by properly established the relationship between the items of balance sheet, profit and loss account. Business analysis and financial performance analysis is an evaluation of both a firm's past business performance and its prospects for the future.

Financial status means financial position of the firm. Financial status and financial performance can be defined as the heart of financial decision. The achievement and development of a firm is fully affected by the financial status and performance. A quantitative judgment of the financial performance and financial position of the firm should be made from viewpoint of the firm's investment. Balance sheets, profit and loss account and the accompanying notes are the most widely aspects of financial statements of the banks. The bank's balance sheet includes financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets appear in small portion out of the total assets. Financial innovation, which are generally contingent in nature are consider as off balance sheet items. Interest received on loans, advance and investment and paid in deposit liabilities are major components of profit and loss account. The other sources of income are fee, commissions and discounts, foreign exchange income, dividends on investment, other service charges etc.

Business analysis helps us to identify the current situation and future prospective of the bank, this is quantitative as well as qualitative analysis. Quantitative analysis are as outset above and qualitative analysis can be done through PESTEL analysis, Porters Five forces model, SWOT analysis.

Profile of Nabil Bank

Nabil bank arrived in Nepal first as a paradigm establisher in the banking industry 27 years ago to look at banking from a customer service lens. Nabil bank have grown together with their customers and stakeholders. Nabil bank has always put in its focus a long term outlook for financial growth. We always care for total growth whether it comes to adding to their stockholders value or contribution in the national coffer and to their customers business prospects. The mantra of Nabil bank is to leverage proliferation of business, entrepreneurship and economic prosperity in the country through value creation in every sphere of life across all strata of the economy.

27 years ago Nabil bank pioneered professionalism in the banking industry in Nepal giving it a drive. Doubtless, there were banks in Nepal but a customer focused approach and philosophy commenced with Nabil bank. We set up a marketing department establishing an example that we care for our customers. Till then the practice was that the customers had to satisfy bankers and with Nabil bank's advent in the industry it took a new turnaround. The banker has to delight the customer first, not the other way around. That is how Nabil bank pillared its corporate culture over two and half decades ago. Now we proceed with the same culture, and now we call it Nab Culture. Nab Culture stands for Nabil bank's core values. Nabil bank's core values drive all its stakeholders to team up and work to co-create values through collaborative endeavors in the common interests of all. Nabil bank commenced operation in Nepal on the 12th of July 1984 partnering with Dubai Bank Ltd., through a Technical Service Agreement. Looking back upon a long stretch of time we have had a series of achievements to glory in. Difficulties and crises were there, unsurprisingly, yet Nabil saw a sea of opportunities and worked to cash in on them. Our inexorable endeavors and a clear vision seasoned and capacitated us to plough through some of the most testing moments.

Nabil bank in its endeavors to serve all, engineers products that goes across all socioeconomic stratums in the nation. To that end, it diversifies its products and services that promote industry, commerce and farming proliferating entrepreneurships and employments across different social segments. We are a bank that connects Nepal’s diverse socioeconomic and geographic segments and serve their different needs and expectations through our 49 points of representations. That makes Nabil bank a bank of all and for all.

The strategic intent of Nabil bank is to create values and economic opportunities across all the economic zones of the country and we at Nabil bank are architecting products and services to that end. Nabil bank collaborates with its stakeholders and strategic partners co-creating commonly gratifying each others' needs and expectations, thereby leveraging the opportunities in the nation for economic benefit of the country. Nabil bank today is a household name for quality banking; for safekeeping their hard earned moneys; for catering proficiently tailored loan-products for their diverse ends and intents. History speaks amply of what Nabil bank stands for the Nepalese people. We are here rooted for the long term – interests of all our stakeholders comprising investors, customers, the staff, the board, regulators or the common man in the community and we work towards designing products and services that create economic values going across all socioeconomic strata (Annual Report Nabil Bank, 2011).

In this context of increased competition and diminishing profitability this report will analyse business and financial performance of Nabil Bank over the duration of 5 years. Using research approach mentioned below.

1.2 Statement of the Problem

Availability of data is vital for conducting any research. In the Nepalese context it is really difficult to find sufficient data and information for research work. Banking sector however is heavily regulated and is required to disclose abundant financial information due to statutory requirements. Nabil bank is one of the established private bank which has performed exceptionally well in past years. So it was ideal entity for me to focus to see the effect of competition on its business and financial performance and the strategies it has pursued to maintain its superiority in market.

There is no doubt that the banks are indicators of development of the economy. The more numerous, varied, organized, geographically distributed and efficient the banks the more developed will be the financial infrastructure of the economy and the more economically advanced will be the economy. Banks not only promote production, capital accumulation and economic growth but also encourage savings by providing wide range of financial assets with attractive combination of income safety and yield to the general public.

Although our country in the recent years has numerous, varied, organized, geographically distributed and efficient banks, the pace of economic growth remain lower with low productivity, low capital accumulation. What inhibits the progress of banking in Nepal is a common question. The contributors of inhibiting the progress of banking in Nepal could be the following – political instability with lack of political commitment, institutional weakness, and inappropriate economic policy with legal obstacles, national constraints and erratic government intervention. Despite having the barriers mentioned above some banks in Nepal have managed to perform well in terms of work efficiency, profitability, liquidity and market position. However they are facing problems in generating an adequate return on their investment due to the small and too many players in the market.

Work efficiency, profitability, liquidity and market position shows the financial performance of the bank and the strong banks contribute to the national economy and also attract foreign investment. To sum up, this study deals with the following issue.

- What are the various factors that affect Nepalese banking sector and how do they affect the business environment on which Nabil Bank operates?
- How fierce is the competition in banking sector and how well Nabil Bank is placed?
- What do Nabil bank's financial ratios and information convey about the business and financial performance over five years?
- How well the bank's financial indicators measure with that of its close competitors over five years?

- What strategies have management of the bank pursued for the prosperous future of the bank?

1.3 Objectives of the Study

Performance analysis of an entity covers a vast area since it includes many factors ranging from qualitative to quantitative, financial to non-financial, internal to external, strategic to operational and a lot more. Taking into consideration of all these factors and dimensions would not be feasible for this report.

Hence the major focus is to analyze business and financial performance using quantitative financial factors as well as qualitative factors. However other factors will also be used wherever necessary for interpreting and understanding quantitative and qualitative financial information.

The major objectives of this project are as follows:

- To understand various factors that shape business environment of Nepalese banking sector, understand competitive rivalry and competitive position of Nabil Bank.
- To understand business and financial performance of Nabil Bank over five year period.
- To compare the major business and financial indicators of Nabil bank with its close competitors.
- To access effectiveness of its strategies for current turmoil and more uncertain future and make appropriate recommendations wherever necessary

1.4 Significance of the Study

A part from aiming to gain knowledge, research itself adds new to the existing literature. The significances of this study lays mainly in identifying problems or deteriorating financial institution with deficiencies in particular component areas.

Further, it assists in the aggregate strength, weakness, threat and opportunity of the financial industry. This study helps and justify for finding out the business analysis and financial performance of commercial bank and government of Nepal to make plan and policies. The present study will be more helpful to aware the stakeholders regarding business analysis and financial performance of their bank. Moreover the management of bank may also be benefited from this study. These study will be beneficial for finding out facts and figure that will be helpful for all those who are directly and indirectly involved with the bank.

1.5 Limitation of the Study

The limitations of the study are as follows:

- The study covers only the effect the business and financial position of Nabil Bank and its few ratio comparisons with Bank of Kathmandu and Everest Bank. .
- It does not deal with business and financial position of other banking sectors.
- The result of this study will be limited to the few commercial banks only.
- This study assumes that the individuals who respond to this survey are truthful.
- Since the data are mainly collected from the secondary source, the consistency of the findings is reliable upon the reliability of the secondary data and information.
- Only few financial institutions have been taken into consideration for this study.
- This study covers the data of only five years i.e. 2006/07 to 2010/11.

1.6 Organization of the Study

The study will be divided into the following chapters:

Chapter - I: Introduction

The first chapter would include the general introduction, statement of problem, aim and objectives, need and significance of the study and limitation of the study.

Chapter -II: Review of Literature

The second chapter would deal with concept of bank, origin of bank, concept and function of commercial bank, importance and objectives of business analysis and financial performance, method of analyzing and evaluating business analysis and financial performance, Review of Literatures, books, articles, Journals, reports, previous thesis and other relevant material.

Chapter -III: Research Methodology

The third chapter would include Research Methodology. This chapter would include the methodology adopted for carrying out this research and sources of data and methods of data collection.

Chapter -IV: Data Presentation and Analysis

The fourth chapter would contain presentation and analysis of Secondary as well as primary data through PESTAL Analysis, Porters Five forces Model Analysis, SWOT Analysis, Ratio Analysis and Findings.

Chapter -V: Summary, Conclusion and Recommendations

The last chapter will show the Summary, Conclusion and Recommendations of the study. This chapter would present the results obtained through the analysis and recommends some suggestions.

Lastly bibliography and annexure.

CHAPTER – II

REVIEW OF LITERATURE

A review of literature is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Review of literature are secondary sources, and as such, do not report any new or original experimental work. Also, a literature review can be interpreted as a review of an abstract accomplishment.

Review of literature is the study of previous research or article or books in related field or topics for finding the past studies conclusion and deficiencies that may be known for further research. This chapter will help to check the chances of duplications in the present study. We can analysis and make better the topic by furthermore research and find major findings. The financial performance analysis has been done but business analysis study is done by very few. This chapter highlights upon the existing literature and research related to the present study with a view of finding out what had already been explained and how the present research add to the dimension. A literature review is a body of text that aims to review the critical paints of current knowledge on a particular topic so the study will be helpful for analysis of business and to know the financial performance of Nabil Bank.

2.1 Conceptual Framework

2.1.1 Concept of Bank

The writers on the banking are divided regarding the origin of word "bank". Some author feels that the word bank derived from the words "Banco", "Bancus" or "Banque" which all means bench. Some definitions of banks are A bank is business organization that receive and holds deposits of funds from others, makes loans, extends credit and transfer funds from written order of depositors (The Encyclopedia of America, 1984:234).

A bank seeks optimum combination of earning liquidity and safety, while formulating investment policy "(Rose, 1999:138).

The more developed financial system of the world characteristically falls into three parts the central bank, the commercial bank and other financial intuitions (Myer, 1961).

According to concise oxford dictionary, "A bank is an establishment of custody of money which it pays out on customer demand".

"A bank is an institution where debts (Bank Deposits) are widely accepted in settlement of other people's debt by each other" (Myer, 1961).

Banking means "The accepting for the purpose of lending and investing, the deposits of the money from the public, repayable by the cheque, drafts, order or otherwise" (Madhura, 1989).

The American institute of banking has laid down four functions of the commercial bank i.e. receiving and handling deposits, handling payments for its clients, granting loans and investing and creating money by extension of credit.

A bank is an institution, which deals with money and credit. It accepts deposits from the public and mobilizes the fund to productive sectors. It also provides remittance facility to transfer money from one place to another. Generally, bank accepts deposits from business institutions and individuals, which is mobilized into productive sectors mainly business and consumer lending. Bank is therefore, known as a dealer of money. At present context, bank is not only confined to accepting deposits and disbursing loan. In addition to this, a bank may be engaged in different types of functions such as remittance, exchange currency, joint venture, underwriting, bank guarantee, discounting bills etc.

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so, it can earn a handsome profit as well as it should be secured and can be converts into cash whenever needed Emphasizing the importance of investment policy, H.P. Cross puts in this way," Lending is the essence of commercial banking and consequently the formulation and implementations of sound policies are among the most important responsibilities of bank directors and managements. Well –conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit." He further adds, the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing interest rate policy.

The banks are such types of institutions, which deals in money and substitutes for money. They deal with credit and credit instruments. Good circulation of credit is very much important for the bank.

In short the term bank, in modern times refers to an institution having the following features:

- It deals with money: it accepts deposits and advances loan.
- It also deals with credit: it has the ability to create credits, i.e. the ability to expand its liabilities as a multiple of its reserve.

- It is a commercial institution; it aims at earning profit.
- It is a unique financial institution that creates demand deposits which serves as a medium of exchange and as a result the banks manage the payment system of the country and so on.

2.1.2 Origin of Bank

The origin of bank is not a new phenomenon because there was a raw form of banking in the ancient period or "Vedic Era". The term deposits, pledge, policy of loans, interest retested can be found in the "Manu Smriti" Era too…. But we can say that after the end of Roman emperor at 15^{th} century and the beginning of the 16^{th} century consequent commercial and other training activities in European countries.

As per the proper origin Crowther said that the following are ancestors of banking activities.

- The Merchant Traders.
- The Gold Smith
- The money Lenders

But in accordance to traceable and practicable origin the development of banking institution in the world was from Italy as "The Bank of Venice" established at 1157 A.D. The second banking institution "The Bank of Bareelona" of Spain established at 1401 A.D. The other banking institution established are "Bank of Genoa" in 1407, "Bank of Amsterdam" in 1609, whereas The first central bank in the world was the Swedish Riksbank, founded in 1668. Later on Scottish businessman William Paterson founded the Bank of England in 1694 on request of the British government to finance a war.

The origin of bank in Nepal was also from the ancient period in the form of Money lender, traders etc. but later on an institute called "Tejarath- Adda" was established at 1877 A.D.

The first banking institution in Nepal was established in 1937 A.D with the cooperation of Imperial Bank of India as "Nepal Bank Limited" which provided services to part of the country. Prior to the establishment of Nepal Bank Limited, people relied on borrowings from the corrupt moneylenders, who charged very high interest rates and added other dues. These money lenders extended loans on the collateral of land, house and precious metals like gold and silver. After this institution the banking business started growing form time to time.

Nepal Bank Limited Played a dual role of a commercial bank and the central bank , until the establishment of Nepal Rastra Bank at 1956 A.D. and is operated as the central bank of Nepal which not only controls the entire bank but also controls credit and issues notes to general public. Nepal Rastra Bank (NRB), the central bank of Nepal, established in April 26, 1956, under the NRB Act 1955, is the sole authority for licensing and supervising banks and financial institutions in Nepal. The Act has empowered NRB to grant license to banks and financial institution. The act also empowers NRB to undertake measures in order to protect the interest of depositors. NRB has the authority even to revoke licenses in case of violation of prudential norms and relevant laws and regulations. NRB's regulatory and supervisory regime is limited to the commercial banks, saving and credit co-operatives and non- government organizations licensed by NRB.

This was not the end later on in order to develop the Industrial sector and "Industrial Development bank" established at July 1959. However the second commercial bank was established at 23 January 1966 as Rastriya Banijya Bank which was the government established banks to develop the industrial sectors of the country but lately the need of development of agriculture sector was seen broadly this captured the 90% of the total occupation of the country which helped in establishing Agriculture Development Bank.

Nepalese government since mid 1980 allowed foreign banks of joint venture basis to operate in the country on the approval of NRB. As a result, Nabil Bank limited (Nepal Arab Bank Limited) established with the partnership of Dubai Bank limited, Nepal Investment Bank Limited (Nepal Indo- Suez Bank Limited), Standard Chartered Bank Nepal Limited (Nepal Grindlays Bank) and Everest Bank Limited were established in 1984, 1985,1986 and 1994 respectively.

From 1984 A.D. Government of Nepal again established 5 regional development banks under the control of Central bank which can be pointed out as follows:

- Eastern Rural Development Bank
- Western Rural Development Bank
- Central Rural Development Bank
- Mid- Western Development Bank
- Far- Western Development Bank

2.1.3 Concept and Function of Commercial Bank

A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operatives, agriculture, industries, or for such specific purpose (Commercial Bank Act, 1974:16).

Commercial bank is a dealer in money and substitutes for money, such as cheque or bill of exchange. It also provides a variety of financial services (The New Encyclopedia Britannica, 1985:600).

Function of Commercial bank are as follows:

- **Accepting Deposits**

The main function of commercial bank is to accept deposit from their customers. People consider it more rational to deposit their savings in a bank. The bank is accepting different types of deposits as Saving, Current, Fixed, Recurring and soon.

- **Loan Extension**

The second important function of commercial bank is to extension of loan to their entrepreneurs and general public. After keeping certain cash reserve the banks lend their deposits to the needy borrower. Some types of loan that is provided by banks are Money at call, Terms Loans, Overdraft, Cash Credit, Discounting of bills of exchange and etc.

- **Agency Function**

Banks also perform creation agency function for and on behalf of their customers for Remittance of funds, Collection and Payments of Credit Instruments, Executing of standing orders, Collection of Dividends on Share, General Utility Function, Locker Facility, Underwriting Securities, Letter of Credit, Foreign Exchange, Bank Guarantee and etc.

2.1.4 Importance and Objectives of Business Analysis and Financial Performance

Importance and objectives of business analysis are:

- It considers the longer term (think of a time horizon of about five years of beyond) and improves the organization to fit with its environment.
- It gives direction to the organization, integrates its activities and help in decision making.

- It considers all stakeholders.
- It looks at how to gain a sustainable competitive advantage.
- It relates the organization, its resources and competences to its environment. It considers the whole organization and make best use of scarce resources.

Importance and objectives of financial performance are:

- It helps to analysis current financial condition of the enterprises and a view of past performance, which helps in future decision making. The means, analysis is not only gives vital information concerning the position of the enterprises but also reflects the results of the operations.
- It helps in performance appraisal of overall business activities.
- The financial performance indicates the financial position and it help to judge the soundness of company, return on investment, credit worthiness of the firms and other financial as well as non financial ratios are also important and useful to required stakeholder and shareholder of the organization.

2.1.5 Limitations of Business Analysis and Financial Performance

Limitations of business analysis are:

- It is based on prediction and judgments.
- It is less relevance in a crisis situation.
- It ignores straight jacket and short term opportunity because they are not in plan.

Limitations of financial performance:

- Depend upon historical data and they ignore future action by management.
- They may be manipulated by creative accounting and may be distorted by difference in accounting policies.

- Performance measurement through financial indicators is unlikely to be sufficient on its own.
- Concentration on some financial indicators means that some other important non financial factors may be ignored.

2.1.6 Method of Analyzing and Evaluating Business Analysis and Financial Performance

As mentioned previously focus of this research will be to analyze business and financial performance using quantitative financial information. Hence research will make extensive use of the annual accounts and other published financial information of Nabil Bank and its competitors.

Various models for studying business environment and competitive position will be employed to understand the environment on which Nabil Bank operates. The models to be used will be PESTEL analysis, SWOT analysis and Porter's Five Forces analysis. Sound understanding of business environment is a key to understanding business and financial position of the bank.

A range of financial ratios and statistical tools like trend analysis will be used to understand and interpret liquidity, profitability, risk, and capital adequacy position of Nabil Bank. The key financial indicators of Nabil bank will be benchmarked against those of its close competitors. Ratio analysis and benchmarking will help to find answer to research question regarding the business and financial performance of Nabil Bank.

From the information in annual reports and other background information, research will try to assess adequacy of strategies the management of the bank has pursued to ensure prosperous future of the bank. Appropriate recommendations will be made on the areas of concern for the bank.

2.2 Review of Related Studies

In this section effort has been made to examine and review of some related articles, research etc. in different economic journals. World Bank discussion paper, magazines, newspaper and other related books.

Pradhan (2002), in his research "*Financial Management Practices in Nepal,*" has studied about the major feature of financial management practices in Nepal. To address his issue, distributing a multiple questionnaire, this contained question on various aspects of financial management practices in Nepal carried out a survey of 78 enterprises. He found among the several finance functions the most important finance appeared to be working capital management, while least important one appeared to be maintaining good relation with shareholders. He concluded that the majority of enterprises in trade sectors find that banks interest rate is just right while the majority in non- traded sectors find that the same is on higher side. The purpose of loan and advance is to generate income for the banks.

Poudel (2003) in the article, *"Present Condition of Financial Companies"* has presented with compared to the commercial bank, the interest rate is relatively high that is provided and acceptance by finance companies. The financial companies should not be confined only in the valley. They should extend their services to the rural sectors of hill and terai to reduce regional imbalance. In his articles to analyze the functions, objectives procedure and activities of the NB bank and to determine the impact of growth in deposit on liquidity and lending practices

Pradhan (2004) in the article, *"Transaction Analysis of Financial Companies in Nepal"* has concluded that the finance companies are centered in the city as like commercial banks. If this trends remains, the central bank is to consider novel strategy. However, financial and banking transaction do not take place in zero, it favors of financial intermediaries. The emergence of closure of financial companies in market economy in common sense.

Shrestha (2005), in the article, *"Capital Adequacy of Bank in the Nepalese Context"* has suggested that the banks deal in highly risky transaction to maintain strong capital base. He concluded that the capital base should neither be too much leading to insufficient allocation of scarce resources nor so weak degree of risk associated with them are subject to changes country wish, bank wish and time period wise.

Shrestha (2006), in his articles, *"Commercial Banks Comparative Performance Evaluation,*" concludes that joint venture banks are new, operationally more efficient having superior performance comparison with local banks. Better performance of JVBs is due to their complicated technology, modern banking method and skill. Their better performance is also due to the government's branching policy in rural areas and financing pees. Provision for possible losses to loans and advances ratio in NBBL exceeded than in EBL, which indicates that loan and advances grants by the banks are inferior in contrast to EBL.

Bista (2007), in his research paper, *"Nepalma Adhunik Banking Byabastha*" has made an attempt to highlights some of the important indicators which have contributed to efficiency and performance of JVBs in the fields of CBs. At the end of the paper, he has concluded that the established of JVBs a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation, consortium finance and modern fee based activities into the economy.

Shrestha (2007), in the journal entitled, *"Commercial Bank's Comparative Performance Evaluation,"* which was published in Karmachari Sanchay kosh

Publication, is review as follows, The journal stresses on a proper risk management with appropriate classification loans under performing and non-performing categories. Researcher further classified adequate provisioning is the surest way to get relief from sinking loan after care consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six month need to be treated as unearned income." Regarding the risk management of the bank Shrestha'a other suggestion is as follows:

- Any provisioning or reservation is required in restructuring portfolio related to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorized as good substandard or doubtful loans.

The above journals focus in the various aspects of the bank's economic environment. Poudel's work stresses in effective way of evaluating the financial performance and. Shrestha's suggestions are focused towards proper risk management whatsoever, aspects of the bank the above journals target, they all have to be combinable assessed and kept in strict consideration for effective and efficient financial status and performance evaluation of the banks in the Nepalese economy.

Poudel (2008), in the journal entitled "*Financial Statement Analysis; An Approach to Evaluate Bank's Performance.*" Which was published NRB Samachar (An Annual Publication) is reviewed as follows;

According to Poudel, Balance sheet, profit and loss a/c and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss a/c. The banks' balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form 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, advances, and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statement of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the banks and which is useful in making economic decision. The disclosure requirement of bank's financial statement has been expressly laid down in the concerned act. Commercial banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

According to Poudel, the principal objectives of analyzing financial statements are to identify:

- Financial adaptability (Liquidity)
- Financial performance (Profitability) and
- Financial Position of Banks (Solvency)

Most of the users of the financial statements are interested in assessing the bank's overall performance analysis (Business analysis and Financial performance) i.e. Profitability, Security, Opportunity, Threat, Weakness and Strength which is affected by the following factors:

- The structure of balance sheet and profit and loss account.
- Operating efficient and internal management system.
- Managerial decision taken by top management regarding interest rate, exchange rate, lending policies etc.

- Environmental changes (Political ,technology, government, competition, economy)

According to Poudel, the other factors, to be considered analyzing the financial statements of banks is to assess the capital adequacy ratio and liquidity position. In the line of the norms set by bank for international settlement (BIS), capital adequacy of a bank is assessed based on risk-weighted assets. It indicates a bank's financial strength and solvency. Presently the capital funds of a bank should not be less than 10% risk weighted assets as capital funds. Banks facing with capital adequacy problem may increase capital, reduce assets, or reallocate the existing assets structure in order to maintain the desired level of capital base. Liquidity is measured by the speed with which banks assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank. He has laid down an approach to evaluate the bank's overall performance through balancing between the risk and return components of the bank.

Bajracharya (2008), in his articles, *"Monetary Policy and Deposit Mobilization in Nepal*" has concluded that mobilization of domestic saving is one of the prime objective of the monetary policy in Nepal and commercial banks and the more active financial intermediaries for generating resources in the form of deposits of private sectors and providing credit to the investors in different sectors of the economy.

2.3 Review of Unpublished Dissertation

Before this, various students regarding the various aspects of commercial banks such as financial performance, lending policy, interest rate structure, resources mobilization and capital structure have conducted several thesis works. Some of them are supposed to be relevant for the studies are presented below:

Poudel (2006), in his thesis paper *"Comparative Financial Performance Appraisal of Joint Venture Banks"* with references to Everest bank limited and Nepal Arab Bank Ltd

His Main Objectives are as follows:

- His study especially concentrated on the deposit collection of the bank and disbursement of the fund as loan and advances.
- He has focused on utilization and mobilization of funds and resources of Nepal Bank Ltd.

His Research Methodologies are as follows:

Research methodology is the focal part of the study. Ranges of financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data will be done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, coefficient of correlation, regression analysis and the technique of least square are adopted in this study. Financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

His Major Findings are as follows:

- He recommended that the bank should try to mobilize its resources efficiently by creating new business
- Service ideas which will certainly help for the better utilization of ideal resources and for the economic development of the country.

Mandal (2006), in his thesis paper *"Comparative Financial Performance Appraisal of Joint Venture Banks"* has studied mainly three banks i.e. Nepal Arab Bank Ltd (Nabil), Nepal Indosuez Bank Ltd.(NIBL), and Nepal Grindlays Ltd. (SCBNL). His main finding is that both SCBNL and Nabil have mobilized the debt funds in proper way for generating more return but NIBL could not do so as good as Nabil and SCBNL. He has recommended enhancing banking facilities in rural areas by encouraging small entrepreneurs development programmers, to play merchant banking role to mobilize.

His Main Objectives are as follows:

- Hence, the bank has been suggested to manage its investment portfolio efficiency.
- Operational efficiency of the bank is indicate by the operational loss has been found unsatisfactory.

His Research Methodologies are as follows:

In this research, data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Loans and advances to Total Risk Weighted Assets Ratio, non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Non Performing Loan, Arithmetic Mean Standard Deviation and Hypothesis Test.

His Major Findings are as follows:

- To analyze the lending practices and resources utilizations of NB bank.
- To examine the correlation and the signification of their relationship between different ratios related to capital structure

Tuladhar (2007), on his thesis entitled *"A Study on Investment Policy of Nepal Grindlays Bank Ltd. in Comparison to Other Joint Venture Banks (Nabil and HBL).*"

The main objective of the study was to evaluate the liquidity. Assets management, efficiency, profitability and risk position of NGBL in comparison to Nabil and

HBL and to examine the fund mobilization and investment policy of NGBL. The study found that NGBL has been successful to maintain in the best way both liquidity position and their consistency among three banks.. Profitability position of NGBL is better than Nabil and HBL.

His Main Objectives are as follows:

- Constraints of socio- economic political system on one hand and that of issues and challenges of JVBs commanding significant banking business of other spectrum
- The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions,
- They should introduce novel technology and equipment's to collect deposit.

His Research Methodologies are as follows:

In his thesis the data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Debt to Equity ratio, Debt Ratio Interest Coverage Ratio, Earnings per Share, Price Earnings Ratio, Return on Total Assets, Return on Share Holder's Fund or Equity, Arithmetic means, Standard Deviation and Correlation Coefficient.

His Major Findings are as follows:

- On the basis of this feedback information, regular changes or implementation of new rules and regulations can be easily carried out.
- NRB should also encourage frequent training to new entrants to provide orientation on the conceptual dimensions and practical aspects of operation of the banks.

Regmi (2008), on his thesis entitled *"A Comparative Study of Financial Performance of Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd."* The main objective of the study is to analyze and to evaluate the financial performance of the selected banks. He conducted a study between HBL and NBBL. Some of the findings of the researcher are that HBL has better profitability position than NBBL, so it is recommended to NBBL to utilize its resources more effectively.

His Main Objectives are as follows:

- These are indeed significant milestone in the financial development process to the economy
- But keeping in mind, the social and economic structure of our country, we should not turn a deaf ear to regional balance.

His Research Methodologies are as follows:
The research, data are analyzed by using different types of tools. For this study following statistical tools Arithmetic mean, Standard Deviation, Correlation Coefficient, Probable Error and Regression Analysis and financial tools Earnings per Share, Price Earnings Ratio, Return on Total Assets and Return on Share are also use.
His Major Findings are as follows:

- He has further suggests that both the banks should extends their resources to rural areas to promote development.
- Hence, the bank has been suggested to manage its investment portfolio efficiency.

Pokhrel (2009), on his thesis entitled *"A Comparative Study on Financial Performance of Nepal Bangladesh Bank Ltd and Everest Bank Ltd."* was concluded to analyses, examine an interpret the financial performance of NBBL and EBL for the study. The study finds out that the average net profit margin remains greater in NBBL. Higher CV in EBL suggests greater fluctuation in the ratio over the period. EBL found to be weaker in utilizing the bank assets for the profit generation. EBL holds greater capacity in paying immediate obligation as revealed by the higher cash and bank balance to current assets ratio.

His Main Objectives are as follows:

- His study especially concentrated on the deposit collection of the bank and disbursement of the fund as loan and advances.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

His Research Methodologies are as follows:
The research is analyzed by using different types of tools such as statistical tools and financial tools ie. Earnings per Share, Price Earnings Ratio, Return on Total Assets Return on Share, Holder's Fund or Equity, Arithmetic mean, Standard Deviation Correlation Coefficient, Probable Error and Regression Analysis.

His Major Findings are as follows:

- Therefore, there should be the awareness program, regularly conduced in terms of seminars.
- Workshop from well experienced personnel such as top executives from banks and concerned regulating authorities.
- They should introduce novel technology and equipment's to collect deposit.

Adhikari (2010), in his study entitled *"Evaluating the Financial Performance of Nepal Bank Limited"* has calculated and analyzed the different ratios by observing figures of balance sheets of Nepal Bank Limited for the period FY 2038/39 to 2049/50. He remarked that the bank is not found to have been able to utilize its fund effectively and efficiently for the development of the economy.

His Main Objectives are as follows:

- The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions.
- The deposit funds in productive sectors and to grants more priority to the local manpower.

His Research Methodologies are as follows:

The research is analyzed by using different types of tools. For this study following statistical tools and financial tools are use such as Loans and advances to Total Risk, Weighted Assets Ratio, Non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Non Performing, Loan Ratio Loan Loss Provision to Total Loans and Advances, Arithmetic mean, standard Deviation, Correlation Coefficient, Probable Error, Regression Analysis and Test of Hypothesis.

His Major findings are as follows:

- Economic development of a country cannot be imagined without the development of commerce and industry.
- He has focused on utilization and mobilization of funds and resources of Nepal Bank Ltd.

2.4 Research Gap

After reviewing the researches done throughout the past, the present researcher has found that comparative study of the financial performances of the bank has not been long analyzed especially in Nabil Bank Ltd. The past studies have recommended some of the remedial references like to reduce the debt, increase the liquidity, to limit the operating cost, to make better use of resources. It’s been time to check how far the differences have occurred in the banks. The present study explores the analysis of business and financial performance of the Nabil Bank and its comparisons with Everest bank and Bank of Kathmandu as sample bank.

The purpose of this research is to develop some expertise in one’s area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to comparative financial performance of commercial banks. Thus, the previous studies can be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity is research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic, i.e. analysis of the business and financial performance, therefore to fulfill this gap, this research is selected. To complete this research work: many books, journals, articles and various published and unpublished dissertation are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure business and financial performance.

Our main research problem is to analyze the Strength, Weakness, Opportunity, Threat and whether the sample bank has right level of profitability, liquidity as well as is able to utilize resources effectively or not. To achieve this main objective, various business analysis tools, financial and statistical tools are used. Therefore, this study is expected to be useful to the concerned banks as well as different persons; such as shareholders, investors, policy makers, stockbrokers, state of government etc.

CHAPTER – III
RESEARCH METHODOLOGY

3.1 Introduction

Research in common parlance refers to a search for knowledge. Once can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation. The Advanced Learner's Dictionary of Current English lays down the meaning of research as "a careful investigation or inquiry especially through search for new facts in any branch of knowledge." Redman and Mory define research as a "systematized effort to gain new knowledge."

Some people consider research as a movement, a movement from the known to the unknown. It is actually a voyage of discovery. We all possess the vital instinct of inquisitiveness for, when the unknown confronts us, we wonder and our inquisitiveness makes us probe and attain full and fuller understanding of the unknown. This inquisitiveness is the mother of all knowledge and the method, which man employs for obtaining the knowledge of whatever the unknown, can be termed as research.

According to Clifford Woody "research comprises defining and redefining problems, formulating hypothesis or suggested solutions; collecting, organizing and evaluating data; making decisions and reaching conclusions; and at last carefully testing the conclusions to determine whether they fit the formulating hypothesis."

Research methodology refers to the various sequential steps (along with the rational of each step) to the adopted by a researcher in studying a problem with certain objective in view. It is a way to systematic solve the research problem it may be understood as a science of studying how search is done scientifically. Includes the various steps that are generally adopted by a researcher studying his/her research problem along with the logic behind them, it would be appropriate to mention here that research project are not meaningful to anyone unless they are in sequential order which will be determined by the particular problem at hand therefore, this study aims at analyzing and interpreting the purpose of business analysis and financial performance. This chapter focuses and deals with the following aspects or methodology.

- Research Design
- Population and Sample
- Source of Information
- Data collection procedure
- Method of data analysis

3.2 Research Design

"Research design refers to the conceptual structure with in which the research in conducted" (IBBID). In other words, "A research design is the arrangement of conditions, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which the research in conduct. This study is both descriptive and analytical. This study is based on primary as well as secondary data that were collected from their respective annual report, other publication of the related banks published by Nepal Rastra Bank, Nepal Stock Exchange and other related magazines.

3.3 Population and Sample

There are several commercial banks operating in Nepal. The entire commercial banks that are operating in Nepal are considered as the population and the population in number is 32. It is not possible to study all the data related with all banks because of the limited period and showed also taken into consideration of the partial fulfillment of the Master's Degree. Nabil bank is one of the reputed banks in Nepal. It has been expanding its branches in the various part of the country. It has been successfully launching various facilities and service to the people. Thus Nabil bank business analysis and financial performance is the challenging and interesting subject to study. Thus Nabil bank has been selected as sample for the present study. Furthermore Everest bank and Bank of Kathmandu is selected as sample for the comparisons to Nabil bank.

3.4 Sources of Information

To collect information both primary and secondary sources were chosen initially. But success with these sources varied greatly.

3.4.1 Primary Source

Primary data are original data gathered by the researcher himself expressly to solve the problem under consideration at that time (Wolff and Pant, 2005). The sources for these data are primary source. Primary Sources for this research were professional people like accountants and stock brokers, managers and bank staff, tutors and lecturers of university etc. Many of the requests for information were turned down without giving any reasons. The overall amount of data collected from this source for research project was minimal.

3.4.2 Reasons for Using Primary Sources

The secondary sources provide mostly general information, which do not meet all the information needs of this research project. Feedback and criticism on the analysis and findings were only available from primary sources. Similarly non-quantitative and non-financial information was mostly available from primary sources regarding banking history, current market conditions, competition in the market, effect of policies and procedures, future business environment predictions etc. While collecting primary information the researcher knew where the data came from and thus was aware of any inadequacies and limitations in the data (BPP, 2004).

3.4.3 Secondary Source

Data, which are originally collected but are obtained from, some published or unpublished sources, are secondary data (Bajracharya, 2002). The sources of secondary data like annual accounts, websites, textbooks etc are few examples of secondary sources that were used. For the purpose of this research report large volumes of secondary data was collected and used.

3.4.4 Reasons for Using Secondary Sources

Due to major limitation of the time, cost, energy and amount of data that could be obtained from primary sources the use of secondary source was literally compulsory. Besides the topic requires to measure business and financial performance which could not be done without obtaining data from secondary sources like financial statements from banks, statistics and other financial information form Central Bank of Nepal and Nepal Stock Exchange.

At the same time data from secondary sources were readily available in less time, cost and energy. In most cases the data was prepared by professionally qualified people and were reliable. The annual financial statement of banks which were mostly used for performing ratio and other analyses were audited by qualified independent auditors which ensured information to be free from material misstatement and errors.

The secondary sources that have been used for this research project are as follows:

Published Annual Reports

Published Annual Reports which contained audited financial statements of Nabil bank and its competitors over three years was used extensively.

Published Financial Reports

Various banking, economic and financial reports and journals published by Central Bank of Nepal and Nepal Stock exchange.

Textbooks

Various textbooks in areas economics, statistics, research, banking, financial and management accounting.

Websites

Information from various websites have been extremely useful. Few of them are www.nrb.org.np,www.nabilbank.com,www.nepalstock.com,www.everestbankltd.com, www.bok.com.np.

3.5 Data Collection Procedures

Various methods were used to collect primary and secondary data which are as detailed below:

3.5.1 Methods Used to Collect Primary Data

Informal discussion and or interview were used to collect most of primary data. The key information was noted during the course of conversation or obtained through email replies. The merit of this method was that more information than initially planned was collected as new issues arose during conversation. Downside was however it was too time consuming, many of the sources approached denied information requests and some of the sources were biased.

3.5.2 Methods Used to Collect Secondary Data

Various methods were used to collect secondary data for the research project which are as follows:

Annual Report

Published annual financial statements and other publications, reports and journals were obtained by visiting various banks, Central Bank of Nepal, Nepal Stock Exchange etc. This method was easy and effective to collect published financial information. However request for any unpublished financial information was usually denied.

Information Collection Via Internet

In addition to personal visit abundant information was collected from internet websites of banks and various regulatory institutions. Collection of information from internet was much easier, flexible, time and cost effective than personal visit. Information collected was comprehensive and much more detailed.

Library Visit

Libraries were visited especially to obtain background literature and research information. Library visit helped to form a sound understanding of research methodologies and report writing as well as provided technical knowledge required for the chosen project topic.

Media Watch

Current and available previous issues of few good financial and business newspapers, journals and magazines were scanned for relevant articles. Though most of information was not directly useful these helped to develop a broad perspective for research and to understand the interrelationships between a healthy banking industry and prosperous society.

3.5.3 Limitations of Information Gathering

Limitations of individual methods to gather information have been mentioned above. However there were few other general limitations to information gathering as:

- Time & cost constraints limited to gather more information especially from primary sources.
- Most of published information collected was historical data which posses risk of being outdated very soon after publication.
- Due to extremely high volume of information available on internet choices of relevant information for research have been a tough task.
- Research has been mostly focused on quantitative financial information which in many cases may be inadequate without supporting qualitative non-financial information.

3.5.4 Ethical Issues During Information Gathering

As the project is mainly based on secondary data there are no ethical issues or considerations from the perspective of human interaction. However, in carrying out the secondary research I have undertaken all necessary measures to eliminate any chances of plagiarism by citing all references for all thoughts, data and points of information used.

3.6 Method of Data Analysis

Various accounting and business techniques used for this research are explained below:

3.6.1 PESTEL Analysis

PESTEL Analysis is a management tool which helps to assess external environment. It is a simple framework to use and helps business to identify opportunities and threats posed by external environment. However results of this analysis are highly subjective from person to person, getting high quality external data is time consuming and costly and due to high volume of external data under review user frequently fall into trap of a phenomenon called ‘paralysis by analyses'. There are various factors that should be considered for PESTEL Analysis which are as follows:

Political Environment

The political environment includes Political system, Political institutions, Political philosophies, Pressure groups, taxation policy, government stability and foreign trade regulation.

Economic Environment

The economic environment includes interest rates, inflation, business cycles, unemployment, disposable income, energy availability and cost and globalization, it also includes policy like Monetary policy, Fiscal Policy, Industrial Policy.

Social Environment

The social/ Culture environment includes population, demographics, social mobility, income distribution, lifestyle changes, attitude to work and leisure, levels of education and consumerism.

Technological Environment

The technological environments is influenced by government spending on research, new discoveries and development, government and industry focus of technological effort, speed of technological transfer and and rates of obsolescence.

Ecological Environment

The ecological environment, sometimes just referred to as the environment considers ways in which the organization can produce its goods or services with the minimum environmental change.

Legal Environment

The legal environment covers influence such as taxation, employment law, monopoly legislation and environmental protection.

3.6.2 Porter's Five Forces Model Analysis

Porter's Five Forces Model is a useful tool developed by Michael Porter of Harvard Business School for analyzing competitive intensity and therefore attractiveness of an industry in which an entity operates. An unattractive industry is one where there high competitive intensity and these five forces contribute to reduce overall profitability and vice versa. Porter's five forces model is a model that recognizes the power of five forces – rivalry among competing firms, bargaining power of buyers, bargaining power of suppliers, threat of new entrants, and threat of substitute products or services on an industry.

Rivalry Among Competing Firms

Competitive rivalry between existing firms high if large numbers of rivals, low industry growth, high fixed cost, low switching costs, high strategic stakes and high exit barriers.

Bargaining Power of Buyers

Power of customers/ buyers high if buyer power is concentrated, products undifferentiated, buyers are aware of other suppliers prices and switching costs are low.

Bargaining Power of Suppliers

Power of suppliers high if industry is dominated by a few large firms and if suppliers have differentiated products.

Threat of New Entrants

Threat of new entrants means barriers to entry which include economics of scale, product differentiation, capital requirements, switching costs, vertical integration, cost advantages independent of scale and legal barriers.

Threat of Substitute Products

Threat of substitute products look at relative prices/ performance of substitutes and switching costs.

3.6.3 SWOT Analysis

SWOT Analysis is a useful tool to analyze internal strengths and weakness and external opportunities and threats of any business. The merits of this model are focusing on strengths and opportunities while taking care of weakness and threat in a single analysis. However results of this method are highly subjective and differ from person to person, obtaining quality data is expensive and time consuming and this tool is vague and less structured which may lead to analyzing only few areas while totally missing other important areas. SWOT analysis consists of:

Strength

They represents internal resources, competencies and capabilities to exploit the external opportunities. Strengths are good for the company to take competitive advantages form the market. Strengths are important to provide extra energy to compete in the market in relation to the competitors.

Weakness

They represent limitations to compete in the market. Such weakness arises due to lack of important skills and expertise, physical and intangible assets and weak competitive capabilities in key areas.

Opportunities

Opportunities are favorable conditions that usually arise from the nature of changes in the external environment, e.g. new markets, improved economic factors or a failure of competitors. Opportunities provide the organization with the potential to offer new or to develop existing products, facilities or services.

Threats

Threats are opposite of opportunities and also form external developments. Example include unfavorable changes in legislation, the introduction of radically new product by a competitors, political or economic unrest, changing social conditions or the actions of a pressure group.

3.6.4 Ratio Analysis

Ratio analysis performed on financial statements is a very useful tool to evaluate and interpret business and financial position and performance of an entity. Ratio analysis together with other statistical tools like trend analysis can also be used to forecast the likely future outcomes. We will use following broad categories of ratios to examine business and financial performance of Nabil Bank.

Liquidity Ratios

Liquidity is the ability of bank to meet its current obligations for cash outflow and to respond to changes in customer demand for loans and cash withdrawals without selling assets at substantial loss (Johnson, 1993).Liquidity management in banks is very crucial and important task because liquidity needs of banks is more difficult to predict than other business. A bank is considered to be liquid if it has ready access to immediately spend able funds at reasonable cost at times these funds are needed (Singh, 2005). There is no standard way of measuring a bank's liquidity position. The following liquidity ratios are calculated to analyze the position of bank:

a) Total Credit / Total Deposit

Total credit includes all the investment made by in terms of lending i.e. loan, advance & bill purchased. Total deposit includes all the deposit in form of saving, current, Fixed deposit and other form of deposit. From liquidity perspective the lower the credits to deposits ratio the better the liquidity position. This is calculated as:

$$\text{Total Credit / Total Deposit} = \frac{\text{Loan,Advance \& } bill\ Purchased}{\text{Total Deposit}}$$

b) Cash & Bank Balance / Total Deposit

Cash & Bank balance includes all the cash that are in hand, Nepal Rastry Bank and in other institution. Total deposit includes all the deposit in form of saving, current, Fixed deposit and other form of deposit. From liquidity perspective the higher the cash & bank balance to deposits ratio the better the liquidity position. This is calculated as :

Cash & Bank Balance / Total Deposit

$$= \frac{(\text{Cash + Bank Balance in NRB + Bank Balance in Other institution})}{\text{Total Deposit}}$$

c) Loan, Advances & bills Purchased/ Total Assets

Loan, Advances & bills purchased are illiquid item so higher proportion of these items in bank's total assets is bad for bank's liquidity. This is calculated as

Loan, Advances & bills Purchased/ Total Assets=

$$\frac{\text{Loan,Advance \& } Bills\ Purchased}{\text{Total Assets}}$$

Management Efficiency Ratios

Management efficiency ratios analyze how well management has been able to utilize assets, control cost and run operations efficiently. Below we will consider few indicators of managerial efficiency of the bank and they are as:

a) Employee Expense / Total Operating Expenses

This ratio analyzes how much employee expenses are covered in total operating expenses. This is calculated as

Employee Expense / Total Operating Expenses

$$= \frac{(\text{Staff Expense} + \text{Provision for Staff Bonus})}{\text{Total Operating Expenses}}$$

b) Exchange Gain / Total Income

This ratio analyze the part of income that arise from currency fluctuation. Higher the ratio shows better management of foreign currency. This is calculated as:

$$\text{Exchange Gain / Total Income} = \frac{\text{Exchange Gain}}{\text{Total Income}}$$

c) Staff Bonus / Total Employee Expenses

This ratio analyzes how much staff bonus is covered in total employee expenses. This is calculated as:

$$\text{Staff Bonus / Total Employee Expenses} = \frac{\text{Provision for Staff Bonus}}{\text{Total Employee Expenses}}$$

d) Total Operating Expenses / Total Assets

This ratio analyzes the part of operating expense in relation to its total assets. This is calculated as:

$$\text{Total Operating Expenses / Total Assets} = \frac{\text{Total Operating Expenses}}{\text{Total Assets}}$$

e) Non performing Loan / Total Loans

This ratio analyze the part of bad loan that occur in the portfolio of total loan lower the ratio better the position of bank. This is calculated as:

Non performing Loan / Total Loans = $\frac{\text{Non Performing Loan}}{\text{Total Loans}}$

f) Total Number of Employee

This will cover the total number of Employees in bank and which help to identify the turnover status of Employee.

Profitability Ratios

Profitability is a key to survival of any organization. Profitability ratio indicates how well the organization is running in terms of profit. Below are few key profitability indicators of the bank and they are as:

a) Net Profit / Gross Income

This ratio analyze the net profit margin for the bank. Higher the ratio indicates the better result. This is calculated as:

Net Profit / Gross Income = $\frac{\text{Net Profit After Tax}}{\text{Total Income}}$

b) Interest Income / Loans, Advance and Bills Purchased

This ratio analyze the interest income in relation to total lending or investment made by bank. Higher the ratio indicates the better result. This is calculated as

Interest Income / Loans, Advance and Bills Purchased

$= \frac{\text{Interest Income}}{\text{Loans,Advance and bills Purchased}}$

c) Interest Expenses / Total Deposits, Borrowing & Bills Payable

This ratio analyze the interest expenses in relation to total deposit that include current/ saving/ fixed / soon, borrowing and bills payable. Lower the ratio indicates the better result. This is calculated as:

Interest Expenses / Total Deposits, Borrowing & Bills Payable

$$= \frac{\text{Interest Expenses}}{\text{Total Deposits,Borrowing and Bills Payble}}$$

d) Net Profit / Total Assets

This ratio analysis how well the assets is utilized to earn profit. This ratio also know as Return on assets or capital employed. Higher the ratio indicates better the result. This is calculated as:

Net Profit / Total Assets = $\frac{\text{Net Profit}}{\text{Total Assets}}$

e) Weighted Average Interest Rate Spread

This analysis the average interest rate of overall portfolio of bank.

Capital Adequacy Ratios

The Capital adequacy ratio shows capital as a percentage of total risk weighted assets. Risk weighted assets are calculated by assigning risk factors to assets based on their risk profiles. Higher ratio gives better protection for both customers and suppliers of bank against any unforeseen losses that bank might suffer. Central Bank of Nepal requires all banks to maintain minimum capital adequacy ratio. To maintain ratio banks have to either increase equity capital or invest in less risky asset. Due to risk return tradeoff investing in less risky assets mean less profit. Hence management always tries to keep this ratio just higher than the required minimum.

1) Core Capital

The minimum amount of capital that a thrift bank, such as a savings bank or savings and loan company, must have on hand in order to comply with Federal Home Loan Bank regulations is core capital (Investopedai, 2011).

The amount in the following heads shall be included /calculated in the core capital:- (Nepal Rastry Bank Directives).

a. Paid up capital (ordinary share)
b. Proposed bonus share
c. Share premium
d. Irredeemable preference shares
e. General Reserve Fund
f. Accumulated Profit/loss
g. Capital Redemption Reserve
h. Capital Adjustment Fund
i. Calls in advance
j. Other free reserves

The amounts in the following heads shall be deducted while calculating core capital:- (Nepal Rastry Bank Directives)

a. Goodwill
b. Amount invested in shares and securities of corporate bodies exceeding the limit imposed by this Bank.
c. All amount of investment made in shares and securities of the corporate bodies having own financial interests.
d. Fictitious assets, For this purpose, fictitious assets mean the fictitious expenses other than the expenses in research, development and computer software.
e. Credit and facilities made available to persons and groups prohibited by the prevailing laws. Provided that in case the prevailing law has not prohibited to providing loan and facilities to such person or groups at the time of making available loans and facilities, this provision shall not be applicable until one year of such prohibition or expiry of the date of repayment of the loan whichever is earlier.

f. The amount of purchasing of land and houses for self purposes not abiding by Directives of this Bank.
g. The amount invested in residence, buildings construction and land development exceeding the limit.
h. The share underwriting not could be sold within the prescribed time-limit

Core Capital Fund Ratio Determination Formula:

Core Capital Ratio = $\frac{\text{Core Capital}}{\text{Total of the Risk}-\text{Weight Assets}} \times 100$

Total Risk-weight Assets

For the purpose of calculating capital fund, the total risk-weight assets have been classified in the following two categories:

(1) On-balance-sheet risk-weight assets

(2) Off-balance-sheet risk-weight transactions

Risk-weight in the on-balance-sheet assets and off-balance-sheet transactions

$$= \frac{\text{Risk}-\text{weight in the on}-\text{Balance}-\text{Sheet}}{\text{off}-\text{Balance}-\text{Sheet Assets}}$$

For the purpose of calculating the capital fund, the on-balance- sheet / off-balance-sheet assets have seen divided with assigning separate risk weight:-

2) Supplementary capital

With a condition of not allowing to include more than core capital, the amount under the following heads shall be included in the supplementary capital (Nepal Rastry Bank Directives).

a. Provisions for General Loan Loss

Only the amount provisioned for pass loan has to be included under this heading. In case more loan loss provision has been made than the ratio specified by this. Bank for pass and other loans, the amount of such additional loan loss provision may be included in the additional loan loss provision.

Provided that the total amount under such heads shall not be allowed to be included in the supplementary capital so that it would exceed 1.25 percent of the total risk-weight assets.

b. Assets Revaluation Fund

While calculating supplementary capital, it shall be allowed to be calculated only up to 2 percent of the total supplementary capital including the amount for assets revaluation fund. Only the amount remaining in this fund or 2 percent of the total supplementary capital, whichever is lesser, shall be included in this fund.

c. Hybrid Capital Instruments

The following instruments shall be included under this head:-

- The issued securities which are unsecured, fully paid up and subordinated to the priority order of payment of depositors and creditors and available to absorb loses as well as liable or not liable to be changed in general capital;
- Instruments issued on the condition that they are not redeemable at the option of the holder except with the approval of Nepal Rastra Bank. Provided that no other licensed institution shall be allowed to hold (purchase) the hybrid capital instruments issued by one licensed institution.

d. Unsecured Subordinated term loan:

The debt instruments having the maturity period of more than five years and issued without any collateral security with a condition of getting payment after the depositors and the redeemable preference shares having limited maturity period shall be included under this class. In order to reflect the diminishing value of there instruments, the licensed institution shall have to apply the discount (amortization) factor of these instruments at the rate of 20 percent for the last five years. In case any bank or financial institution has issued such instruments with a condition of converting them into ordinary shares in the long run or in various phases or of redeeming them having fulfilled the prescribed terms and conditions, then the amount converted in ordinary shares may be calculated as supplementary capital and the amount not converted into shares may be calculated as supplementary capital by placing under this head.

Provided that while issuing such instruments, the amount more than fifty percent of the core capital shall not be raised.

e. Exchange Equalization Fund

The amount of the exchange equalization fund maintained by a licensed institution engaged in the transaction of foreign exchange may be calculated for the purpose of supplementary capital.

f. Investment Equalization Fund

The amount of the investment equalization fund created under Directive No. 8 (Provision relating to Investment) may be calculated for the purpose of supplementary capital.

Supplementary Capital Fund Ratio Determination Formula

$$\text{Supplementary Capital Ratio} = \frac{\text{Supplementary Capital}}{\text{Total of the Risk}-\text{Weight Assets}} \times 100$$

3) Total Capital Fund

Total capital fund is the sum of core capital fund ratio and supplementary capital fund ratio.

Capital Fund Ratio Determination Formula

Capital Fund Ratio = Core Capital Fund Ratio + Supplementary Capital Fund Ratio

Market Ratios

These ratios have focus on share market and are key ratios closely monitored by current and future investor of the bank. Below we will consider few indicators of market ratio of the bank and they are as:

a) Earnings Per Share (EPS)

The portion of a company's profit allocated to each outstanding share of common stock is Earnings per share. Earnings per share (EPS) serve as an indicator of a company's profitability. This is calculated as:

$$\text{Earnings Per Share (EPS)} = \frac{(\text{Net Income} - \text{Dividends on Preferred Stock})}{\text{Average Outstanding Shares}}$$

Average number of outstanding shares is calculated as per Nepal Accounting standards.

b) Market Value Per Share (MPS)

Market value per share represents the current market value of share. This is calculated as:

Market Value Per Share (MPS) = P/E Ratio X EPS

c) Price Earnings Ratio (P/E Ratio)

Price earnings ratio represents the market view of the future prospects of the share. Higher the P\E ratio suggests that high growth is expected.

Its is calculated as:

$$\text{P\textbackslash E Ratio} = \frac{\text{Market Value Per Share}}{\text{Earning per Share}}$$

d) Dividend (Including Bonus) on Share Capital

This is total amount of dividend including bonus distributed to per share holder.

e) Cash Dividend on Each Share

This is total amount of cash dividend only which, is declared to each share holder.

f) Book Net Worth Per Share

Book net worth means the net worth each share consists of, and its calculated as,

$$\text{Book Net Worth Per Share} = \frac{\text{Shareholders Equity (Net Worth)}}{\text{Total Number of Share}}$$

g) Total Share

Here we place total number share the bank consists. Ratios are based on historical data and may be out of current trend so the analysis may lose relevance. Many ratios lack standard definition and there are a number of ways to calculate same ratio. This hinders comparability. Ratios are based on financial statements which may be prepared using different accounting policies and conventions which further hinder comparability.

3.6.5 KPIs Benchmarking

Benchmarking is a process of comparing one’s business process and performance to those of other comparable entities in industry which are usually direct competitors or industry bests. Using this tool we will benchmark business and financial performance indicators of Nabil bank with those of its' competitors in the industry. The downside of this analysis is however each bank has its' own distinct risk-return profile and strategy, competitive advantages and disadvantages so the conclusions drawn based on this may not represent the true facts. Below we will consider few ratio indicators for benchmarking and which are as follows:

Liquidity Ratio

As liquidity ratio is describe above here we analyze few liquidity ratio and they are as:

- Total credit / Total deposit
- Cash & Bank Balance / Total deposit

Management Efficiency Ratio

As Management efficiency ratio is describe above here we analyze few management efficiency ratio and they are as

- Total operating expenses / Total Expense
- Non performing loan /Total loan

Profitability Ratio

As profitability ratio is describe above here we analyze few profitability ratio and they are as

- Net profit / Gross Income
- Net profit / Total assets

Capital Adequacy Ratio

As capital adequacy is describe in detail above here we analyses only total capital adequacy ratio.

Market Ratio

As market ratio is more describe above here we analyze few market ratio and they are as:

- Earnings per shares
- Market value per shares
- Price earnings ratio

CHAPTER –IV

DATA PRESENTATION AND ANALYSIS

In this chapter, the data collected so far have been presented, analyzed and interpreted. This chapter presents the data, facts, figures relating of different aspects of Nabil Bank Ltd and its competitors. These available data have been tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. Hence, the financial ratios have been used for this purpose. Though there are many ratios have been taken for analyzing the strengths and weaknesses of the bank.

4.1 PESTEL Analysis – Analysis of External Environment of Bank

4.1.1 Political Factors

Banking is a highly regulated sector. Monetary, fiscal and budgetary policies of Central Bank and government affect the banking sector. Political instability has created economic and market uncertainty as well as slowdown of economic activity. This has hampered booming banking sector. Banks have found it very difficult to expand operations outside capital and major cities due to security problems.

4.1.2 Economic Factors

The political uncertainty has dragged the growing Nepalese economic back. During the year 2010/11 GDP has fallen down to 3.5% from of 4.6% last year (Global finance, 2011). Due to the economic recession many expatriate workers have lost jobs and some of them have returned. This has led to the slowdown in the growth rate of remittance from overseas workers which have reduced the disposable income of families. These factors have affected banks adversely.

4.1.3 Social Factors

Social factors have been favorable to banking sector. Due to the increasing industrialization and urbanizations, improvement in education, transportation, communication etc. there has been a high surge of people signing up for bank accounts and other various banking products. Nabil bank has been taping this changing social culture of banking by offering plethora of personalized banking products and reducing on bank fees.

4.1.4 Technological Factors

Due to advancement and accessibility of personal computers, internet and other electronic and communication products the way traditional banking was done has changed to a large extent. Younger generations are more technology savvy and prefer ATMs and online access to over the counter banking. Technological advancements have contributed to reduce costs and expand services. At the same time it has increased security, privacy, frauds and other concerns.

4.1.5 Environmental Factors

Banks that are committed to environment protection by reducing energy uses, reducing paper and wastes, contributing to re-greening and environmental efforts have been viewed very positively by customers. Nabil bank has also engaged in maintaining various parks and gardens around Kathmandu valley which has been much appreciated in media and by general public.

4.1.6 Legal Factors

Banks are affected by a number of legislations and acts ranging from general corporate acts to banking and financial service regulations to employment and bonus acts. These factors directly affect profitability and the way banks do business. Banks are also affected by legally binding regulations from Central Bank of Nepal which are issued from time to time. Forecasting legal changes and ensuring compliance to them promptly has been a key to doing business and Nabil bank has remained successful in this over years.

4.2 Porter's five Forces Analysis

Analysis of competitive intensity and attractiveness of the market the bank operates

4.2.1 Bargaining Power of Buyers (Customers)

Large number customers are small customer at retail banking level which means low bargaining power of buyer. The high exit fees and contract charges and complication will further reduce bargaining power of buyers. Customer of products with low exit fees may shop around but it will not result in much larger loss to bank as the outflow will be offset by inflows as all banks provide similar services. Customers have limited bargaining power.

4.2.2 Bargaining Power of Suppliers

In the retail banking sector the general suppliers of bank have low bargaining powers. However few large institutional suppliers have a high bargaining power to negotiate rate and terms. Due to reduced liquidity and competition, obtaining scare deposits has been a big challenge for all banks. However situation is continuously changing, in review years the liquidity positions of banks are in sound position. Also banks have little influence over the cost of borrowing because it is determined by macroeconomic and regulatory factors.

4.2.3 Threat of New Entrants

Government policy favors competitions and recent years have seen a dramatic increase in the number of financial institution. This is because of high profit in the banking sector and lack of investment opportunity elsewhere. At the same time Central Bank has opened doors for any foreign bank to open up branch without joint venture. This is further increase possibilities of international banks entering local market. There is high threat to industry from new entrants.

4.2.4 Threat of Substitutes

The common services of savings and credits that traditionally banks offered have now also been offered by numerous small financial institutions. With the advancement in IT these small regional financial institutions have been able to provide a very high quality national service at a very low fee. There is huge threat to industry from substitutes.

4.2.5 Rivalry Among Competitors

There has been huge increase in total number of financial institution. The total number of banks and financial institution class A, B, C has increased from 132 in 2006/07 to 197 in 2009/10 (Central Bank of Nepal). At the same time due to security and other political problems most of these financial institutions are centered in capital of country and major cities. They more or less has serve same market segment with similar banking products. Thus rivalry among competitors has become intense. This has pushed interest rates up, increased the advertising budgets, lowered the fee structures and squeezed profits.

Table 4.1

Total list of Bank and Financial Institutions

List of Bank and Financial Intuitions	2006/07	2007/08	2008/09	2009/10	2010/11
"A" Class	20	25	26	27	31
"B" Class	38	58	63	78	87
"C" Class	74	78	77	79	79
Total	132	161	166	184	197

Source: Nepal Rastra Bank

Rivalry among competitors have been increasing in trend as we see in table, " A " Class financial institution have been increased from 20 to 31 form FY 2006/07 to 2010/11. Similarly " B " and " C " class financial institution have been increased from 38 and 74 to 87 and 79 from FY 2006/07 to 2010/11 respectively. Form the table we can see that there is huge number of Increment in " B " class financial institutions. However overall increment in Bank and financial institution have been in increasing which means there is higher number of Rivalry among competitors.

4.3 SWOT Analysis

4.3.1 Strengths of Bank

- Nabil bank has been able to establish strong brand reputation.
- They have huge customer and supplier base including loyal institutional customers like NGOs, INGOs, major corporate houses etc.
- Nabil bank has been able to maintain competent pool of human resource, adequate capital base, profitability and adequate cash returns for investors.
- Nabil bank has maintained excellent credit rating.
- Nabil bank has been an industry leader in technological innovation, corporate responsibility and sustainability

4.3.2 Weakness of Bank

- Nabil bank has not been able to expand its branch and ATM network adequately.
- It has been only focused in major cities.
- Nabil bank has focused mostly on high end high volume customers. This is evidenced by the bank requiring high initial deposit and frozen minimum balance to start up a savings amount.

- Some of the products like card and any branch banking services have not been as innovative and modern as its other competitors.

4.3.3 Opportunities of Bank

- Huge size is major opportunity of bank.
- It's one of the biggest commercial bank of Nepal with one of the largest market capitalization and thus has huge economies of scale.
- It can raise additional capital easily and expand its operations.
- The bank has many opportunities for consolidation by taking over small other financial institutions or banks.
- There are many small town and regional centers not served by major commercial banks where only government banking services are available. Nabil bank can be a leader to expand operations in those areas.

4.3.4 Threats of Bank

- Due to deteriorating global economy, inflation, interest rate rises, political instability and many other factors funding costs is likely to rise in future.
- Bank customers can be easily lured away by small financial institutions that have been able to offer similar services at a fraction of cost.
- Due to recent clearance given by Central Bank opening of a branch by any foreign bank with much superior service is a major threat to Nabil Bank.
- Nabil Bank still relies heavily on institutional customers which are likely to be stolen by foreign bank should they open.

4.4 Ratio Analysis

Ratio analysis of financial statements is a very useful tool to assess business and financial performance of any entity. The financial statements of Nabil bank are analysed using carefully selected ratios. Financial statements of bank are different from those of other entities. Hence using only traditional ratios is not meaningful. To suit the banking some of the new sets of ratios have been used wherever necessary.

4.4.1 Liquidity Ratios

Liquidity is the ability of bank to meet its current obligations for cash outflow and to respond to changes in customer demand for loans and cash withdrawals without selling assets at substantial loss (Johnson, 1993).Liquidity management in banks is very crucial and important task because liquidity needs of banks is more difficult to predict than other business. A bank is considered to be liquid if it has ready access to immediately spend able funds at reasonable cost at times these funds are needed (Singh, 2005).

There is no standard way of measuring a bank's liquidity position. Below liquidity of Nabil bank are examined using three key ratios.

Table 4.2

Liquidity Ratio

Liquidity – Indicator	Unit	2006/07	2007/08	2008/09	2009/10	2010/11
Total Credits/Deposits	%	66.60%	66.94%	73.87%	69.53%	76.53%
Cash & Bank Balance / Total Deposit	%	6.00%	8.37%	9.03%	3.02%	4.9%
Loan, Advance & bills Purchased / Total Assets	%	57.04%	57.54%	62.89%	61.88%	65.42%

Source: Annual Report of Nabil Bank (Annex 4)

From liquidity perspective the lower the credits to deposits ratio the better the liquidity position. As we see this indicator has gone up in FY 2010/11 in compare to FY 2006/07. This shows a little worried liquidity position in financial year 2010/11 compared to last few FY. Liquidity position in financial year 2010/11 has not shown good result compare to 2009/10. However the liquidity position in upcoming financial year may show the better result as the liquidity position of most of the commercial bank has been improved (as per Nepal Rastra Bank).

Table 4.3

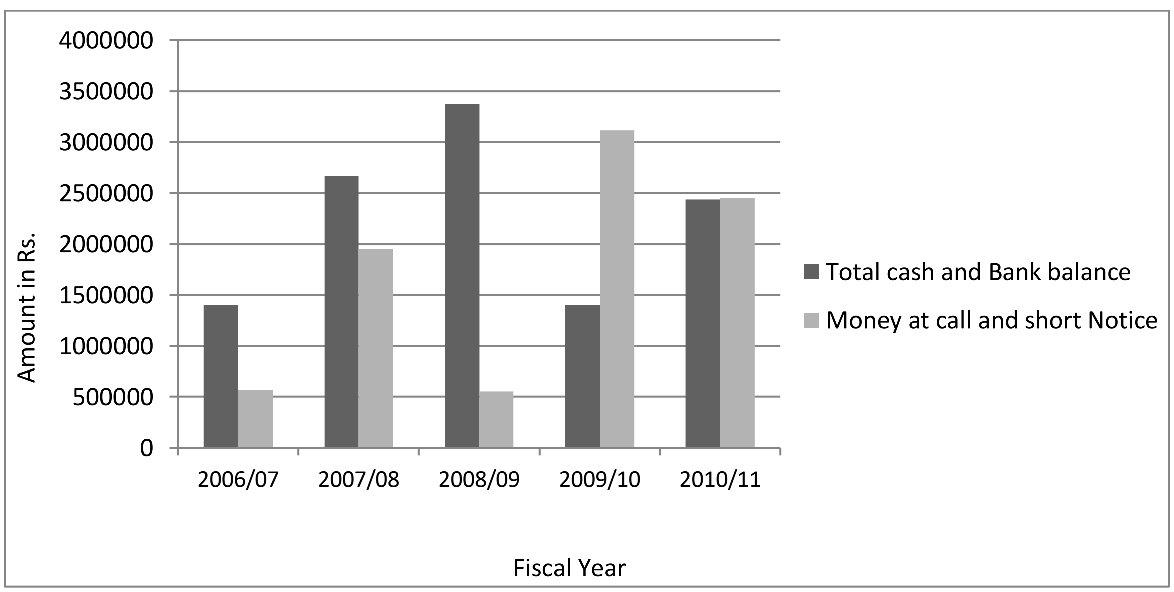
Cash and Bank Balance Vs Money at Call and Short Notice

Particular	Unit	2006/07	2007/08	2008/09	2009/10	2010/11
Cash balance	Rs"000"	270,407	511,427	674,395	635,987	744,592
Balance with NRB	Rs"000"	1,113,415	1,829,471	2,648,596	549,455	1,473,986
Balance with banks/ financial institution	Rs"000"	16,003	330,244	49,521	214,657	217,971
Total Cash and Bank Balance	Rs"000"	1399825	2,671,142	3,372,512	1,400,099	2,436,549
Money at call and short Notice	Rs"000"	563,533	1,952,361	552,888	3,118,144	2,452,512

Source: Annual Report of Nabil Bank (Annex 1)

Figure 4.1

Cash and Bank Balance Vs Money at Call and Short Notice



Source: Table 4.3

Cash & Bank Balance to total deposit has fallen sharply from 2006/07 to 2010/11 from i.e. 6% to 4.90 %. This is worry from liquidity perspective. However Cash & Bank Balance to total Deposit has showed improved liquidity position compared to last year i.e. it increase to 4.90% in compare to 3.02%. Cash balance has remained in fluctuating trend in last five year.

Loan, Advances & bills purchased are illiquid item so higher proportion of these items in bank's total assets is bad for bank's liquidity. This ratio has fallen in 2009/10 showing improved liquidity position in compared to 2008/09. However in financial year 2010/11 this ratio has rise up this is worry from liquidity perspective.

Holding money in the form cash and bank balance has been increased and management investment in money at call and short notices has been decreased in compare to last year. This suggests liquidity position has Improved from last year.

4.4.2 Management Efficiency Ratios

Management efficiency ratios analyze how well management has been able to utilize assets, control cost and run operations efficiently. Below we will consider few indicators of managerial efficiency of the bank.

Table 4.4

Management Efficiency Ratio

Management Efficiency – Indicator	Unit	2006/07	2007/08	2008/09	2009/10	2010/11
Total Employee Expense / Total Operating Expenses	%	31.35%	27.52%	25.59%	18.75%	16.12%
Exchange Gain / Total Income	%	10.03%	7.85%	7.34%	5.76%	4.59%
Staff Bonus/Total Employee Expense	%	29.29%	29.29%	30.32%	30.70%	29.60%
Total operating expenses/Total Assets	%	3.98%	3.64%	4.35%	5.41%	6.88%
Non Performing Loans / Total Loans	%	1.12%	0.74%	0.80%	1.48%	1.77%
Total Permanent Employees	Num	427	416	505	557	657

Source: Annual Report of Nabil Bank (Annex 5)

Total Employee Expense / Total Operating Expense have been in downward trend. However we see staff expense only, it grew by around 23.7% vis-à-vis previous year. Staff bonus has remained approximately in the same level and this has seen a major employee cost (29.60%) as a result which has help to retain high quality manpower and boost employee morale. Total number of permanent employees has been in increasing trend, this year total number permanent employee is 657 and total number of contract employee including CEO is 625 this is a good indication of not having staff turnover problem (Annual Report, 2011).

The operating expense has increased higher in comparison to growth in total assets and it is in increasing trend. This exhibits inefficiency in managing assets of organization.

Another indicator non-performing loans to total loan has gone up showing the management has not been able to control loan defaults and lending to risky customers.

Similarly the growth in gain from foreign exchange to growth in total income has been in downward trend showing poor foreign currency management.

4.4.3 Profitability Ratios

Profitability is a key to survival of any organization. Below key profitability indicators of the bank have been examined

Table 4.5

Profitability Ratio

Profitability - Indicator	Unit	2006/07	2007/08	2008/09	2009/10	2010/11
Net Profit/Gross Income	%	33.10%	30.73%	30.56%	24.14%	22.29%
Interest income / Loans, Advances & bills purchased	%	10.21%	9.26%	10.14%	12.55%	13.81%
Interest expense / Total Deposits, borrowings & bills payables	%	2.29%	2.26%	2.92%	4.18%	5,71%
Net Profit/Loans and Advances & bills purchased	%	4.34%	3.49%	3.74%	3.54%	3.52%
Net profit/Total Assets	%	2.47%	2.01%	2.35%	2.19%	2.30%
Weighted Average Interest Rate Spread	%	4.15%	3.94%	4.16%	4.40%	4.37%

Source: Annual Report of Nabil Bank (Annex 6)

Net Profit margin has fallen down despite increase in the interest rate spread and turnover, however interest rate spread in 2010/11 is decreased. This ratio indicates the proportion of the bank's total operating revenue going towards paying all expenses including interest and taxes (Joshi, 2005). This is primarily due to increase in operating expenses and increase in provision for possible losses (increased by 19.36 % times from last year). The rate of interest expense for deposits is higher in last few years however during upcoming year the rate in interest expenses for deposits is lowering down as a result the rate of interest income from loans and advances may also be lowering down which was higher in last few years.

The return on assets has been in decreasing trend till last financial year 2009/10, however this has improved vis-à-vis last year. Overall 2010/11 has reasonable profitable than 2009/10.

Interest income / Loans, Advance & bills purchased have been in upward trend which shows the good profitability indication.

Net profit / Loans, Advance & Bill Purchase is approximately in same level over the last few year which shows the neutral level of indication.

4.4.4 Capital Adequacy Ratio

The Capital adequacy ratio shows capital as a percentage of total risk weighted assets. Risk weighted assets are calculated by assigning risk factors to assets based on their risk profiles. Higher ratio gives better protection for both customers and suppliers of bank against any unforeseen losses that bank might suffer. Central Bank of Nepal requires all banks to maintain minimum capital adequacy ratio. To maintain ratio banks have to either increase equity capital or invest in less risky asset. Due to risk return tradeoff investing in less risky assets mean less profit. Hence management always tries to keep this ratio just higher than the required minimum.

Table 4.6

Capital Adequacy Ratio

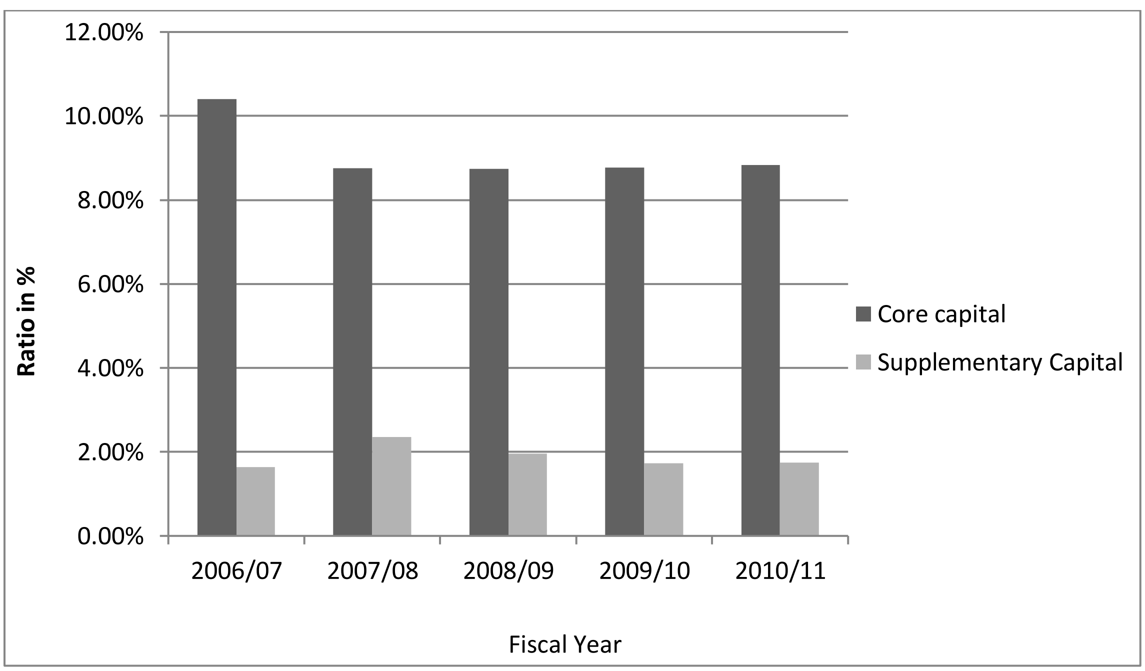
Capital Adequacy - Indicator	**Unit**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Adequacy of Capital Fund on Risk Weighted Assets						
Core capital	%	10.40%	8.75%	8.74 %	8.77 %	8.83%
Supplementary Capital	%	1.64%	2.35 %	1.96 %	1.73 %	1.75%
Total Capital Fund	%	12.04%	11.10%	10.70%	10.50%	10.58%

Source: Annual Report of Nabil bank (Annex 7)

The bank management has been able to maintain the capital adequacy ratio to that required by the Central Bank of Nepal i.e. 10%. This ratio has decreasing trend, however in financial year 2010/11 it shows some improving signs.

Figure 4.2

Capital Base of Nabil Bank



Source: Table 4.6

The bank has been able to expand equity base significantly however, the proportion of that equity to risk weighted asset has been lower till financial year 2009/10, however risk weighted asset has been improving in financial year 2010/11 than previous years. Risk weighted assets is lower mainly due to increasing investment in high risk assets (like real estate lending) in order to boost profitability however this seems improving since decreasing investment on high risk assets .

4.4.5 Market/Shareholder Ratios

These ratios have focus on share market and are key ratios closely monitored by current and future investor of the bank. Most of these ratios presented below show a gloomy picture and weakening investor confidence on the bank.

Table 4.7

Market Ratio

Market (Shareholder's) - Indicator	Unit	2006/07	2007/08	2008/09	2009/10	2010/11
Earnings per share	Rs.	137.08	115.86	113.44	83.81	70.67
Market Value per share	Rs.	5,050	5,275	4,899	2,384	1,252
Price Earnings Ratio	Times	36.84	45.53	43.19	28.45	17.72
Dividend (including bonus) on share capital	Rs.	140	100	85	70	30
Cash Dividend on each share	Rs.	100	60	35	30	30
Book Net worth per share	Rs.	418	354	324	265	225
Total Shares	Num	4,916,544	6,892,160	9,657,470	14,491,240	20,297,694

Source: Annual Report of Nabil bank (Annex 8)

Bank’s shareholders have been earning less per share mostly due to issue of large number of bonus shares. Book net worth per share has fallen significantly due to same reason.

Cash and bonus dividend gone down and major portion of total dividend is taken by bonus dividend, however in financial year 2010/11 total dividend is taken by cash and bonus dividend in equal proportion.

Price earnings ratio has fallen down significantly. Investors prefer cash dividend to bonus dividends. Share prices have continuously dipped down.

Overall the Market / Shareholders ratio does not look fine vis-à-vis past few previous years; however this does not mean that the Market / Shareholders ratio is horrific since the overall industry ratio for the same in falling down from past few years which is clear form Table and Figure overall NEPSE Index.

Table 4.8

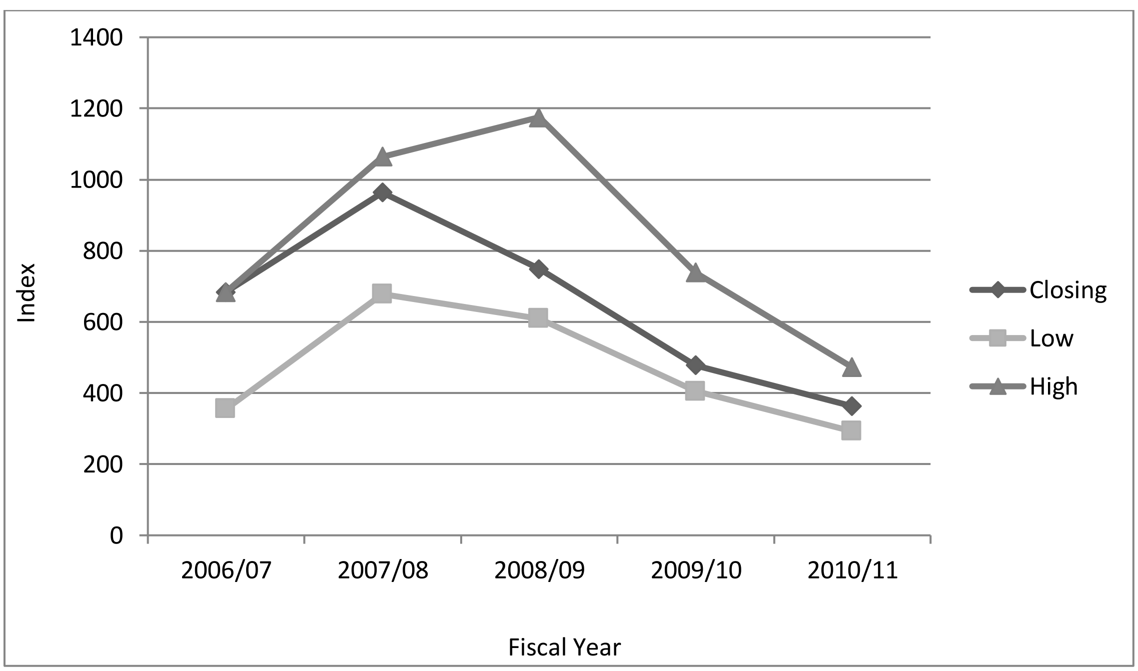
NEPSE Index

Particular	Unit	2006/07	2007/08	2008/09	2009/10	2010/11
Closing	Rs	683.95	963.36	749.1	477.73	362.85
Low	Rs	355.6	677.98	609.49	405.45	292.31
High	Rs	683.95	1064.09	1175.38	739.02	472.29

Source: NEPSE Annual Report

Figure 4.3

NEPSE Index



Source: Table 4.8

One of the major causes of the loss of the confidence is the recent global financial crisis. Also due to imperfections in the stock market and inexperience of investors in relatively new area investment in Nepal the share prices of banks have been unusually high during previous years. Slowly these unusually high past prices have been settling down.(Annual Report Nepal Share Market)

4.5 KPI Benchmarking

Benchmarking is all about performance measurement and review. The process involves several different organizations comparing certain aspect of their performance with each other. (Proctor, 2009) For this research key indicators of Nabil Bank Limited (NBL) are compared with that of its close competitors namely Everest Bank Limited (EBL) and Bank of Kathmandu Limited (BOK).

4.5.1 Liquidity Indicator Benchmarking

Table 4.9

Benchmarking of Liquidity Ratio

Liquidity - Indicator – Benchmarking	Unit	2006/07	2007/08	2008/09	2009/10	2010/11
Total Credits/Deposits						
Nabil Bank	%	66.60%	66.94%	73.87%	69.63%	76.53%
Everest Bank	%	75.13%	76.49%	71.68%	74.61%	75.51%
Bank of Kathmandu	%	75.87%	78.71%	81.00%	82.03%	83.11%
Cash & Bank Balance / Total Deposit						
Nabil Bank	%	6.00%	8.37%	9.03%	3.02%	4.90%
Everest Bank	%	13.15%	11.13%	18.50%	21.17%	14.89%
Bank of Kathmandu	%	10.62%	9.10%	12.07%	8.85%	7.99%

Source: Annual Report of Related bank (Annex 4)

These indicators show NBL has been lending in lower proportion than its competitors. However to maintain profitability bank has preferred to reduce cash and bank and instead keep those assets at money at call and short notices. In financial year 2010/11 lending in proportion is increased than its competitors Everest bank.

4.5.2 Management Efficiency- Indicator – Benchmarking

Table 4.10

Benchmarking of Management Efficiency Ratio

Management Efficiency - Indicator - Benchmarking	Unit	2006/07	2007/08	2008/09	2009/10	2010/11
Total operating expenses/Total Assets						
Nabil Bank	%	3.98%	3.64%	4.35%	5.41%	6.88%
Everest Bank	%	3.64%	3.75%	4.04%	5.20%	6.95%
Bank of Kathmandu	%	4.32%	4.05%	4.77%	6.35%	7.49%
Non Performing Loans / Total Loans						
Nabil Bank	%	1.12%	0.74%	0.80%	1.48%	1.77%
Everest Bank	%	0.80%	0.68%	0.48%	0.44%	0.34%
Bank of Kathmandu	%	2.51%	1.86%	1.27%	1.52%	1.82%

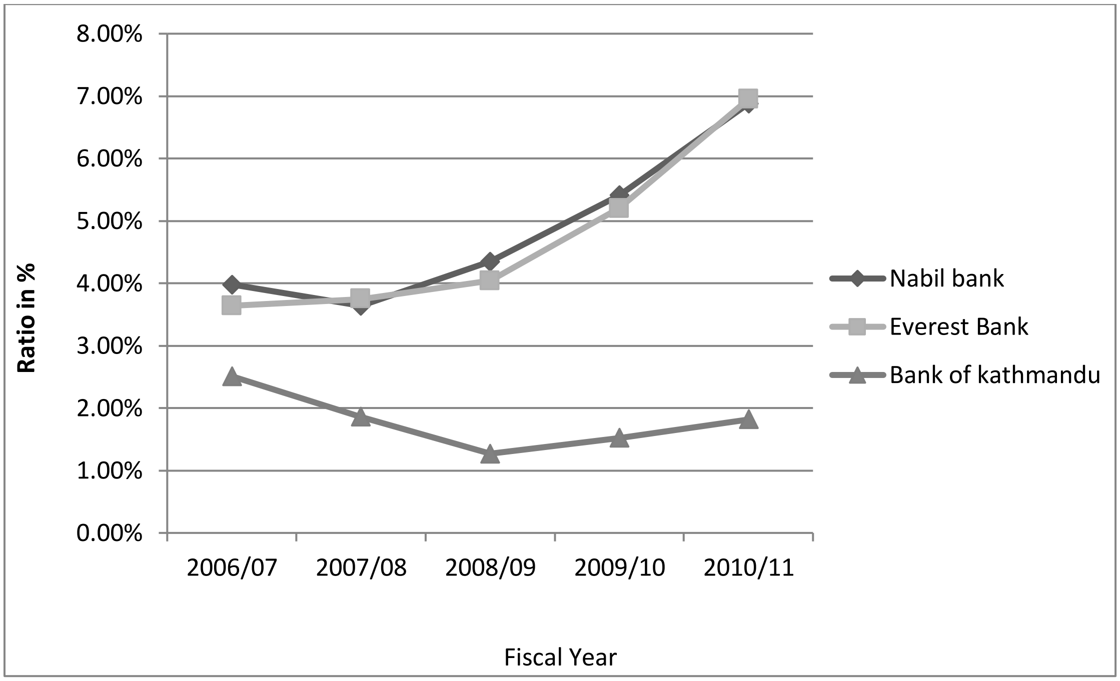
Source: Annual Report of Related bank (Annex 5)

All the banks have operating expenses in increasing trends. Over last five year Nabil bank Ltd has performed better than Bank of Kathmandu but weaker than Everest bank Limited.

Non performing loan of Nabil bank is increasing trend. Over last five year Nabil bank Limited has performed better than Bank of Kathmandu but weaker than Everest bank Limited.

Figure 4.4

Non Performing Loan / Total Loan



Source: Table 4.10

NBL has not been able to control non performing loan and its ratio is fairly high in comparison to EBL. Non-performing loan has increased significantly in current year due to increased lending in lucrative but risky real estate sec

4.5.3 Profitability Indicator Benchmarking

Table 4.11

Benchmarking of Profitability Ratio

Profitability - Indicator - Benchmarking	Unit	2006/07	2007/08	2008/09	2009/10	2010/11
Net Profit/Gross Income						
Nabil Bank	%	33.10%	30.73%	30.56%	24.14%	22.29%
Everest Bank	%	21.62%	24.17%	24.92%	16.49%	14.27%
Bank of Kathmandu	%	38.75%	41.89%	41.42%	37.93%	39.34%
Net profit/Total Assets						
Nabil Bank	%	2.47%	2.01%	2.35%	2.19%	2.30%
Everest Bank	%	1.38%	1.65%	1.73%	2.09%	2.10%
Bank of Kathmandu	%	1.80%	2.04%	2.25%	2.18%	2.44%

Source: Annual Report of Related bank (Annex 6)

Margins of all banks are falling due to increased competition and increased operating costs. BOK has been able to maintain better profitability and return on asset due to higher lending per deposits compared to others. Current year has been worst for all bank, however Bank of Kathmandu has performed better vis-à-vis to previous year.

All banks have return on assets on increasing trend vis-à-vis to previous year. Over five year off period Nabil bank Ltd. has performed better than Everest bank Ltd. and worst than Bank of Kathmandu.

4.5.4 Capital Adequacy Indicator Benchmarking

Table 4.12

Benchmarking of Capital Adequacy Ratio

Capital Adequacy - Indicator - Benchmarking	**Unit**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Adequacy of Capital Fund on Risk Weighted Assets						
Total Capital Fund						
Nabil Bank	%	12.04	11.10	10.70	10.50	10.58
Everest Bank	%	11.2	11.44	11.34	10.77	10.43
Bank of Kathmandu	%	12.62	11.93	11.68	10.85	11.62

Source: Annul Report of Related Bank (Annex 7)

For profitability reasons all banks have been maintain this indicator close to statutory requirement i.e.10. NBL has lower capital base than Bank of Kathmandu and higher than Everest bank Limited in Financial year 2010/11.

4.5.5 Market Indicator – Benchmarking

Table 4.13

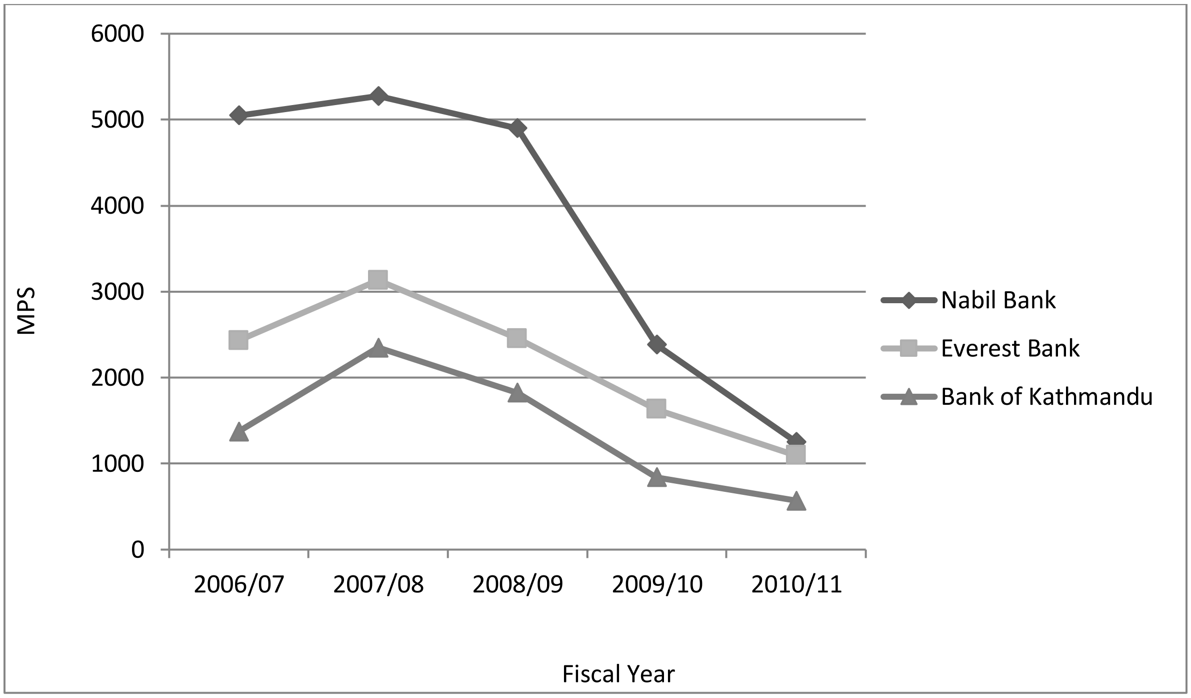
Benchmarking of Market Ratio

Market (Shareholder's) - Indicator - Benchmarking	**Unit**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Earnings per share						
Nabil Bank	Rs.	137.08	115.86	113.44	83.81	70.67
Everest Bank	Rs.	78.42	91.82	99.99	100.16	83.18
Bank of Kathmandu	Rs.	43.5	59.94	54.68	43.08	44.51
Market Value per share						
Nabil Bank	Rs.	5050	5,275	4,899	2,384	1,252
Everest Bank	Rs.	2430	3,132	2,455	1,630	1094
Bank of Kathmandu	Rs.	1375	2,350	1,825	840	570
Price Earnings Ratio						
Nabil Bank	Times	36.84	45.53	43.19	28.45	17.72
Everest Bank	Times	30.99	34.11	24.55	16.27	13.15
Bank of Kathmandu	Times	31.61	39.21	33.37	19.50	12.81

Source: Annual Report of Related Bank (Annex 8)

Figure 4.5

Market Share Price



Source: Table 4.13

EPS and Market value has fallen significantly along with its other competitor. Market ratio has been started falling down form FY 2007/08. EBL has maintained better position among these three. NBL has issued large number of shares and bonus dividend which have played role to reduce these indicators. The other reason is overall slump in the stock market due to global financial crisis. Price earnings ratio has fallen along with its other competitor. Nabil bank has maintained better position among these three.

4.6. Major Findings of the Study

The main findings of the study are carried out on the basis of the analysis of financial data of banks which are as follows:

- Political instability has created economic uncertainty and slow down of economic activity this has hampered banking sector organization as a well as Nabil bank also been effected by political factor.
- GDP has also fallen down which as adversely affected bank.
- Social – culture has been one environmental factor that have been favorable for overall banking sector which also have favorable effect in Nabil bank.
- Technological advancement has reduced the operating costs of bank.
- Nabil bank has been contributing a lot in environmental factor by making parks and gardens.
- Banks are affected by number of legal regulation and acts which are making banking industry difficult to lend their money freely.
- Nabil bank has large number customer so there are less bargaining power of customer.
- Few large institutions may have power to negotiate in relation to interest rate. However interest rate for the bank has been determine by regulatory and macroeconomic factors.
- Banking is only the field where most of the investor fell safe to invest their money and central bank has also open the door for most of the investor to invest their money in bank and it has also open door to foreign investor to invest in banking sector. Hence threat of new entrant is high.
- Due to low switching cost there is high threat in substitute.
- There has been huge number of banking institution which has led to high rivalry among competitors.
- Liquidity position in financial year 2010/11 has not shown good result compare to 2009/10. However the liquidity position in upcoming financial year may show the better result as the liquidity position of most of the commercial bank has been improved (as per Nepal Rastra Bank)

- Management efficiency ratio for the Nabil bank in Financial Year 2010/11 has not shown good result compare to 2009/10.
- Profitability ratio for the Nabil bank in Financial Year 2010/11 does not show better result compare to last year.
- Capital adequacy ratio in financial year 2010/11 has shown some improvement in compare to Financial Year 2009/10 for Nabil bank.
- One of the most hampered ratio due to political instability and economic recession is market ratio.
- Overall ratio of bank and financial institutions are started decline from FY 2007/06.
- Liquidity indicator of Nabil bank is better than Bank of Kathmandu. However it is not good in compare to Everest bank limited.
- Management efficiency of Nabil bank better than Bank of Kathmandu. However it does not perform well in compare to Everest bank limited.
- Nabil bank has performed well compare to Everest bank limited, however Bank of Kathmandu has perform well in term of profitability.
- Capital adequacy of Nabil bank seems quite riskier than Bank of Kathmandu and Everest bank.
- However market is deteriorating Nabil bank has performed better than both sample bank.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The proceeding chapter has discussed and explores the facts and matters required for the various parts of the study. Analytical part, which is the heart of the study, made a analysis of various aspects of the financial status and performances of commercial banks by using some important financial as well as Non financial. Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist finding and give recommendation for further improvement. This would be meaningful to top management of the banks to initiate action and achieve the desired results. The objective of the researcher is not only to point out errors and mistakes but to correct them and give advices and direction for further growth and improvement.

5.1 Summary

The macro economic factors have not been favorable for the banks during recent years mostly due to political instability and security concerns. The global financial crisis has hit the economic and banking sector badly. Banks who had for long had unusually high market value of shares suffered heavily losses on stock exchange. Competition stiffened and the real estate boom which helped boost profit in recent years has come to an end. As a direct result business and financial performance of Nabil bank has worsened compared to previous years. Overall industry has been hampered by external environment. The ratio and trend of overall bank does not shows very healthy position in compare to their last year ratio.

Though the economic growth was as snail speed in earlier year, it had caught its full sailing with restoration of democracy in the country. These days Nepal has been facing several economic problems due to the unrest condition. Financial analysis is the process of determine the significant operation and financial characteristics of a firm accounting data. It shows the relationship between the various components which can be found in balance sheet and profit and loss account. The analyzed statement contains that information which is useful for management, shareholders, creditors, investors, depositors etc. As in other industries banking industries also need financial analysis, as it is crucial for evaluating and analyzed the performances of the particular company as compare to the other and also from the previous performances of the same company. At present there are altogether thirty two commercial banks operating in the country among which Nabil bank occupied wide range of the business due to access to most of the corner of the country. Slowly private banks are also initiating to move towards every corner of the country but due to prevailing crisis they are not being able to meet their objects to reach to every corner of the country. Due to increasing competition banks are forced to innovate new products to their customer and they are also shifting from traditional service procedure to various sophisticated services like ATM card, debit card, credit card, housing loan, educational loans, vehicle financing etc.

Banking promotes the development of commerce to its extreme, as banking itself is the part of commerce economic activity remains that in absence of banking industries as it plays the role of catalyst for economic development of the country in the developing country where there prevail unorganized transactions. It helps to enhances economic activities of the country by providing capital funds for the smooth operation of business activities, create employment opportunities, investing agriculture, industry and soon.

In this study the objective functions, policies and strategies of foreign participated private commercial banks have been emphasized and analysed of their financial as well as non financial status and performances. Here, the main finding of the study is the financial and non financial status and financial performance and business analysis of Nabil banks has been presented. The financial data, statement of five consecutive years i.e. 2006/07 to 2010/11 has been examined for the purpose of the study. The study is mainly based on the primary and secondary data, which have been processed first and analysed comparatively. From this analysis of financial performances and business analysis of Nabil bank and making its comparison with Everest bank Limited and Bank of Kathmandu various findings are made as discuss in earlier chapter.

5.2 Conclusions

Political, Economic, Social, Technological, Environmental and Legal factors affect Nepalese banking sector. Political instability and economic slowdown has hampered the profitability of the bank. Similarly socio-cultural changes and technological advancement have present bank opportunities to expand customer base and enhance products. Legal factors like regulation from central bank for increasing capital adequacy, increasing lending diversification, allowing foreign banks to enter domestic market has reduced profitability of bank.

Competition in the banking sector has become intense. Unfortunately they are all concentrated in capital and large cities and share customer and supplier base. Being a retail banking buyers and suppliers has low bargaining power, but threat from substitutes and new entrants is quite significant. At the same time competitive rivalry is acute which has squeezed profitability. However Nabil bank has excellent history and brand recognition in market, has talented pool of human resource, has huge base of customers, suppliers, assets and markets. This has kept bank in a superior position among its competitors.

Strong brand reputation, excellent credit rating, large customer base are few key strengths of the bank however small branch network and concentration around cities is the major weakness. Size and economies of scale create a lot of opportunity for the bank. Possibility of a foreign bank opening branch in its market or its competitors consolidating to make a major bank is a big threat.

Regarding ratio analysis liquidity ratios have weakened this year than last year but bank is still sufficiently liquid to pay its debts as they fall due. Increase in operating expenses and non performing loan has indicated decreased managerial efficiency in current year compared to previous years. Current year’s profitability has decreased compare to previous years. The bank has maintained capital adequacy as required by the Central Bank of Nepal. Market ratios have followed the same trend and have indicated sharp decline in investor confidence. Hence current year’s business and financial performance has been worse over five years.

Most business and financial performance indicators of Nabil bank follow the same trend as their competitors. Nabil bank has lowest capital adequacy ratio and highest ratio of Non performing loans to total loans. This signal increased lending in risky sectors. However bank’s lower lending to deposits ratio compared to its competitors suggest good liquidity position. The profit margins have been moderate compared to its competitors.

In future the competition is likely to be more intense so the banks management has pursued the new and refined strategies to secure prosperous future of the bank. The focus has been to enter new markets by expanding branch network outside main cities, improve customer service

Significantly, minimize risk by diversification of investment and use latest state of art technology to provide appealing modern day banking products and services.

5.3 Recommendations

- The research has found political uncertainty, economic slowdown and increased competition has hampered profitability which will continue for future. One of the profitable sectors for banks, the booming real estate has slowed down significantly. At the same time confidence of investors has weakened. Time are hard and will get harder if not easy for days to come and Nabil bank is no exception however well placed it is.
- It is high time for the management to change the way they operate. The management needs to expand the branch network to regional areas untouched by the competitors. It is vital for the bank to be pioneer to tap potential of those untouched markets and market segments.
- Management should show technological leadership and exploit various cards, credits and online banking products appealing to the technology savvy younger generation which none of Nepalese banks have been given proper attention to.
- There is a huge deficiency of customer orientation among Nepalese banks compared to their international competitors. The culture, operating procedure and staffs should be made as customer friendly as possible. This will on one hand retain current customer base and on the other attract customers from rivals.
- The Bank shall enter into new markets and introduce new products, reengineer the product including continuous refinement in existing products/services.
- The Bank shall continue harnessing and making the most of the resources available to cash in on the opportunities in FY 2011/12.
- To shelter from the heat of competition and to maintain the high profitability level Nabil bank has achieved in past, the bank management have to pursue strategies to enter into new markets and services by a major

branch expansion. Similarly to minimize risk bank has to pursue strategy to diversify investment portfolio and adopt risk minimization policies. Serious improvement in banking products shall be carry on especially cards, ATMs and online banking, and quality of customer service.

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www.nepalstock.com

www.nrb.org.np

Appendix-1
UNILEVER NEPAL LIMITED
KATHMANDU, NEPAL
COMPARATIVE BALANCE SHEET

(Rs in Million)

Particulars/Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068
Capital & Liabilities					
1. Shareholders Funds					
a. Share Capital	92.07	92.07	92.07	92.07	92.07
b. Reserve & Retained Earning	142.73	178.62	566.64	724.27	818.31
Total	**234.8**	**270.69**	**658.71**	**816.34**	**910.38**
2. Current Liabilities & Provision					
a. Trade & Other payable	385.78	299.15	190.57	192.68	187.73
b. Short term loans					
c. Provisions	381.98	498.34	316.66	359.45	392.14
Total	**767.76**	**797.49**	**507.23**	**552.13**	**579.87**
Total Capital & Liabilities(1+2)	**1002.56**	**1068.18**	**1165.94**	**1368.47**	**1490.25**
Assets					
1. Fixed Assets					
a. Gross Fixed Assets	336.97	364.63	361.06	401.3	415.58
Less Depreciation	-209.08	-229.74	-239.43	-248.3	-267.1
Net Fixed Assets	127.89	134.89	121.63	153	148.48
Add Assets under construction	21.05	5.33	5.03	7.85	8.59
Total	**148.94**	**140.22**	**126.66**	**160.85**	**157.07**
2. Fixed deposit	**213.65**	**183.65**	**248.65**	**448.65**	**587.35**
3. Current Assets					
a. Inventories	321.62	410.12	245.75	443.18	429.75
b. Trade & Other Receivables	136.45	148.13	133.87	127.98	234.3
c. Cash & Bank Balance	101.6	98.99	382.05	163.27	57.04
d. Pre-paid Advance, Loan & Deposit	80.3	87.07	28.96	24.54	24.74
Total	**639.97**	**744.31**	**790.63**	**758.97**	**745.83**
Total Assets(1+2+3)	**1002.56**	**1068.18**	**1165.94**	**1368.47**	**1490.25**

Source: Annual Reports of Uni-Lever Nepal Limited, Fiscal years 2063/064-2067/068

Appendix-2

Calculation of Correlation between CA and TA

(Rs in Million)

F/Y	CA(X)	TA(Y)	dx=X-790.63	dy=Y-1165.94	dx^2	dy^2	dxdy
2063/064	639.97	1002.56	-150.66	-163.38	22698.44	26693.02	24614.83
2064065	744.32	1068.19	-46.31	-97.75	2144.62	9555.06	4526.80
2065/066	790.63	1165.94	0.00	0.00	0.00	0.00	0.00
2066/067	758.97	1368.47	-31.66	202.53	1002.36	41018.40	-6412.10
2067/068	745.83	1490.25	-44.80	324.31	2007.04	105176.98	-14529.09
N=5	3679.72	6095.41	-273.43	265.71	27852.45	182443.46	8200.45

$$r = \frac{N\Sigma\, dx.dy - \Sigma dx.\, \Sigma dy}{\sqrt{N\Sigma dx^2 - \Sigma(dx)^2}\ \sqrt{N\Sigma dy^2 - \Sigma(dy)^2}} = 0.49$$

$$PE = \frac{0.6745\,(1-r^2)}{\sqrt{N}} = 0.23 \qquad 6\ P.E = 6\times0.23 = 1.38$$

Appendix-3

Calculation of Correlation between CA and CL

(Rs in Million)

F/Y	CA(X)	CL(Y)	dx=X-790.63	dy=Y-507.23	dx^2	dy^2	dxdy
2063/064	639.97	767.76	-150.66	260.53	22698.44	67875.88	-39251.45
2064065	744.32	797.49	-46.31	290.26	2144.62	84250.87	-13441.94
2065/066	790.63	507.23	0.00	0.00	0.00	0.00	0.00
2066/067	758.97	552.13	-31.66	44.90	1002.36	2016.01	-1421.53
2067/068	745.83	579.87	-44.80	72.64	2007.04	5276.57	-3254.27
N=5	3679.72	3204.48	-273.43	668.33	27852.45	159419.33	-57369.20

$$r = \frac{N\Sigma\, dx.dy - \Sigma dx.\, \Sigma dy}{\sqrt{N\Sigma dx^2 - \Sigma(dx)^2}\ \sqrt{N\Sigma dy^2 - \Sigma(dy)^2}} = -0.69$$

$$PE = \frac{0.6745\,(1-r^2)}{\sqrt{N}} = 0.16 \qquad 6\ P.E = 6\times0.16 = 0.96$$

Appendix- 4

Calculation of Correlation Between inventory (I) and CA

(Rs in Million)

F/Y	I(X)	CA(Y)	dx=X-245.75	dy=Y-790.63	dx^2	dy^2	dxdy
2063/064	321.62	639.97	75.87	-150.66	5756.26	22698.44	-11430.57
2064065	410.12	744.32	164.37	-46.31	27017.50	2144.62	-7611.97
2065/066	245.75	790.63	0.00	0.00	0.00	0.00	0.00
2066/067	443.18	758.97	197.43	-31.66	38978.60	1002.36	-6250.63
2067/068	429.75	745.83	-360.88	-44.80	130234.37	2007.04	16167.42
N=5	1850.42	3679.72	76.79	-273.43	201986.73	27852.45	-9125.76

$$r = \frac{N\Sigma\, dx.dy - \Sigma dx.\, \Sigma dy}{\sqrt{N\Sigma dx^2 - \Sigma(dx)^2}\ \sqrt{N\Sigma dy^2 - \Sigma(dy)^2}} \qquad = 0.02$$

$$PE = \frac{0.6745\,(1-r^2)}{\sqrt{N}} \quad = \quad 0.31 \qquad 6\ P.E \ = \ 6\times0.30 \quad = 1.81$$

Appendix-5

Calculation of Correlation between Debtors and CA

(Rs in Million)

F/Y	Debtor(X)	CA(Y)	dx=X-133.87	dy=Y-790.63	dx^2	dy^2	dxdy
2063/064	136.45	639.97	2.58	-150.66	6.66	22698.44	-388.70
2064065	148.13	744.32	14.26	-46.31	203.35	2144.62	-660.38
2065/066	133.87	790.63	0.00	0.00	0.00	0.00	0.00
2066/067	127.98	758.97	-5.89	-31.66	34.69	1002.36	186.48
2067/068	234.30	745.83	100.43	-44.80	10086.18	2007.04	-4499.26
N=5	780.73	3679.72	111.38	-273.43	10330.88	27852.45	-5361.87

$$r= \frac{N\Sigma\, dx.dy - \Sigma dx.\, \Sigma dy}{\sqrt{N\Sigma dx^2 - \Sigma(dx)^2}\ \sqrt{N\Sigma dy^2 - \Sigma(dy)^2}} \qquad = 0.07$$

$$PE = \frac{0.6745\,(1-r^2)}{\sqrt{N}} \quad = \quad 0.30 \qquad 6\ P.E \ = \ 6\times0.30 \quad = 1.80$$

Appendix-6

Calculation of Correlation between CBB and CA

(Rs in Million)

F/Y	CBB(X)	CA(Y)	dx=X-133.87	dy=Y-790.63	dx^2	dy^2	dxdy
2063/064	101.60	639.97	-32.27	-150.66	1041.35	22698.44	4861.80
2064065	98.99	744.32	-34.88	-46.31	1216.61	2144.62	1615.29
2065/066	382.05	790.63	248.18	0.00	61593.31	0.00	0.00
2066/067	163.27	758.97	29.40	-31.66	864.36	1002.36	-930.80
2067/068	57.04	745.83	-76.83	-44.80	5902.85	2007.04	3441.98
N=5	802.95	3679.72	133.60	-273.43	70618.49	27852.45	8988.27

$$r = \frac{N\Sigma\, dx.dy - \Sigma dx.\ \Sigma dy}{\sqrt{N\Sigma dx^2 - \Sigma(dx)^2}\ \sqrt{N\Sigma dy^2 - \Sigma(dy)^2}} = 0.55$$

$$PE = \frac{0.6745\,(1-r^2)}{\sqrt{N}} = 0.21 \qquad 6\ P.E = 6\times0.21 = 1.26$$

Appendix-7

Calculation of Correlation between LAD and CA

(Rs in Million)

F/Y	LAD(X)	CA(Y)	dx=X-28.96	dy=Y-790.63	dx^2	dy^2	dxdy
2063/064	80.30	639.97	51.34	-150.66	2635.80	22698.44	-7734.88
2064065	87.07	744.32	58.11	-46.31	3376.77	2144.62	-2691.07
2065/066	28.96	790.63	0.00	0.00	0.00	0.00	0.00
2066/067	24.54	758.97	-4.42	-31.66	19.54	1002.36	139.94
2067/068	24.74	745.83	-4.22	-44.80	17.81	2007.04	189.06
N=5	245.61	3679.72	100.81	-273.43	6049.91	27852.45	-10096.97

$$r = \frac{N\Sigma\, dx.dy - \Sigma dx.\ \Sigma dy}{\sqrt{N\Sigma dx^2 - \Sigma(dx)^2}\ \sqrt{N\Sigma dy^2 - \Sigma(dy)^2}} = -0.64$$

$$PE = \frac{0.6745\,(1-r^2)}{\sqrt{N}} = 0.18 \qquad 6\ P.E = 6\times0.18 = 1.08$$

Appendix-8

Calculation of Correlation between WC and Sales(S)

(Rs in Million)

F/Y	WC(X)	Sales(Y)	dx=X-790.63	dy=Y-2625.82	dx^2	dy^2	dxdy
2063/064	639.97	1818.53	-150.66	-807.29	22698.44	651717.14	121626.31
2064065	744.32	2144.58	-46.31	-481.24	2144.62	231591.94	22286.22
2065/066	790.63	2625.82	0.00	0.00	0.00	0.00	0.00
2066/067	758.97	3055.07	-31.66	429.25	1002.36	184255.56	-13590.06
2067/068	745.83	3556.66	-44.80	930.84	2007.04	866463.11	-41701.63
N=5	3679.72	13200.66	-273.43	71.56	27852.45	1934027.75	88620.85

$$r = \frac{N\Sigma\, dx.dy - \Sigma dx.\, \Sigma dy}{\sqrt{N\Sigma dx^2 - \Sigma(dx)^2}\ \sqrt{N\Sigma dy^2 - \Sigma(dy)^2}} = 0.59$$

$$PE = \frac{0.6745\,(1-r^2)}{\sqrt{N}} = 0.20 \qquad 6\ P.E = 6\times0.20 = 1.20$$

Appendix-9

Calculation of Correlation between Inventory and Sales

(Rs in Million)

F/Y	I(X)	Sales(Y)	dx=X-245.75	dy=Y-2625.82	dx^2	dy^2	dxdy
2063/064	321.62	1818.53	75.87	-807.29	5756.26	651717.14	-61249.09
2064065	410.12	2144.58	164.37	-481.24	27017.50	231591.94	-79101.42
2065/066	245.75	2625.82	0.00	0.00	0.00	0.00	0.00
2066/067	443.18	3055.07	197.43	429.25	38978.60	184255.56	84746.83
2067/068	429.75	3556.66	184.00	930.84	33856.00	866463.11	171274.56
N=5	1850.42	13200.66	-2102.73	71.56	912608.33	1934027.75	76679.26

$$r = \frac{N\Sigma\, dx.dy - \Sigma dx.\, \Sigma dy}{\sqrt{N\Sigma dx^2 - \Sigma(dx)^2}\ \sqrt{N\Sigma dy^2 - \Sigma(dy)^2}} = 0.46$$

$$PE = \frac{0.6745\,(1-r^2)}{\sqrt{N}} = 0.24 \qquad 6\ P.E = 6\times0.24 = 1.44$$

Appendix-10

Calculation of Correlation between Debtor and Sales

(Rs in Million)

F/Y	Debtor(X)	Sales(Y)	dx=X-133.87	dy=Y-2625.82	dx^2	dy^2	dxdy
2063/064	136.45	1818.53	2.58	-807.29	6.66	651717.14	-2082.81
2064065	148.13	2144.58	14.26	-481.24	203.35	231591.94	-6862.48
2065/066	133.87	2625.82	0.00	0.00	0.00	0.00	0.00
2066/067	127.98	3055.07	-5.89	429.25	34.69	184255.56	-2528.28
2067/068	234.30	3556.66	100.43	930.84	10086.18	866463.11	93484.26
N=5	780.73	13200.66	111.38	71.56	10330.88	1934027.75	82010.69

$$r = \frac{N\Sigma\, dx.dy - \Sigma dx.\ \Sigma dy}{\sqrt{N\Sigma dx^2 - \Sigma(dx)^2}\ \sqrt{N\Sigma dy^2 - \Sigma(dy)^2}} = 0.65$$

$$PE = \frac{0.6745\ (1-r^2)}{\sqrt{N}} = 0.17 \qquad 6\ P.E = 6\times0.17 = 1.02$$

Appendix-11

Calculation of Correlation between CBB and Sales

(Rs in Million)

F/Y	CBB(X)	Sales(Y)	dx=X-382.05	dy=Y-2625.82	dx^2	dy^2	dxdy
2063/064	101.60	1818.53	-280.45	-807.29	78652.20	651717.14	226404.48
2064065	98.99	2144.58	-283.06	-481.24	80122.96	231591.94	136219.79
2065/066	382.05	2625.82	0.00	0.00	0.00	0.00	0.00
2066/067	163.27	3055.07	-218.78	429.25	47864.69	184255.56	-93911.32
2067/068	57.04	3556.66	-325.01	930.84	105631.50	866463.11	-302532.31
N=5	802.95	13200.66	-1107.30	71.56	312271.35	1934027.75	-33819.35

$$r = \frac{N\Sigma\, dx.dy - \Sigma dx.\ \Sigma dy}{\sqrt{N\Sigma dx^2 - \Sigma(dx)^2}\ \sqrt{N\Sigma dy^2 - \Sigma(dy)^2}} = -0.05$$

$$PE = \frac{0.6745\ (1-r^2)}{\sqrt{N}} = 0.30 \qquad 6\ P.E = 6\times0.30 = 1.80$$

Appendix-12

Calculation of Correlation between LAD and Sales

(Rs in Million)

F/Y	LAD(X)	Sales(Y)	dx=X-28.96	dy=Y-2625.82	dx^2	dy^2	dxdy
2063/064	80.30	1818.53	51.34	-807.29	2635.80	651717.14	-41446.27
2064065	87.07	2144.58	58.11	-481.24	3376.77	231591.94	-27964.86
2065/066	28.96	2625.82	0.00	0.00	0.00	0.00	0.00
2066/067	24.54	3055.07	-4.42	429.25	19.54	184255.56	-1897.29
2067/068	24.74	3556.66	-4.22	930.84	17.81	866463.11	-3928.14
N=5	245.61	13200.66	100.81	71.56	6049.91	1934027.75	-75236.55

$$r = \frac{N\Sigma\, dx.dy - \Sigma dx.\ \Sigma dy}{\sqrt{N\Sigma dx^2 - \Sigma(dx)^2}\ \sqrt{N\Sigma dy^2 - \Sigma(dy)^2}} \qquad = -0.87$$

$$PE = \frac{0.6745\ (1-r^2)}{\sqrt{N}} \quad = \quad 0.07 \qquad 6\ P.E \ = \ 6\times0.07 \qquad = 0.42$$