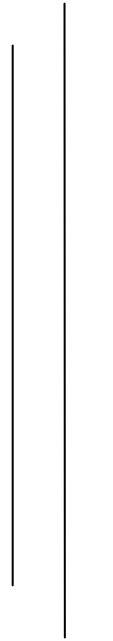


**A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE
ANALYSIS OF COMMERCIAL BANKS OF NEPAL
(WITH REFERENCE TO NABIL AND NIBL)**

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



**In partial fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S)**

**Putalisadak, Kathmandu
October, 2012**

RECOMMENDATION

This is to certify that the thesis

Submitted by:

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Entitled

**‘A Comparative Study on Financial Performance Analysis of
Commercial Banks of Nepal (With Reference to NABIL & NIBL)’**

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**‘A Comparative Study on Financial Performance Analysis of
Commercial Banks of Nepal (With Reference to NABIL & NIBL)’**

Found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Degree of Master in Business Studies (MBS).

Viva-Voce Committee

Head of Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**A Comparative Study on Financial Performance Analysis of Commercial Banks of Nepal (With Reference to NABIL & NIBL)**”, submitted to the Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Degree of Master’s in Business Studies (MBS) under the supervision of Prof. Shilu Manandhar Bajracharya, Lecturer at Shanker Dev Campus, Kathmandu.

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This thesis entitled “**A Comparative Financial Performance Analysis of Commercial Banks of Nepal (with reference to NABIL & NIBL)**”, has been prepared in partial fulfillment for the degree of Master’s of Business Studies (MBS), as required by the Office of the Dean, Faculty of Management, Tribhuvan University.

This thesis is a product of innumerable help and support kindly provided to me by various persons to who I am highly thankful. Therefore, I would like to express my deepest sense of gratitude to all those individuals, who have provided me with the assistance and guidance needed to complete this task all along the way.

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Rashmi Bajracharya

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List of Abbreviation

ADB	:	Agriculture Development Bank
ANZG	:	Australia and New Zealand Banking Group
BVPS	:	Book Value Per Share
C.V	:	Coefficient of Variation
DPS	:	Dividend Per Share
DYR	:	Dividend Yield Ratio
DBL	:	Dubai Bank Limited
DBC	:	Dubai Bank Limited
EBIL	:	Emirates Bank International Limited
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
EBIL	:	Emirates Bank International Limited
FY	:	Fiscal Year
HBL	:	Himalayan Bank Limited
IFIC	:	International Financial Investment and Commerce Bank Ltd
JVBs	:	Joint Venture Banks
KBL	:	Kumari Bank Limited
Ltd	:	Limited
LuBL	:	Lumbini Bank Limited
LaBL	:	Laxmi Bank Limited
MVPS	:	Market Value Per Share
MBL	:	Macchapuchhre Bank Limited
NABIL	:	Nepal Arab Bank Limited
NIBL	:	Nepal Investment Bank Limited
NBBL	:	Nepal Bangladesh Bank Limited
NRB	:	Nepal Rastra Bank
NRs.	:	Nepalese Rupees
NIDC	:	Nepal Industrial Development Center

NIC	:	Nepal Industrial and Commercial Bank Limited
NBL	:	Nepal Bank Limited
NEPSE	:	Nepal Stock Exchange
NSBIBL	:	Nepal SBI Bank Limited
P/E	:	Price Earning Ratio
ROE	:	Return on Equity
ROA	:	Return on Total Assets
SCBNL	:	Standard Chartered Bank Nepal Limited
SDK	:	Sainik Drabya Kosh
S.D	:	Standard Deviation
i.e	:	That is

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CHAPTER I

INTRODUCTION

1.1 Background of the Study

Financial sector is one of the most important sectors in every economy. Economic Development results from the combination of different factors together but financial institution play the catalyst role in the process of economic growth. The prosperity and development of every nation depends very much on how the financial sector plays a role in transfer of its funds. Financial sector has been seen as the linkage factor of the various sector of the economy, thus it helps to develop the economy as a whole. The history of financial institution in Nepal is not so long. Within a short span of time, Nepal has witnessed tremendous growth of financial institution. Earlier, Nepal's financial history was totally government initiated and thus the major dominance of government was seen but the government's overall macro-economic strategy to follow the liberal economic policy has encouraged the growth of joint venture banks and other financial institutions. The economic reforms initiated by the government more than a decade ago have changed the whole scenario of several sectors of Nepalese economy significantly and Nepalese banking sector is no exceptional.

Commercial banks are one of the major and largest of all financial intermediaries. They play crucial role in the economic development of any country. They act as an intermediary between depositors and lenders and facilitate in the uplift of the economy as a whole. Its primary function is the transfer of monetary resources from savers to users. They have the widest range financial activities and provide a large amount of money supply. It canalizes the capital formed in needed sector. What so ever be the facts behind their operation but the main two purpose behind their operation is earning profit and meeting social needs.

Hence we can say that financial markets play a key role in the development of a country and they are the intermediary link in facilitating the flow of fund from into productive investment which ultimately helps to accelerate economic growth of the country.

1.1.1 Meaning and Origin of Bank

“Banks are financial institution that offers the widest range of financial services specially credit, savings, payment services and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank resource and functions has led to banks being labeled as financial supermarkets and to familiar advertising slogans as "Your Bank – a full service financial institution.” (Vaidya; 1999: 35).

In other words, Bank is an organization that deals with money by accepting various types of deposits, disbursing loan and rendering other financial services. Broadly speaking, bank draws money from the people who are not using it at time and lend to those who are in position to use it for productive purposes. In other words, it is an institution that accepts the deposits from people and in turn advance loan by creating credit. In this process, they earn interest and commission, out of which they pay interest to the depositors i.e. People who deposits fund with them.

The definitions of banking quoted by Dahal, Sarita and Bhuwan (2002:07) are as follows.

- A bank is an organization whose principal operations are concerned with accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure.
- Banking means the accepting for the purpose of lending or investment of deposits of money from the public repayable on demand or otherwise, and withdrawal by cheque, draft or otherwise.
- Any institution offering deposits subject to withdrawal on demand and making loan of commercial or business nature is a bank.

Above definitions are applicable to all types of financial intermediaries. In fact, ‘banks’ now a day, do a large number of financial transactions while ‘financial institutions’ are authorized to do limit transaction only. Hence, a bank can be defined as a “financial departmental store” which renders a host of financial services besides taking deposits and giving loans (Sarita & Bhuwan2002:02)

Banks are basically concerned with the transcend of money; however, today's banks are established for specific purposes. Different types of banks focus different types of services

to their customers although the basic principle is the same. The main types of bank in world are as follows:

- a. Central Bank
- b. Clearing bank
- c. Commercial bank
- d. Consortium bank
- e. Cooperative bank
- f. Correspondent bank
- g. Exchange bank
- h. Industrial banks
- i. Export-import bank
- j. Land banks
- k. Mixed banks
- l. Saving bank

These banks provide different types of services to the people. Basically banks performs various types of services like collection of deposits, granting loans to the investors in different sectors, overdraft, guarantee against payment, letter of credit, discounting bills, promissory notes, selling of shares etc.

1.2 An Introduction of Sample Banks

Out of many top commercial banks operating in Nepal, Nepal Arab Bank Limited (NABIL) and Nepal Investment Bank Limited (NIBL) have been selected as best samples for study on the basis of market capitalization. Market Capitalization of any company reflects the total value of a firm's equity currently available in the market. M-cap is calculated by multiplying the number of outstanding common share of the firm and the current trading price of those shares. The selected banks stood as the prominent commercial banks among different banks on the basis of this methodology. The "free Float market capitalization weighted:" methodology is a widely followed index construction methodology on which majority of global equity benchmarks are based. The brief description about the selected banks is as follows:

1.2.1 NABIL Bank Limited

Nabil Bank Limited is the first foreign joint venture bank of Nepal which started its operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 47 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

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

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

Vision, Mission & Values of Nabil Bank

- **Vision Statement:** Emerging as a FIRST RATE BANK for all geopolitical zones & socioeconomic stratum of the nation that can provide myriads of financial solutions & create values for all stakeholders while fulfilling all economic & civil roles serve as Vision Statement of Nabil.
- **Mission Statement:** Everyone at Nabil work together up to their vision to bring it into reality. Its mission is therefore to prove to all that Nabil is driven by the spirit for realizing those visionary aspirations. With that end in view, they work in partnership with all stakeholders & community, reengineer its product with best technologies & management philosophy focusing customer satisfaction above everything & become a 1st CHOICE PROVIDER OF COMPLETE FINANCIAL SOLUTIONS.

- **Values Statement:** Nabil surges to turn out its services & products into economic values for its treasured customers, taking care of their financial needs. This bank has set C.R.I.S.P as its values, which it lives by in day to day operation of the bank's business:

C : Customer Focused
R : Result Oriented
I : Innovative
S : Synergistic
P : Professional

Table No -1. 1

Capital Structure of NABIL

Authorized Capital	Rs. 2,100,000,000
Issued Capital	Rs. 2,029,769,400
Paid Up Capital	Rs. 2,029,769,400
Par Value Per Share	Rs. 100
No. of Shares	20,297,694

Data Source: www.nabil.com.np

1.2.2 Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

NIBL, which is managed by a team of experienced bankers and professionals having proven track record, can offer us what we are looking for. They are sure that our choice of a bank will be guided among other things by its reliability and professionalism.

Vision, Mission, Value and Ethics

- **Vision Statement :** “The Vision of NIBL is to be the most preferred provider of Financial Services in Nepal”
- **Mission Statement:** To be the leading Nepali bank, delivering world class service through the blending of state-of-the-art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all stakeholders is the Vision of NIBL. They are

committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance.

➤ **Core Values and Ethical Principles:** The core values of NIBL tells about its customers and the communities they serve, who they really are; what they are about; and the principles by which they pledge to conduct business. In essence, they believe that success can only be achieved by living their core values and principles:

- ◆ **Customer Focus**
- ◆ **Quality**
- ◆ **Honesty and Integrity**
- ◆ **Belief in our people**
- ◆ **Teamwork**
- ◆ **Good Corporate Governance**
- ◆ **Corporate Social Responsibility**

Table No -1. 2

Capital Structure of NIBL

Authorized Capital	Rs. 4,000,000,000
Issued Capital	Rs. 2,409,097,700
Paid Up Capital	Rs. 2,409,097,700
Proposed Bonus Shares	Rs. 602,274,475
Par Value Per Share	Rs. 100
No. of Shares	24,090,977

Data Source: www.nibl.com.np

1.3 Statement of the Problem

A well functioning banking system is an essential element in economic growth. A Good banking system is supposed to mobilize savings from households and business in low cost of financing activities and channel funds to the most productive investment opportunities. Though banks could maintain their position in the banking industry, it cannot be predicted that the banks would continue to maintain its profitability and stability of earnings because of the tough competition in this sector.

This study attempts to evaluate the financial performance of selected commercial banks of Nepal by using various measuring financial and statistical tools such as financial ratios, income and expenditure statement analysis and other necessary analysis. This study provides the answer to the following issues:

- a. What are the comparative liquidity, profitability, activity, stability, solvency and capital adequacy position among selected two commercial banks?
- b. Are the positions of non-performing assets (NPA) of these two commercial banks in line with standard?
- c. Are the trends of different ratios of these banks satisfactory?
- d. Are the banks utilizing their resources effectively?
- e. What is the overall performance and effectiveness of the bank?

1.4 Objective of the Study

The basic objectives of the study are to examine and evaluate the overall financial performance and effectiveness of the selected two commercial banks. The objective has been further specified in the following sub-objectives:

- a. To examine the financial performance of the banks and to analyze the financial soundness of the bank.
- b. To calculate and compare efficiencies, valuation, profitability, liquidity, capital structure etc of two sample commercial banks.
- c. To analyze the financial strength and weakness of these banks.
- d. To provide suggestions and recommendations for the improvement of the future performance of NABIL Bank Ltd. and Nepal Investment Bank Limited based on the finding of analysis.

1.5 Significance of the Study

Banking sectors has been one of the major contributors to national economy by providing variety of disbursement to different sectors, enabling to boost the GDP. Hence, the performance of this sector needs to be above the par to any other field. The financial performance of commercial banking sector should be very much capable in enhancing the capital market as well. It is therefore, imperative that this study bears importance to the following main stakeholders:

- a. Lenders and borrowers of these banks.
- b. Management of these banks
- c. Policy makers of these banks

d. Shareholders, customers and general public

e. Others financial users and all other interested individual and parties

1.6 Limitations of the Study

Despite the ample efforts on the part of the researcher, this study is also not free from limitations. This is mainly due to time and resource constraints on the part of the researcher. The study has the following limitations:

- There are more than 17 commercial banks operating with in Nepal. Since the study deals with only two commercial banks namely NABIL & NIBL. The conclusion drawn from the study may not applicable to other banks.
- The whole study is concentrated in financial aspect of two banks. It does not cover the other areas of the banks.
- There are many financial & statistical tools used to study the financial performance. But the researcher has used limited tools for this study.
- The study covers the period of five years starting from FY 2062/2063 to FY 2067/2068 of two banks. Hence conclusions drawn are confined only the above period.
- The whole study is based on secondary data from the annual report of the banks. Similarly, the study focused on Balance Sheet & Profit And Loss A/C maintained by banks & published in annual reports. Hence, the accuracy of the data depends upon the credibility of Annual Reports of the Selected Banks.

1.7 Organization of the Study

The present research has been organized into the following chapters.

Chapter – I: Introduction

This chapter includes background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study.

Chapter - II: Review of Literature

This chapter reviews the existing literature on the concept of banking, concept of commercial bank, concept of joint-venture banks, development of banking system in Nepal, an brief profile of Standard Chartered Bank Nepal Ltd, Nepal Arab Bank Ltd., and Nepal Investment Bank Ltd. It also contains reviews of journals and articles, and earlier thesis related to the subject.

Chapter - III: Research Methodology

This chapter expresses the way and technique of the study applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and method of analysis.

Chapter - IV: Data Presentation and Analysis

In this chapter collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools.

Chapter - V: Summary, Conclusion and Recommendations

In this chapter, summary of whole study, conclusions and recommendations are made.

At the end of the study Bibliography and Appendices have also been incorporated.

CHAPTER II

REVIEW OF LITERATURE

Review of literature is the compilation of the research that has been published on a topic by recognized scholars and researchers. It is basically stock taking of available literature in the field of research. The main purpose of literature survey is to find out what studies have been conducted in one's chosen field of study and what remains to be done. It provides the foundation for developing the comprehension theoretical framework from which hypothesis can be formulated and minimize the risk of pursuing dead ends in research with related topic & good idea of the problem. The researchers also can derive knowledge from what has been written concerning his/her topic. The other major purpose of raving the literature is to develop some expertise knowledge in ones area to see what new contribution can be made, and receive some idea for developing a research design.

In short the significant importance of review of literature are:

- To identify the problem
- To determine the methodology for research work
- To draw the scope of studies
- To avoid unintentional replication of previous studies
- To interpret the significance of researcher results in a precise manner

This chapters is organized into three headings; conceptual framework, review of related articles and review of different masters' theses.

2.1 Conceptual Framework

2.1.1 Concept of Banking

There are various concepts among the economist about the origin of the word 'Banking'. The term Bank derived from the Latin word-'Bancus' that refers to the bench on which the banker would keep its money and his record. Some people trace its origin to the Italian word-'Banca'and the French word –'Banque' that means a bench for keeping and exchanging of money in the market.

Generally, an establishment authorized by a government to accept deposits, pay interest, clear checks, make loans, act as an intermediary in financial transactions, and provide other financial services to its customers is known as “Bank”. In 1899, the United States Supreme Court (Austen) used these words to define a bank:

"A bank is an institution, usually incorporated with power to issue its promissory notes intended to circulate as money (known as bank notes); or to receive the money of others on general deposit, to form a joint fund that shall be used by the institution, for its own benefit, for one or more of the purposes of making temporary loans and discounts; of dealing in notes, foreign and domestic bills of exchange, coin, bullion, credits, and the remission of money; or with both these powers, and with the privileges, in addition to these basic powers, of receiving special deposits and making collections for the holders of negotiable paper, if the institution sees fit to engage in such business."

Banking institutions are largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending them in different sectors of the economy. This sector has now reached even to the most remote areas of the country and has contributed a good deal to the growth of the economy. By lending their resources in small-scale industries under intensive banking program, the banks have contributed to the economic growth of the economy. Banks debt-usually referred as ‘Bank Deposit’ is commonly accepted in final settlement of debt of other people. It is different from other financial institution in the sense that they cannot create credit though they may be accepting deposits and making advances. Thus, bank’s business was basically to buy and sale of credit. Credit instruments are kept on stock-in-trade also on the basis of its own credit and banks create money transferred by credit instruments. They must gain the confidence and trust of the people to create credits. It is said that the flow of credit is very much important like the circulation of blood in human life. If the circulation of blood is not smooth it will do irreparable harm to the body. Similarly, unsteady and unevenly flow of credit harms the economy. Bank came in existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sectors and causing an overall economic development. That mobilized deposits contribute to the development of economic infrastructure of the nation. Banks are not just storehouses of the wealth but are reservoir

of resources. The contribution of the bank has been very substantial in increasing production and employment by motivating people to save and in collecting the scattered saving in the form of deposits. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

The present- day bankers have three ancestors: Merchant, Moneylender and Goldsmith. A modern bank is something of each of these. It is said money has two properties. It is flat so it can pile up and it is round so that it can circulate. The progeny of the moneylender concern flat money piled up money and savings. The progeny of goldsmith are concern with round money circulating money cash. Modern banks have been developed from very beginning. The earlier bankers were merchants, goldsmith and moneylender.

History tells us that it was the merchant banker who first evolved the system of banking by trading in community then money. Their trading activities required the remittance of money from one place to another.

Next stage in the growth of banking was goldsmith. The business of goldsmith was such that he had to take deposit such as bullion, money and amendments for security from theft. This makes possible the goldsmith to change something case of money and bullion. On the other hand, as the evidence of securing valuables, he used to issue a receipt to the depositors as such receipts are used for payments equivalent to amount mentioned. It became like a modern cheque as a medium of exchange and means of payments.

Finally, moneylender in the early age contributed in the growth of banking to large extent. He advances the coins on loan by charging interest. As safeguard he used to keep some money in the reserve. Therefore, moneylender became banker who started performing the two functions of modern banking i.e. accepting deposits and advancing loans.

Moneylenders in the streets of major cities of Europe used bench for acceptance and payment of valuable and coins. When they were unable to meet their liabilities the depositors used to break their bench. The term-Bankruptcy is derived thereof. It is difficult to say exactly whether the term 'Bank' has been derived from 'bancus' or German word 'Bank' that means Joint Stock Company.

Despite the strong criticism by the church on charging interest, modern banking sowed its seed in the medieval Italy. Bank of Venice was the first established in 1157 AD in Venice. Italy is regarded as the motherland of first modern bank. The Bank of Barcelona and Bank of Geneva were established in 1401 and 1407 respectively. Bank of Amsterdam set up in 1609 was very popular. These modern banks gradually replaced goldsmith and moneylender in Europe. The Bank of Hindustan established in 1770 is regarded as the first bank in India. Though, Bank of England was established in 1694, the growth of banks accelerated only after the introduction of banking act 1833 in United Kingdom as it allowed opening Joint Stock Company.

2.1.2 Origin and Growth of Banking System in Nepal

Like other countries, Goldsmith, Merchant and Moneylender were the ancient bankers in Nepal. In respect to the evolution of banking system in Nepal, which is derived on the ground of historical facts that existed during the Lichhabi period, King Gunkamdev had borrowed money from the rich people to build the city. The historical record shows that Gunkamdev, the king of Kathmandu, borrowed money to rebuild his kingdom in 723AD. Some fifty-seven years thereafter, a merchant 'Shankhadhar' introduced 'Nepal Sambat' by clearing all the indebtedness of the people in 880AD. This clearly proved that money-lending practices were prevalent at that time.

Later, during the regime of Mallas, money-lending business became more penetrating and popular. Towards the end of the 14th century, Jayasthiti Mallas, the ruler of Kathmandu, divided the people in sixty-four classes on the basis of their occupation. Among them one was Tankadhari and the people belonging to this class were engaged in money lending business. It is believed that the money lending business became quite popular in the reign of Mallas, particularly in financing the trade with Tibet and India. However, these moneylenders advanced loan against personal security of land, building etc and were free to charge any amount as interest and other. This gave birth to malpractices, frauds and exploitation in the whole Nepalese society.

Thus, it was the duty of government to control the malpractices of the moneylenders and to set up a financial institution to make easy credit facilities for the general people. As a

result, with growing consciousness and awareness of this, 'Tejarath Adda' had been established as an institution, during the period of Rana, under the Prime minister ship of Ranodip Singh in 1933 B.S. Tejarath Adda did not collect deposits from the public but gave loan to employees and public at 5 percent interest on the security of gold and silver ornaments. On the whole, it was not viewed as Bank. (Ojha & Rajbahak, 1968:08).

However, Tejarath Adda could be considered as the father of modern banking institution as it adapted one of the elementary functions of granting loans against gold, silver and other collateral, which is more or less similar to the modern banking system. It did not accept deposits, which probably were not considered then to be the function of banking. Although, credit facilities of Tejarath were extended to some other sectors during the Rana Prime Minister ship of Chandar Shamsheer (1901-1929AD), it could not meet the credit needs of the entire society. It was the government institution, which basically benefited the government officials. And the general public still had to depend chiefly on the local moneylenders. In such a complex and critical situation, it had become apparent to the government to take some necessary steps in this regard.

After then, another financial institution was established in 1991 BS as a named of 'Sainik Drabya Kosha' especially for the future welfare of government staffs. Before commencement of 'Sainik Drabya Kosha' the government staffs of that period had to face much more economic difficulties after the retirement from the office (Shakya 2040:40)

The council of industry was organized in 1993BS for the development of trade & industry, which was eventually followed by a corporate sector commercial bank-Nepal Bank Limited (NBL) in the joint effort of numbers of individual and the government. The Tejarath was replaced by Nepal Bank Limited, which marked the beginning of new era in the history of modern banking in Nepal.

Modern banking started with the inception of NBL under the Nepal Bank Act 1936 in BS1994-07- 30(1937). NBL had Herculean responsibilities of attracting people towards the banking system from pre-dominant moneylenders and to expand banking services. Being a

first Commercial Bank it was natural that NBL paid more attention to profit generating business and opened branches at urban centers.

NBL was established with 49% government share and 51% share of general public. However, private shareholders controlled NBL till 1951 and it was only in 1952 that HMG increased its share ownership in NBL to 51% in order to hold control over its management. The Bank was one of the major ventures to be floated under the venture company principle with an authorize capital of Rs 10 million: one fourth of which was issued at once. It was established to solve the prevailing financial inconvenience of the people, to uplift the economic development of country by institutionalizing trade and commerce and by assisting other development activities. Till the foundation of Nepal Rastra Bank (NRB), NBL remained the only one financial institution of the country with the growing realization about the coordination and promotion of banking activities in the country. The establishment of central bank had become immensely an urgent task. Thus, Nepal Rastra Bank (NRB) was set up on BS 2012-01-14 as a central bank with an authorized capital of Rs 10 million fully subscribed by the HMG under Nepal Rastra Bank Act 2012 BS. NRB was credited for the purpose of issuing notes, bringing stability in the exchange of Nepalese currency. Similarly, carrying out transaction of Nepalese currency over the kingdom and encouraging industries after making the capital dynamic for the development of the country, prior to emergence of NRB the note issuing authority was vested with the 'MULUKIKHANA' the Government treasurer office. Since then, it has been functioning as government's bank and has contributed to growth of financial sector. The major challenge before NRB today is to ensure the robust health of financial institution. Accordingly, NRB has been trying to change them and has introduced a host of prudential measure of safeguard to interest of public. NRB is yet to do a lot to prove them an efficient supervision. NRB really requires strengthening their policymaking, supervision and inspection mechanism (Sarita & Bhuwan, 2002:11)

The preamble of NRB Act lays down the aims of the bank as being that of regulating the issue of paper money, securing country-wide circulating of Nepalese currency and achieving stability in its exchange rate; mobilizing capital for economic development and

for stimulating trade and industry and developing the banking system in the country; and later on an incorporated by the amendment in 1964, ensuring facilities and maintaining economic interest of general people. The foundation of NRB set a milestone in the history of banking in Nepal, novel way of thinking and a new spirit in the field of banking. By 2013 BS (1957 AD), Nepal Industrial Development Center (NIDC) was established with an authorized capital of Rs 20 million as a financial institution. NIDC has made a great contribution for the development of financial institution in Nepal. In 2016 (1959), it was converted to Nepal Industrial Development Corporation (NIDC). Since its establishment in 1959, NIDC has been playing a significant role in industrialization of Nepal by providing technical and financial assistance for the establishment, expansion and modernization of the industrial projects in the private sectors. The basic objective of NIDC is to assist and encourage private enterprise by providing financial resources and technical guidance.

Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corner of the c`ountry. Keeping this in mind, the government set up Rastriya Banijya Bank (RBB) in BS 2022-10-10 as a fully government owned commercial Bank (Sarita & Bhuwan, 2002:11). In the view of providing facilities to the general people and to manage for economic aids, it was identified with sole ownership of the government with the authorized capital of Rs 10 million and paid up capital of Rs 3 million. Its objectives were confined to facilitate economic aids for the general public to provide loan for industry, trade and commerce and to supply banking services to the people properly.

In the development of financial institution, Agriculture Development Bank (ADB) was another significant achievement. It was set-up 2024-10-07 (1967AD) with an authorized capital of Rs 50 million to provide finance for agricultural products so that introducing modern agriculture techniques could enhance agricultural productivity. Its functions are to provide loans for development of agriculture sectors, personal and agricultural enterprise for the purpose of economic development of the country to work as a commercial bank and to distribute loan for the execution of severs programs.

No foreign banks were opened in the country before 1984. There were no provisions made in the Commercial Bank Act for the entry of foreign bank into the financial system of Nepal up to 1984. Commercial Bank Act 1984 has however, made provisions to permit foreign banks to operate in the country by obtaining the approval of NRB. The creation of efficient monetary arrangement and reformation of the financial system of the country could make an important contribution to mobilize more domestic resources to finance and implement the policy of economic acceleration of the country.

Therefore, the three, most dramatic and far-reaching, financial reforms programs were carried out in 1980. They were: allowing the foreign banks to operate as joint venture, lifting the control on interest rate and introducing the Government's action on securities.

With the aim to provide quality-banking services, enhance efficiency and healthy competition, foreign investment & new technology in banking sectors was introduced. Following the liberalization path for the foreign banks, three joint ventures banks were initiated with a view to encourage efficient banking services, which is the pre-condition for the economic development, industrialization and growth of the country in 1980s. However, excess political and bureaucratic interference and absence of modern managerial concept was hurdled in the operation of institutions as conceived of. Banking service to the satisfaction of customer was a far cry.

Nepal Arab Bank Limited, currently known as NABIL was established as the first Joint Venture Bank in the 12th July 1984. It has proved to be a milestone in the history of modern Banking in Nepal. Nabil Bank gave a new ray of hope to the sluggish financial sectors (Sarita & Bhuwan, 2002:12). It was established under the company Act 1965 and executed in accordance with Commercial Bank Act 1974. Dubai Bank Limited (DBL) was the initial foreign partner with 50% equity investment. Later on, the shares owned by DBL were transferred to Emirates Bank International Limited (EBIL) in accordance with the joint venture and technical services agreement between Nepalese promoters and DBL. NABIL has Rs 130 million authorized capital. Similarly, Nepal Indosuze Bank Limited, currently known as Nepal Investment Bank was established as second joint venture in BS

2042-11-16 (1986AD) with a view to encourage efficient banking services and facilities. It was a joint venture between Nepalese & French partners. The French partners, Credit Agricole Indosuze, a subsidiary of one of the largest banking group in the world, had hold 50% of the capital of NIBL. The Nepalese partners of the NIBL were RBB with 15% share, of Rastriya Beema Sansthan and 20% share of general public.

It had an authorized capital of Rs 120 million and paid up capital of Rs 60 million. Nepal Grindlays Bank Limited was established as third joint venture bank, venture with Grindlays Bank P.L.C London in 30th January 1987. The bank has been operated with authorized capital of Rs 200 million and paid up capital of Rs 100 million and been formed under joint venture principal capitalizing on behalf of foreign and domestic nation. The 50% investment was of Grindlays bank of London, NBL constitutes 35% of its share and 15% share of general public. It had been executed under the direction of Australia and New Zealand Banking Group (ANZG). Now, this group has been taken over by Standard Chartered Group at international level. It was renamed as Standard Chartered Bank Nepal Limited on 13th July 2001.

With a novel zeal and confidence to compete, Himalayan Bank Limited (HBL) emerged among the Nepalese people. HBL, a joint venture bank Habib Bank of Pakistan, was established in 1992 under the Company Act 1964. This is the first joint venture bank managed by Nepalese chief executive. The operation of bank started from 1993 February. The main objectives of bank is to provide modern banking facilities like Tele-Banking to the businessmen, industrialists and other professionals and to provide loans for agriculture, commerce and industrial sectors. Promoters' holds 51% share, Habib Bank Limited of Pakistan has 20% share, 14% share of Employees Provident Fund and Nepalese citizen investment fund has 15% share. The bank has authorized capital of Rs 240 million and paid up capital of Rs 120 million.

HBL was followed immediately by another venture bank. Nepal SBI Bank Limited was established under joint venture with State Bank of India Limited and Nepali promoters under the Company Act 1964 in 8th July 1993. State Bank of India manages the Bank

under the joint venture and technical services agreement signed between it and Nepali promoters' viz. Employees Provident Fund and Agricultural Development Bank Nepal. The State Bank of India has 50 % shares. The main objective of the Bank is to carry out modern banking business in the country under the Commercial Bank Act, 1974. The bank provides loan to agriculture, commerce and industrial sector. It has authorized capital of Rs 240 million and Rs 980 million paid up capital.

Later on, Nepal Bangladesh Bank Limited (NBBL) came into the horizon of the Nepalese banking areas. It was inaugurated on June 6, 1994. International Financial Investment and Commerce Bank Ltd (IFIC) of Bangladesh and Nepali Promoters jointly made investment of the bank. IFIC has 50% share, Nepalese promoters has 20% share and 30% share of general public. NB Bank has authorized capital of Rs 240 million and Rs 60 million paid up capital. Immediately, after the operation of NB Bank, Everest Bank Limited (EBL) was started its banking operation in October 1994 as per the Commercial Bank Act 1974. The bank has jointly financed by United Bank of India and Nepalese promoters. United Bank of India has 20% share, Nepalese promoters have 50% share and 30% share of general public. It has authorized capital of Rs 240 million and Rs 60 million paid up capital.

After EBL, another Joint Venture Bank, Bank of Kathmandu Limited (BOK) has started its banking operation from March 13, 1995. Siam Commercial Bank Thailand has financed BOK. Siam Commercial Bank of Thailand has 30% share, promoters has 45% share and 25% share of general public. Its authorized capital was Rs 240 million. When Siam Commercial Bank divested its full capital in 1988 and its ownership handed over to the Nepalese Management (for details see an introduction of Sampled Banks).

Nepal Sri Lanka Merchant Bank Limited has started its operation since February, 4 1996 as the first Merchant Bank in Nepal. Merchant Bank of Sri Lanka has financed it. The Merchant Bank of Sri Lanka has 50% share, promoters have 25% share and 25% share of general public. It has authorized capital of Rs 120 million and paid up capital of Rs 30 million.

Nepal Bank of Ceylon Limited was established as a commercial bank on BS Aswin 28. After withdrawal of the investment by Sri Lanka Merchant Bank, the bank came up with new management and renamed as Nepal Credit and Commerce Bank limited since 2002, Sept 10. The equity share structure of bank comprised 30% share of general public, 1% of NB Bank, 8.2 % of Nepal Insurance Company and 60.8% of the Nepalese investors.

Lumbini Bank Limited (LuBL) was set up on 2055 Shrawan 1. General public (30%), Employees Provident Fund (14%), Citizen Investment Trust (6%), Lalitpur Finance (7%), NEFINSCO(2%) and Nepalese investors (4%) have financed LuBL.

Nepal Industrial and Commercial Bank Limited (NIC) was set up on BS 2055-04-05 with 30% share to general public, 5% share to RBB and 65% share to the Nepalese investors. Similarly, Kumari Bank Limited (KBL) was set up on BS 2056-08-24 with 30% share to general public and 70% shares to Nepalese promoters. It has started its operation from BS 2057-12-11 with an objective of providing competitive and modern banking services in the Nepalese financial market (for details see an introduction of Sample Banks).

Another Commercial Bank, Laxmi Bank Limited (LaBL) was established on BS 2058-06-11. Its total capital composition has 35% share to general public and 10% to Citizen Investment Trust and remaining 55% to Nepalese promoters. It has started its operation from BS 2057-12-21. Siddhartha Bank Limited was set up on BS 2058-06-12 as seventeenth Commercial Bank. It has commenced the transaction from 2059-09-09. Its capital structure has 40% from the general public and 60% from the Nepalese promoters.

Consequently, by the end of mid – July 2011, altogether 272 banks and non- bank financial institutions licensed by NRB are in operation. Out of them, 31 are “A” class commercial banks, 87 “B” class development banks, 79 “C” class finance companies, 21 “D” class micro-credit development banks, 16 saving and credit co-operatives and 38 NGOs. In mid-July 2011, the commercial banks branches reached to 1245 with the population of twenty one thousand per branch. Present development of financial institutions in Nepal is reflected in table below. (NRB: Mid July 2011)

2.1.3 Concept of Commercial Bank

Commercial banks are those that accept deposits and finance to the business and project. They provide short term and long- term finance.

“Commercial banks are those financial institutions that deal in accepting deposits of person and institution and give loan against securities. They meet working capital needs of trade and industry and even of agriculture sector. It also provides technical and administrative assistance to industries, trade and business. “Bank of England” is the first commercial bank in the world established in 1964 A.D. as a Central Bank of Britain.” (Gupta; 1999: 62)

“Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing action to borrowers, individuals, business firms and services; from the producers to consumers and for the government too. These facts show that the commercial banking system of the nation is important to the functioning of the economy.” (Reed, Cotter, Gills & Smith; 1976: 62)

“The commercial bank has its own role and contribution in the economic development. It is a source for economic development; it maintains economic confidence to various segments and extends credit to people.” (Grywinski; 1991: 51)

Nepal commercial Bank Act 2031 B.S. defines, A Commercial Bank is one which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operations, agriculture, industries or for such specific purposes. Central Bank’ s main task is to monitor, direct and control the lending activities in the country. In Nepal, commercial banks perform their function under the rules and regulations of the Nepal Rastra Bank as the Central Bank of Nepal.

To sum up, “a commercial bank is that financial institution which collects scattered saving of the people and provides loans against proper securities for their productive purpose. Moreover they also provide technical help and suggestions, administrative suggestions,

safe keeping of valuables, collection of bills, cheques, and overdraft facilities and provide modern banking facilities to industries and commerce.” (Bedi and Mardikar; 1993: 45)

2.1.3.1 Functions of Commercial Banks

“Banks accept the deposits from unproductive sectors and utilize them in the productive sectors. This is the basic function of banks. By this they earn profit as interest by advancing the funds as loan at the interest rate higher than its cost. At the same time, bank generates capital for economic development of a country. In the past, banks used to be just an intermediary between the savers and users of fund. They used to collect deposits from savers and provider loans to the businessmen and others. Now, the services provide by bank have been expanded to many areas as human wants and development of technology.” (Singh; 2005: 15) General commercial banks offer the following services to customers.

A) Accepting Deposit

“The primary function of bank is to accept deposits from savers. Banks accepts deposits from those who can save money, but cannot utilize them in profitable sectors. People consider it more rational to deposit their savings in a bank because, by doing so, they earn interest. At the same time, they avoid the danger of theft, because of bank guarantees the safe custody of deposits. To attract saving the banks provide different types of account facilities. Among them the major accounts are as follows:” (Bhandari; 2003: 22)

a. Current Account: “Especially businessmen open the current account, which have to make a number of payments everyday. Money from these accounts can be withdrawn, as many times as desired by the depositors, there is no limit on the amount of cheque in this account. Generally, no interest is paid on this account. Rather, the depositors have to pay certain incidental charges such as interest on bank overdraft, guarantee charge etc.” (Bhandari; 2003: 23)

b. Fixed Account: “When account holders want to deposit their fund for certain time period, they have to open fixed account in banks. Money in these accounts is deposited for fixed period of time. It may range from one month, three months, six months, one year and up to five years. The money deposited into fixed account cannot be withdrawn before the

expiry of that period. So the rate of interest on this account is higher than that on other types of accounts.” (Bhandari; 2003: 23)

c. Saving Account: “Saving account facility is provided especially for general public, who have saving out of their income and expenditure. The main objective of this account is to encourage and mobilize small savings of the public. Certain restrictions are imposed on the account holders regarding the number of withdrawals and the amount to be withdrawn in a given period. Rate of interest paid on this account is low as compared to that on fixed account.” (Bhandari; 2003: 24)

d. Home Saving Account: “Account holders are provided the facility to deposit their saving in their own homes in this account. For this purpose, safe boxes lacked by banks, are supplied to all account holders to keep them at homes and to put their small savings in them. Periodically, the boxes are taken to the bank where the amount of safe box taken out and created to their account. Especially children and housewives are targeted under this account. Banks provide some interest as well as safe custody on this deposit.” (Bhandari; 2003: 24)

e. Recurring Deposit Account: “Account holders have to pay in the installment deposit regularly in recurring deposit account. Generally, money in these accounts is deposited in monthly installments for a fixed period and is repaid to the depository along with interest on maturity.” (Bhandari; 2003: 24)

B) Advancing of Loan

“Commercial bank is a profit oriented business organization. So banks have to advance loans to public and generate interest from them as profit. After keeping certain cash reserves, bank provide short, medium and long-term loan to needy borrowers. For security, banks generally provide loan on mortgage. General loans for individual are provided on the mortgage of gold, silver, fixed deposit receipts, treasury bills, development bonds etc whereas business loan are advanced on the mortgage of negotiable instrument such as land, buildings, store room etc.

According to the needs of the borrowers, banks provide different types of loan for different time period as given below:” (Dahal; 2004: 386)

a. Term Loans: “Banks provides medium-term and long-term loans on the basis of loan proposal. The maturity period of such loan is more than one year. Generally, the amount

sanctioned is created to the account of the borrowers. However, banks pay the amount in cash to the borrowers in some case.” (Dahal; 2004: 386)

b. Cash Credit: “Banks advance loan as cash credit to businessmen against certain pacified securities. The amount of the loan is created to the current account of the borrowers. The borrowers can withdraw money through cheque according to his requirement. Interest is charged only on the amount actually withdrawn from the account.” (Dahal; 2004: 386)

c. Overdraft: “Generally, businessman and organization open current account in bank. They deposit all receipts in the account and pay all dues through cheque. Bank provides overdraft facilities to such account holder. Overdraft facility allows the customer to withdraw more than their deposits. The account holders have to go in a special contract with bank to get such facility.” (Dahal; 2004: 387)

d. Money at call: “It is a very short-term loan provided by bank at a very short notice. Generally, loan under money at call has time duration of only one day to fourteen days. After that period, the money should be refunded. Such loan is useful especially for other financial institutions and traders.” (Dahal; 2004:387)

C) Discounting of Bills of Exchange

“Bills of exchanges is a negotiable instrument, which is accepted by the debtor, drawn upon him/her by the creditor (drawer) and agrees to pay the amount mentioned on maturity. Discounting bill of exchange is another important function of modern banks. Under this function, banks purchase bill of exchange. Bank purchases it from holders in discount after making some managerial deduction in the form of commission. The banks pay the deducted value to the holder when traders discount it into bank. The percentage of discount is determined by mutual agreement between bank and traders, which is affected by duration of expiry and goodwill of drawer of bill of exchange.” (Natarajan; 2001: 87)

D) Payment of Cheque

“Banks provide cheque pads to the account holders. Account holders can draw cheque upon bank to pay money. Banks pay for cheque of customers after formal verification and official procedures. Providing the cheque payment functions, a bank renders a very useful medium of exchange in the form of cheque.” (Natarajan; 2001: 88)

E) Collection and Payment of Credit Instruments

“These days business uses different types of credit instruments such as bill of exchange, promissory notes, cheque etc. Banks deal with such instruments. Banks collect and pay various credit instruments as the representatives of the customers. The remittance service of banks has benefited both the business and personal customers.” (Mishra; 2003: 31)

F) Remittance

“It is a system through which cash fund is transferred from one place to another. Banks provide the facilities of remittance to the customers and earn some service charge. Generally, a bank provides such facilities through cheque, bank drafts, letters of credit etc. Remittance plays an important role in national and international trade.” (Mishra; 2003: 32)

G) Exchange Foreign Currencies

“As the requirement of customers, banks exchange foreign currencies with local currencies, which is essential to settle down the dues in the international trade.” (Mishra; 2003: 32)

H) Consultancy

“Banks expand their function to consultancy business too. They hire financial, legal and market experts, who provide advices to customers in regarding investment, industry, trade etc.” (Mishra; 2003: 33)

I) Bank Guarantee

“Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in government offices or courts for specific purpose such as legal case, bank can present itself as the guarantee for the customers, instead of depositing fund by customers. Bank provides such facility only when the customers have sufficient fund in their account.” (Ivamy; 1993: 213)

J) Agency Functions

“As an agent banks perform different types of functions such as:

a. Period collection: On behalf of customers, bank collects income of customers such as dividends of share, interest on debenture and fixed deposit etc.

b. Period payment: Banks can execute the standing order or instruction of customers for making periodic payment on behalf of their customers. Under this function, banks pay

subscription, income tax, rents, etc. for their respective customers and earn appropriate service charge.

c. Purchase and Sale of Securities: Banks undertake purchase and sale of various securities like share, stocks, bonds, debentures etc. They perform the function of a broker only to purchase and sell the securities.

d. Representative: Banks can act as representative of their customers. They can proceed for passports, traveler's tickets, book, vehicles, plots of lands etc for their customers.

e. Trustee or Executor: When customers want to transfer their property to specific person after demise, they can make a legal document about them and handover it to the banks or trustee or executor. Banks preserve such documents of customers' will and execute their will after demise." (Ivamy;1993: 217-221)

K) Others

Besides these main functions, the banks perform several other functions such as providing security to valuable goods and property, issuing travelers' cheque, issuing credit card, underwriting securities and many more.

2.1.4 Concept of Financial Performance Analysis

Financial performance analysis can be considered as a heart of financial decision. This growth and development of any enterprises is directly influenced by the financial policies. The finance is interrelated to such field as accounting, social science, economics and allied subject. Financial performance is a quantitative analysis of the firm's efficiency. In other words, it is a way of studying financial position or condition of company. Conceptually the vocabulary "Financial Performance" concerns with the management and analysis of financial operation of the firm through the means of profitability, liquidity, efficiency and utility of resources. Traditional financial ratio analysis has focus on the number. The value of this approach is that quantitative relation which can be used to diagnose strength and weakness is a firm's performance. But the world is becoming more dynamic & subject to rapid change. It is not enough to analyze operating performance. Financial analysis must also include consideration of strategic and economic development to which the firm must relate for its long-term success. In addition to the categories of stakeholder must be bordered formally ratio analysis was performed from the point of view of the firm's

owners and creditors in the present political & social environment the shareholders must be expanded to include employees, customers, social environmental consideration and other government regulatory interest (Weston & Copland, 1992:191).

Financial analysis involves the use of various financial statements-the first is the balance sheet, which represents a snapshot of the firm's financial position at a moment in time and next is the income statement that depicts a summary of the firm's profitability over time (Vanhorn & Wachowicz, 1997:120).

It is possible of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account (Pandey, 1994:096).

It is also the analytical and judgmental process that helps answer questions that have been posed. Therefore, it is means to end, Apart from the specific analytical answers, the solutions to financial problems and issues and on the nature and reliability of the information available (Helfert, 1992:02).

Besides, it can be taken as the starting point for making plans, before using any sophisticated forecasting and planning procedures. Financial data can be used to analyze a firm's past performance and assess its present financial strength. Management of the firm would be particularly interested in knowing the financial strengths to make their best use and to spot out the financial weaknesses to take corrective actions.

The analysis makes an attempt to dissect the financial statements into their components on the basis of the purpose on one hand and between individual components and total of these items on the other. In course of studying and evaluating the financial position of the organization, a study of trends of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization (Srivastav, 1993:56)

Financial statement analysis involves a comparison of a firm's performance with that of other firms' in the same line of business, which is often, identified by the firm's industry classification (Weston, Besley & Brigham 1996:78)

With respect to the problems identified from the analysis, pertinent care should be made to distinguish between the cause and symptom of problem (Hampton, 1998:99).

The analysis of transactions determines the solvency of business and the measure of efficiency of operations as compared to similar concerns. The analysis reveals how far the dream and ambition of top management have been converted into reality during each financial year. The analysis, being a technique of x-raying the financial position as well as progress of a concern, it enables managers and investors take decision that will affect the company's future.

Financial performance as a part of financial management is the main indicator of the success or failure of enterprises. There are different persons / Institutions that affects or are affected by the decision of enterprises. Stockholders such as owners, managers, creditors, employees, customers, Tax authorities etc are directly concerned/ interested in financial information and analysis of enterprise position. Similarly financial analysts, trade unions, competitors etc are directly interested about the financial performance of enterprises. Though the type of analysis is according to specific interest of the part involved, shareholders of the enterprises are concerned with the present and expected future earning as well as their variations with the earning of other enterprises. This shows that they concentrate their analysis on the profitability of the enterprises. Management of enterprises is interested in all aspect of financial analysis financial control to adopt good financial management system and financial control of the enterprise. Trade creditors are primarily interested in liquidity position of the enterprise to pay their claims. Long-term creditors are more interested in cash flow ability of the enterprise to service debt over long run.

Thus, financial analysis is the process of identifying the financial strength and weakness of the enterprise by properly establishing the relationship between the items of balance sheet and profit and loss account. In sum, it is process of evaluating the relationship between component part of financial statement to obtain better understanding of an enterprise position and performance.

The profit earned by the company is main yard of valuing the financial performance. Over the long term adequate and reasonable earnings are essential are assure survival and growth to capital adequacy through profit retention, to assess market for both debt and equity and to provide funds for increased assistance to productive sectors (Needles, 1989). A company grades itself as successful company, if it generates maximum profit to justify fair rate of return on investment. Thus the company should manage its available financial

resources effectively in the productively are so that profitability position of the company rise and profit margin and return on investment boost up.

A large percentage of banks fund consists of deposit on different terms, payable according to the contractual obligation with the depositors. If all funds available with the bank are fully lent, there will be an inevitable delay in recovering the money when required by the depositors. The consequent delay on the part of the bank, even if it may be small at time, will affect its credit, as by the every nature of its business, its obligations have to be met promptly. The capacity of the bank to attract and retain deposit depends largely upon the confidence it enjoys with the public. Such confidence in its turn depends upon the readiness with which deposits are repaid whenever they full due. It is ultimately the prudent manner in which the funds are employed by bank in different forms that determine their quick reliability and enhances its reputation. If on the other hands, the bank keep large portion of funds at his disposal in ready cash or with central banking authority, without earning any interest, its business will result in losses. The manner in which these two apparently conflicting principle of liquidity and profitability are happily reconciled to the maximum benefit, calls for sound judgment and business acumen in the part of bank, which come only after considerable experience.

A commercial bank is essentially a lender in money. It is a banking institution, which accepts the demand and time deposits from business, institutions and individual and engages in both business and consumer lending. A commercial bank, however, different from money lender who deal in money because, unlike the money lender who deals which belongs to him, the money dealings of commercial banks are largely based on the money it receive from other its deposits. The effect of commercial banks to maximize its total net income by employing its fund productively creates a difficult problem of asset management for commercial banks.

Thus, the financial performance of any commercial bank should be valued in term of profitability, liquidity, efficiency, utilization of resources and profit management. In nutshell, the financial analysis can be defined as the processing the financial condition of firm.

2.1.5 Objectives of Financial Performance Analysis

From the concept of financial performance analysis, it has been evident that one can explore various facts related to the past performance of business and predict out the future potentials for achieving expected results. Various parties are involved in the business directly or indirectly. Therefore, objective of the analysis also differs from one party to other. However, major objectives of analysis, in broad sense, can be started as (Needles, 1989).

a) Assessment of past performance and current position

Past performance is often good indicator of future performance. Therefore, an investor or creditor is interested in the past sales, expenses, net income, cash flow and return in investment. In addition, an analysis of current position will tell what assets the business owns and what liabilities must be paid. Besides, it will provide the information about various facts in relation to business such as:

- Earning capacity or the profitability of the concern.
- Operational efficiency of the concern as a whole and of its various departments.
- Long term and short term solvency of the business for the benefit of debenture holders and trade creditors.
- Real meaning and significance of financial data.

b) Assessment of potential and related risks

The past and present information are useful only to the extent they have bearing on the future decisions. An investor judges the potential earning capacity of a company because that will affect the value of the investment or share and the amount of dividend the company will pay. The creditors judge the potential debt paying ability of the company. The potentials of existing company are easier to predict than of others. This means there is less risk of the investment or loan hinges on how easy it is to predict the future profitability and liquidity. Besides, the managers of business concerns will get information about the potential, such as:

- Possibility of development in the future though forecast and budget allocation.
- Financial stability of the business concern.

- Reforms needed for in the present policies and procedures that will help reduce weakness and strengthen performance.

2.1.6 Types of Financial Performance Analysis

The nature of financial analysis differs depending on the purpose of analyst. Financial statement analysis can be categorized into different types on the basis of material use, objective of the analysis and the modulus operandi of analysis (Jain & Narang, 1989:B23-B25).

a) On the Basis of Material Used

On the basis of material available and used by analyst, financial analysis can either be external or internal. Persons who don't have access to the detailed records of the company make an external analysis. They have to depend almost entirely on published financial statements. Investors, credit agencies, government agencies and research scholars make such type of analysis. Those persons who have access to the books of accounts and other related information to the business make an internal analysis. While conducting this analysis, the analyst is a part of enterprise. For example, analysis for managerial purpose is the internal type of analysis.

b) On the Basis of Objective

On the ground of the objective or purpose of study, financial analysis can either be long-term or short-term. Long-term analysis is made in order to study the long-term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. This analysis helps for long-term financial planning which is essential for the continued success of a business.

Short-term analysis is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business concern. This analysis helps for short-term financial planning which is essential for continuation of success of the business.

c) On the Basis of Modulus Operandi of Analysis

On the basis of modulus operandi of analysis it can either be horizontal or vertical. Horizontal analysis is conducted to review and analyze financial statements of a number of years and therefore, it is based on data taken from several years. Hence it is also known as dynamic analysis.

Vertical analysis is conducted to review and analyze the financial statement of one particular year only. As it is based on data from one year, it is also called static analysis.

2.1.7 Method of Financial Performance Analysis

An enterprise communicates financial information to users through financial statement and reports. Financial statements are summarized information of the firm's financial affairs, organized systematically. They are the means to present the firm's financial situation to owners, creditors and general public. The preparation of financial statement is the responsibility of top management. As investor and financial analysis to examine the firm's performance in use these statement under to make investment decisions. So concern authority should be prepared very carefully and contain as much as information as possible.

Two basic financial statements are prepared for the purpose of external reporting to owner, investor and creditors are:

1. Balance Sheet (or Statement of Financial Position)
2. Profit and Loss Account (or, Income Statement)

For internal management purpose i.e. for the planning and controlling much information than contained in published financial statement is needed. The accountant or account officer prepares these financial statements at the end of firm's income year. Balance sheet and income statement undoubtedly provides useful financial data regarding the operation of an enterprise but they fail to present all the useful financial data required for major investing and financial decision by the management. Therefore, another financial statement fund flow statement is also in use. It summarized the source from which funds have been applied. It is prepared to show additional useful information not covered by the traditional statements.

2.1.8 Major Steps in Financial Performance Analysis

The basis for financial analysis is financial information obtained from balance sheet and profit and loss account. The analysis of financial statements is completed in three major steps (Srivastav,1993:56).

The first involves the reorganization and rearrangement of the entire financial data as contained in the financial statements. This calls for regrouping them into few principal elements according to their resemblance and affinities. Thus the balance sheet and income statement are completely recast and presented in the condensed form entirely different from original shape. The next step is the establishment of significant relationship between the individual components of balance sheet and profit and loss account. This is done through the application of tools of financial analysis. Ultimately, significance of result obtained by means of financial tools is evaluated. This requires establishment of standard against which actual be compared.

2.1.9 Tools & Techniques of Financial Performance Analysis

To evaluate the financial condition & performance of a company, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio or index relating two pieces of financial data to each other. Analysis & interpretation of various ratios should give experienced and skilled analyst a better understanding of the financial condition & performance of the firm, than they will obtain from analysis of the financial data alone (Vanhorn, 1999:691-692).

The techniques of analysis are employed to ascertain or measure the relationship among the financial statement items of a single set of statement and changes that have taken place in these items as reflected in successive financial statement. The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms.

Out of the various techniques, selection of a technique or combination of the techniques depends on the purpose of analysis. Different techniques reveal different facts associated with the business, so some or all of the following major techniques can be used for the analysis depending on the purpose and availability of the materials demanded by the technique.

2.1.9.1 Funds Flow Analysis

The statements of the changes in financial position prepared to determine only the sources and uses of fund between two dates of balance sheets is known as funds flow statement. It is prepared to uncover the information that financial statement fail to describe clearly. It spells out the sources from which funds were derived and uses to which these funds were put. This statement is prepared to summarize the changes in assets & liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to change in owner's equity. It is also aimed to depict the way in which the firm used its financial resources during the period. Method of preparing Funds flow statement depends essentially upon the sense in which the term 'fund' is used. There are concepts of fund: cash concept, total resources concept & working capital concept. According to cash concept, the word 'fund' is synonymous with cash. Total resources concept represents the total assets and resources as fund. The term 'fund' refers only to working capital on working capital concept. However, the concept of fund as working capital has gained wide acceptance as compared to other concepts. Therefore, any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Transaction that decreases working capital is treated as application. But any transaction that affects current liabilities or current assets without any change in working capital is not taken as source or use.

The utility of this technique stems from the fact that it enables shareholders, creditors and other interested persons to evaluate the use of funds. It also enables them to determine how these uses were financed. In the light of information so supplied by statement, the outsider can decide whether or not to invest in the enterprise. It enables finance manager to detect the imbalances in the use of funds and undertaken remedial actions. It serves as control device to measure the deviation between actual use of fund and the estimated budget. An analyst can evaluate the financed pattern of concern (What portion of the growth was financed internally and what portion externally).

In spite of the great significance of funds flow analysis to various parties associated with the business, it is not free from drawbacks. Its shortcomings can be listed as:

- This is not full proof as it depends on conventional financial statements.

- It cannot introduce any new items, which causes changes in financial status of the business.
- It is not much relevant technique as study of change in cash position is more useful rather than fund position.
- It is historical in nature, so, cannot estimate source and application of fund in near future.
- It does not reflect the structure and policy changes.

2.1.9.2 Cash Flow Analysis

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital. It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit sales are recognized as the source of cash. Similarly, cash purchases and cash payment to suppliers for credit purpose is regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

This type of analysis is useful for short-run planning of firm. The firm needs sufficient cash to pay debt maturing in near future, to pay interest and other expenses and to pay dividend to shareholders. The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with the firm's need for cash during the period and accordingly, arrangement can be made to meet the deficit or invest the surplus cash temporarily.

Though it is more confidential than funds flow analysis for the decisions related to the near future, it is also not free from drawbacks. Its drawbacks can be listed as:

- It is not perfect evident as it depends on conventional statements.
- It is historical in nature.
- It does not reflect structural and policy changes.

2.1.9.3 Trend Analysis

In finance analysis the direction of change over a period of years is crucial importance. Trend analysis of the ratio indicates the direction of change. The kind of analysis is particularly applicable to the items of profit and loss account. It is advisable that trend of sale and net income may be studied in the light of two factors. The rate of fixed companion secular trend in the growth of business and general price level; It might be found in practice that a number of firms would show a persistence growth over a period of years. But get a true trend of growth; sales figure should be adjusted by suitable index of general prices. In other words, sales figures should be deflected for raising price level, which the resulting figures are, graphed us will get a trend of growth devoid a price change. Another method of securing trend of growth and one which can used instead of the adjusted sales figures or as check on them is to tabulated and plot the output or physical volume of sale expressed in suitable units of measure. If the general price level is not considered while analyzing trend of growth, it can mislead management. They may because unduly optimistic period of prosperity and pessimistic in dull period.

This method is immensely helpful in making comparatively study of financial statements of several years. This method of analysis involves the computation of percentage relationship that each statement item bears to the same item in the base year. Base year for the purpose of comparison may be earliest year, the latest year or any intervening year under the study. This exhibits the direction to which the concern is proceeding.

Trend analysis facilities the horizontal study of the data. But trend ratios are generally not computed for all of items in the statement, as the fundamental objective is to make comparison between items having same logical relationship to one another. Trend analyst reveals whether the current financial position of the company has improved over the past years or not. It shows which of the items have moved in a favorable direction and which of them in unfavorable direction. Though it is the important tool of analysis, it is bound by certain limitation. They are:

- Trend for a single balance sheet or income statement is seldom very informative.
- It does not give accurate result if accounting principles followed by the accountants is not consistent over the period of study.
- Price level change adversely affects the comparison.

- Selected base year for some of the items in the statement may not be typical.

2.1.9.4 Ratio Analysis

An arithmetic relationship between two figures is known as ratio. Two number used in the ratio are called the term of ratio. The first term is the antecedent and is the divided; the second is the second is the consequent and is the divider. Ratio is computed by dividing one item of relationship with the other. Ratio simply means the relation of one quantity to another of the same kind is defined to be that pure (abstract) number, integral, or fractional, which express the number of times the later is contained in the former.

Ratio analysis is a technique of analysis and interpretation of financial statement to evaluate the performance of an organization by creating ratios from the figure of different accounts consisting in balance sheet and income statement (P/L Account) is known as ratio analysis (Pandey, 994:436-437).

Financial ratios are the basic tools of financial analysis. The operational and financial problem of a corporation can be ascertained by examining the behavior of these ratios. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of an enterprise. A financial ratio is a relationship between two financial variables and a process of identifying the financial strength and weakness of an enterprise. The liquidity ratio measures the corporations overall efficiency of operation. Similarly, leverage ratio measures the extent to which the corporation has been finance by debt, and turnover ratios measure the utilization of the corporation's resources. These financial ratios help us to find symptoms of problems. The cause of any problem may be determined only after locating the symptoms. Hence, the study of financial ratios behavior of the corporations assumes great significant.

Ratio Analysis is carried out to develop meaning relationship between individual items or group of items usually shown in the periodical financial statements. An accounting ratio shows the relationship between the two inter-related accounting figures. Ratios are guides or shortcuts that are useful in evaluating the financial position and operations of a company. When the relationship between two figures in the balance sheet is established, the ratio so calculated is called 'balance sheet ratio'. Ratio may be expressed in the form of quotient, percentage or proportion.

Ratio analysis involves two types of comparison for the useful interpretation of the financial statement. A ratio itself does not indicate the favorable or unfavorable position. Most commonly used standards to evaluate the ratio are:

- Comparison of present ratio with past or expected future ratio.
- Comparison of the ratio of the firm with those of similar firms over the period of time or with industry average at the same point of time.

With the help of ratio, one can judge financial performance of a business concern over a period of time and against the industry average. The ratio helps the analyst to form the judgment whether the performance of firm is good, questionable or poor. Management of the firm can take strategic decisions on the basis of position revealed by ratio. Investors can decide about the future of their investment. Creditors judge whether the firm is able to meet its obligations and whether the more lending would be beneficial for them or not.

In view of the requirement of the various users of ratios, they can be classified into four major categories. They are: - liquidity ratio, leverage ratio, activity ratio and profitability ratio.

Liquidity ratio measures the ability of firm to meet its current obligations. Leverage ratio evaluates the long-term financial position of the firm. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. Finally, profitability ratios are calculated to measure the operating efficiency of the company. Though ratio analysis is powerful technique of financial analysis; it should be used with extreme care and considered judgment because it suffers from certain drawbacks. The drawbacks of the ratio analysis are listed below:

- It is difficult to decide the proper basis of comparison.
- It calls interpretation to certain aspects of the business, which need detailed investigation before arriving at any final conclusion.
- Unless there is a consistency in adoption of accounting methods, ratios may not prove of greater use in case of inter-firm comparison.
- The price level changes make the interpretation of ratios invalid.
- The ratios are generally calculated from past financial statements and thus, are no indicator of future.

Ratio Analysis & Its Classification

In general ratio may be classified on the following base leading to somewhat overlapping categories (Pandey, 1994:502-503).

A) Traditional Classification

It is classification according to the statement from which ratios are derived. By for the most convenient mode of classification, it has the sanctity of tradition in much as since the advent of ratio analysis. Ratio has grouped in this manner from this angle ratios are classified as:

- Balance sheet ratios or financial ratios: - These ratios deal with relationship between two items or groups of items, which are together to the balance sheet e.g. debt equity ratio.
- Revenue statement ratio: These ratio sometimes also referred as operating ratio establish the relationship between two items or group, which are in the revenue statement e.g. stock turnover ratios.
- Inter statement ratio or combine ratio: - These ratio portray the relationship between items of one of which part of balance sheet and profit & loss account (income statement).

B) Functional Classification

Ratios are grouped in accordance with certain test which they are intended to sub-serve from the point of view of varies parties having a financial interest in an enterprise test are:

- Test of liquidity
- Test of profitability
- Market test etc.

C) Classification According to Nature

These ratios are classified from the point of view of financial management. They are:

1) Liquidity Ratio: - A liquidity ratio is assigned to find out the current assets intensifies and financial structure. In other words, liquidity ratio measures the ability of an enterprise to meet its current obligations. A core of liquidity ratio has emerged over the year which, when viewed in their totality and with respect to risk, is expected to yield a rough approximation of the business to pat its current liabilities and when they fall due for payment. Regarding the position of liquidity ratio, a current ratio of 2:1 is considered

acceptable for most of firm although it is only rule of thumb standard and it is 1:1 for quick ratio. Though, it depends much on circumstances in case of seasonal business (Pradhan, 1986:17).

2) Activity Ratios: - Activity ratio also known as turnover ratio, indicate the speed with which assets are being converted or turned over into sales. This ratio is employed to evaluate the sales efficiency or activity and short-term liquidity or activity of an enterprise. These ratios also measure the degree of effectiveness in use of fund by a firm. The common ratios of activity/ turnover ratios are as follows:

- Inventory turnover ratio
- Debtors turnover ratio
- Average assets turnover ratio
- Fixed assets turnover ratio
- Current assets turnover ratio
- Total assets turnover ratio
- Capital employed turnover ratio

3) Leverage Ratio: - The use of finance is refers by financial leverage. These ratios are also called solvency ratio or capital structure ratio. To judge the long term financial position of the firm the leverage ratios are two aspects of the long term solvency of the firm i.e. ability to repay the principle when due and regular payment of interest to the debt holder with the help of this ratio management can make the sound financial decisions about the approximate mixed of equity & debt. The following ratios are included in leverage ratios:

- Debt Equity Ratio
- Debt to total capital Ratio
- Interest coverage Ratio

4) Profitability Ratio: - Profitability ratio shows the overall efficiency of the business concerns/corporations. The relation of return of firm to either its sales or its equity or its assets is known as profitability ratios. In other words, we can say that profitability ratios is used to measure the success of an enterprise in terms of its earning on sales or on investment, profitability ratios are of two types.

- Profitability in relation to sales

- Profitability in relation to investment

2.1.10 Limitations of Financial Performance Analysis

From the above discussion, it has been evident that financial performance analysis of great significance for investor, creditors, management, economist and other parties having interest in business. It helps management to evaluate its efficiency in past performance and take decisions relating to future. However, it is not free from drawbacks. Its limitations are listed below (Jain & Narang, 1989:B23-B25):

a. Historical Nature of Financial Statements: - The basic nature of statements is historical. Past can never be a precise and infallible index of the future and can never be perfectly helpful for the future forecast and planning.

b. No Substitute for Judgment: - Analysis of financial analysis is a tool to be used by expert analyst to evaluate the financial performance of a firm. That's why; it may lead to faulty conclusion if used by unskilled analyst.

c. Reliability of Figures: - Reliability of analysis depends on reliability of figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the income statement, window dressing in the balance sheet, questionable producers adopted by the accountant for the valuation of fixed assets and such other facts.

d. Single year Analysis is not much valuable: - The analysis of these statements relating to single year only will have limited use and value. From this, one cannot draw meaningful conclusion.

e. Result may have different Interpretation: - Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the index of sufficiency of the management due to under-utilization of fund.

f. Changes in Accounting Methods: - Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods, the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

g. Pitfall in inter-firm Comparison: - When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the

performance, efficiency, profitability and financial condition of firm as compared to whole industry.

h. Price level change reduces the validity of analysis: - The continuous and rapid changes in value of money, in the present day, economically also reduces the validity of the analysis. Acquisition of assets at different levels of prices make comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting period.

i. Selection of Appropriate Tool: - There are different tools of analysis available to the analyst.

The tools to be used in a particular situation depend on skill, training, intelligence and expertise of analyst. If wrong tool is used, it may give misleading result and may lead to wrong conclusion, which may be harmful to the interest of business.

2.2 Review of Related Studies

Dhungana, (2004), in his article, “Financial Sector Reform (FSR) Program in Nepal”, has revealed that Nepalese financial sector is being strengthened under the financial reform program. The expediting of the liberalization and privatization processes within the financial reform programs has succeeded to place the private sector rather than the government in charge of determining who gets credit and at what price. The FSR has also been able to establish the system of prudential regulation and supervision design to restrain the private sectors so that we can be reasonably sure that their decisions will also be broadly in the general social interest. Many Acts are being promulgated to obtain and maintain a strong legal environment required for the system. It is also equally important that the enforcement aspect in all respects plays a vital role, which is continuously improving, within this reform program the two largest commercial banks NBL and RBB are being restructured institutional building program are being launched, greater autonomy and responsibility have been provided to the central bank, entry and exit norms are being prepared, laws are being prepared for the banking sector. These all are positive aspects to boost up the system. The government has launched this program to eliminate financial problems. Except some aspects, the progress made within the FSRP seems are satisfactory.

Aryal, (2004), in his article, “All Banks in Profit”, has revealed that in general all banks for the fiscal year 2003/04 are bullish in their performance. During the year all the banks were in profit but in the previous year two commercial banks NBL and RBB were in a loss of 252 million and 3246 million respectively. NBL, RBB, Siddhartha Bank, Laxmi Bank, Kumari Bank and Macchapuchchhre Bank have increased their operating profit in substantial amount. Also the old banks with huge losses in the previous years have succeeded to improve their performance.

(Business Age International 2005, Feb) New banks were being opened and existing banks busy opening new branches all over the country. The media was used extensively, to announce new products such as ATMs, new facilities and services, remittances, loans etc and mostly to establish each bank as a more viable option compared to other banks. A pretty picture that mesmerized the public into thinking that banks are doing well. In the last decade, just as the banks were emerging to take financing to new heights, the Nepal Stock Exchange too was just spreading its wings. It was no coincidence that the major scrip being bought and sold at the NEPSE, as was mainly Nepal Stock exchange is known as was mainly that of the private commercial banks. Even today, the major transaction at NEPSE, determining the daily up or down as the case may be is governed by the transactions in share of private commercial banks

(Economic survey, 2008). Over the past few years, service sector has been growing rapidly and accounted for about 20 percent of total international trade. The rate of increase of the service sector is higher than the goods sector. The main importer and exporter of commercial services are developing countries. The Asian economy has grown tremendously because of the increment in the trade of commercial services, construction services, computer software, data processing and tourism. Thus the role of commercial banks is remarkably enhanced in all the countries to support the increasing need of the service sector and the economy in general.

Ghimire, (2003), has made a study on, “Financial Performance of Commercial Banks : A comparative Case Study of Nepal Bangladesh Bank Ltd., Himalayan Bank Ltd. and

Everest Bank Ltd.” the main objective of the study is to reveal the comparative financial performance of NBBL, HBL and EBL. The other specific objectives are;

- To analyze and compare the liquidity, portability, stability and market value Positions among three commercial banks.
- To analyze and compare solvency ratio such as total capital fund.
- To analyze the financial strength and weakness of these banks.

His major findings are:

- The saving deposit to total deposit ratio of NBBL has been recorded the lowest of all. It indicates the better liquidity position of the bank to meet short-term obligation.
- Analysis of activities ratio reveals that all the banks have been able to utilize the resources satisfactorily.
- Total debt to equity ratio of all banks reveals that the claims of the outsiders exceed far more than those of the owners over the banks assets.
- Comparatively Himalayan Bank has more levered capital structure .Profitability ratio indicates the degree of success in achieving desired profit level.
- All the banks need lot of exercise in more credit creation and reducing the interest rate for loan and advances. This helps them to remain more competitive.

Paudel, (2006), has conducted a study on, “A Comparative Study on Financial Performance of NABIL Bank Ltd. and Nepal Bangladesh Bank Ltd.” The main objective of the study is to know the financial condition, financial performance and financial growth of NABIL and NBL. The other specific objectives are:

- To examine the EPS and DPS of NABIL and NBL.
- To analyze the efficiency of NABIL and NBL in utilizing the assets.
- To evaluate the trend of net profit of the concerned bank

His major findings are:

- The overall liquidity position of NBBL was stronger than that of NABIL. Analyzing the activity or turnover of both banks, NBBL mobilized its deposits more on loan and advances whereas NABIL mobilized its deposits more prudently and efficiently in generating income.

- Similarly, capital adequacy position of NABIL was found to be better than that of NBBL. Regarding the capital structure of the banks, NBBL was found to have adopted high risk, high return strategy as suggested by its highly leveraged i.e. debt dominated.
- According to profitability analysis, NABIL was found sound profitability due to its higher ratio. Also, other indicators as EPS, DPS, and TPS were found sharply higher in NABIL which implies positive attitude of stakeholders toward NABIL.
- NBBL should keep only the reasonable amount of liquidity, which will save the bank from creating low return; NBBL should improve its capital adequacy by investing the assets and deposits in highly returnable sector; NABIL should invest its deposit in profit generating sectors.

Bharati Khatri (2007) "An Analysis Of Financial Performance Of Bank Of Kathmandu LTD & Kumari bank LTD." The basic objectives of this research is to make comparative analysis of financial performance of two commercial banks by using financial & statistical tools, and to recommend the suitable suggestion for improvement of those banks to management team owners. Specific objectives of the study are:

- To examine the liquidity, profitability, leverage, efficiency of capital adequacy position of two banks.
- To calculate the trend of financial performance of two banks.
- To find out the relationship of financial performance of two commercial banks.

Her major findings are:

- Current ratio is higher in KBL than BOK. In summary both banks liquidity position (except current ratio and quick ratio which lies under the standard of 2:1 and 1:1 respectively) is good and in comparison BOK has better liquidity position.
- Loans and advances to total deposits, Loans and advances to saving deposits and Loans and advances to fixed deposits ratio shows better turnover in KBL and investment to total deposit ratios and performing assets to total assets ratios shows better activity position in BOK. In comparison BOK is success intilization its depositors' fund in investment. BOK utilize its income generating assets more efficiently than that of KBL.

- ROA, ROSE and Return on total deposits ratio is better profitable in BOK than KBL, and total interest income to interest expenses, interest earned to total assets ratios of KBL is better than that of in BOK. IN summary, expenses of BOK is higher, its profit making capacity also efficiency as compared to KBL.
- Debt-equity ratio debt-Assets ratios and Interest coverage ratios all higher in BOK. It means bank has ability to meet interest obligation. Debt-equity ratio and debt assets ratio are greater variation in KBL whereas debt-asset ratio is uniform. This analysis shows BOK seem more levered than KBL,

Rojini Chitrakar,(2009) in the thesis entitled "The Comparative study of financial Analysis Of Investment Bank Ltd & SBI Bank Ltd." The main objective of the study is to analyze, examine and interpret the financial position of Nepal Investment Bank Limited and Nepal SBI Bank Limited, The other specific objectives are:

- To calculate the relevant financial position of NIBL and NSBIBL.
- To examine the financial performance of the banks.
- To know the investment position of sample banks.
- To provide suggestion for both banks on the basis of findings.

Her major findings are

- While comparing the profitability ratios of two banks, all the profitability ratio used to evaluate the profitability position of the banks show that NIBL has better profitability than NSBIBL.
- The P.E ratio, market to book value of NSBIBL is higher than NIBL, which implies That NSBIBL has positive attitude of stakeholders toward it.
- The leverage factor of NSBIBL is higher than that of NIBL. The total debt ratio of NIBL is higher than that of NSBIBL, NIBL is risky firm than NSBIBL.
- The liquidity position of both of the banks is unsatisfactory. The current ratio of both banks is below than wide accepted standard. However NIBL avails higher liquidity than NSBIBL.
- Regression analysis of financial indicators conclude that the financial indicators of NIBL at present is better than that of NSBIBL but the slope of regression line of

financial indicators of NSBIBL show that they will grow in a greater pace than those of NIBL.

Bijay Kumar Ray Yadav (2009)"A Comparative Study on financial Performance Analysis Of commercial Banks of Nepal (With reference to SCBNL,NABIL and NIBL). The basic objectives of the study are to examine the financial performance of the selected three commercial banks. The objective has been further specified in the following sub-objectives:

- To analyze and compare the liquidity, portability, stability and market value positions among three commercial banks.
- To analyze and compare solvency ratio such as total capital fund.
- To analyze the financial strength and weakness of these banks.

His major findings are:

- None of the selected banks met the benchmark of 2:1 thus indicating poor liquidity. However, the current ratio of NIBL was highest comparing to that of SCBNL and NABIL.
- NIBL was most successful in mobilizing the total deposit in loans and advances. SCBNL, NABIL .SCBNL was most successful in utilizing the fixed deposit in loans and advances.
- The total assets of NIBL was most risky than that of NABIL and SCBNL.NIBL used more debt financing than the other two banks. However, the capital base of SCBNL was strongest than that of NABIL and NIBL.
- The net worth to total assets ratio indicated that NABIL was most successful in mobilizing the net worth to finance total assets. NABIL was most successful in efficiently utilizing the total assets in generating interest income than NIBL & SCBNL.

Niti Shrestha (2010) "Financial Performance Analysis of Machhapuchre Bank and Laxmi Bank." The major objectives of her study were as follows:

- To examine the financial statement of the bank and evaluate various Financial ratios to see the financial soundness of the bank.

- To analyze the trend of the banks deposit mobilization, investment and loan and advances of MBL & LBL.
- To compare the financial position of both the bank.
- To provide recommendations and suggestions on the basis of the study.

Her major findings are:

- Among the selected banks, only Laxmi Bank Ltd. met its standard 2:1 which indicated its good liquidity position and its ability to pay its short term obligations easily.
- LBL has efficiently utilized its current assets on loan & advances for income generating activities than MBL.
- Savings Deposit of MBL is comparatively higher as compared to LBL while Fixed Deposits to Total Deposits of LBL is higher than that of MBL.
- The total deposit of MBL & LBL are both in increasing trend. The co-efficient of slope of trend line of both LBL & MBL has a slight difference but LBL seems to have good increase in the future.
- Interest earned to total assets of two banks is not significantly different. Similarly net profit to net worth of two banks is also not significantly different.

2.3 Research gap

This research has been especially conducted for analyzing the Financial Aspects between NABIL Bank Ltd and Nepal Investment Bank Ltd. Much research study has already been conducted regarding financial analysis of different banks earlier. But the present study totally differs from the previous studies as the research concentrates in the financial performance of two pioneer Banks of Nepal from the financial year 2062/63 up to 2067/2068. However the previous relevant studies have been just reviewed to support the study. This study covers the more recent financial data's, NRB guidelines and is presented in understandable way based on modern approach to evaluate the performance analysis than those of the study previously conducted. So this research work tries to assess the financial performance of NABIL and NIBL to analyze them and recommend improvement measure for the betterment of the banks.

CHAPTER – III

RESEARCH METHODOLOGY

Research is a systematic inquiry and organized effort to investigate facts and figures while methodology is the method of doing research in a well manner. Hence, Research Methodology refers to set of a rules and procedures that are considered while conducting the research. It refers to the aggregate of the research design used, data collection techniques used, sampling design implemented, statistical tools and technique used and employed and so on. Therefore Research Methodology refers to the various sequential steps to be adopted by the researchers in studying the problem with certain objectives in views. It is the process of arriving to the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of the facts & figures. It consists of research design, population and sampled source of data, data processing procedure and tools & techniques of analysis of data.

3.1 Research Design

The research design is the conceptual structure within which the research is conducted. It is a set of instructions to the investigator to gather and analyze his/ her data in a certain way. Research design is a plan that shows how to fulfill the goal of purposed study. Research design is the task of defining the research problem. In other words, a research design is the arrangement of condition, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is also said that research design is the plan structure and strategy of investigations conceived so as to obtain answer of research question and control variance. A research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. Exploratory and descriptive research designs have been used in this study.

3.2 Population and Sample

In the present context, there are 30 commercial banks operating in Nepal. The study of all these banks within this research was almost impossible. Hence, considering these numbers of banks as total population, two pioneer banks within from these total population has been taken as sample and tried to achieve the objectives set out by analyzing the data. The financial statements of latest five years (i.e. from FY2062/2063 to FY2066/2067) have been taken as sample data for analyzing the financial performance. These banks are chosen because they are considered as pioneer financial institutions of banking sectors.

3.3 Sources of Data

“Source” means any people or place from where and whom something emerges. Data may be obtained from several sources. Each research has its own data needs and data sources. The study is mainly based on the secondary data. The required data have been extracted from the annual reports of respective Commercial Banks and downloaded from official websites. Various types of other useful resources like articles, books, previous research reports and journals were referred to provide necessary justification.

3.4 Data Processing and Presentation Procedure

The information or data required for the study are obtained from the different sources in raw form. From such information, direct presentation is not possible so necessary steps have been taken to process data and convert it into required form. Only after that the data are presented for this study. For presentation different tables are used as well graphical presentations are also made. So far as the computation was concerned it has been done with the help of using Microsoft Excel.

3.5 Data Analysis Tools

Financial performance is analyzed with two important tools. The first most important tool is the financial tool, which includes ratio analysis and another is a statistical tool.

3.5.1 Ratio Analysis

Ratio analysis is the powerful tool of financial analysis, which helps in identifying the strength and weakness of an organization or business concern about the financial performance. The term ratio refers to an arithmetical relationship between two items, to make a rational decision of financial variability of the company. This relationship can be expressed in terms of percentage, fraction or proportion. To achieve an effective result, ratio must be analyzed in a comparative basis. “The technique of ratio analysis is the part of the whole process of the analysis of financial statement of any business or industrial concern, especially to take output and credit decision.” (Kothari; 1989: 47) “In the financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of the firm.” (Pandey; 1989: 104) The following ratios are going to be analyzed under the financial performance analysis of selected six commercial banks.

- ✓ Liquidity Ratio
- ✓ Efficiency Ratio
- ✓ Profitability Ratio
- ✓ Leverage Ratio
- ✓ Miscellaneous Ratio

3.5.1.1 Liquidity Ratio

Liquidity ratio is a rigorous measure of a firm's ability to serve its short-term obligation. It reflects the short-term financial solvency of a firm as a whole or it is employed as a measurement of a company's liquidity position. The firm should remain an appropriate liquidity neither excess nor less to meet its short-term obligation when they become due. Inadequate liquidity can lead to unexpected cash short falls. A very high degree of liquidity is also not good as idle assets earn nothing, leading to fewer assets yield and contributing to poor earning performance. Important liquidity ratios that have been used in the study are listed below:

a. Current Ratio

The current ratio is the ratio of total current assets to total current liabilities. Current ratio measure the short-term solvency, i.e. its ability to meet short-term obligation or as a measure of creditors versus current assets. The current ratio is calculated by dividing current assets by current liabilities.

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

The main question this ratio addresses is: "Does your business have enough current assets to meet the payment schedule of its current debts with a margin of safety for possible losses in current assets, such as inventory shrinkage or collectable accounts?" Current assets refer to those assets which are convertible in cash within a year or so. This includes, cash and bank balance, investment in treasury bills, money at short call or placement, loans and advances, bills purchased and discounted, overdrafts, other short term loans, foreign currency loans, bills for collection, customers acceptance liabilities, prepayment expenses, and other receivables. Similarly, current liabilities refer to those obligations maturing within a year. It includes, current account deposits, saving account deposits, margin deposits, call deposits, inter-bank reconciliation account, bills payable, bank over-draft, previous, accrued expenses, bills for collection, amid customer's acceptance liabilities etc.

b. Quick Ratios

The Quick Ratio is sometimes called the "acid-test" ratio and is one of the best measures of liquidity. Quick ratio established a relationship between quick asset and current liabilities.

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

The Quick Ratio is a much more exacting measure than the Current Ratio. By excluding inventories, it concentrates on the really liquid assets, with value that is fairly certain. It establishes a relationship between quick/liquid assets and current liabilities. An asset is quick/liquid if it can be converted into cash immediately or reasonably soon without a loss of value. It helps answer the question: "If all sales revenues should disappear, could my

business meet its current obligations with the readily convertible 'quick' funds on hand?" An acid-test of 1:1 is considered satisfactory unless the majority of your "quick assets" are in accounts receivable, and the pattern of accounts receivable collection lags behind the schedule for paying current liabilities.

c. Cash and Bank Balance to Total Deposits Ratio

Cash and bank balance to total deposits ratio measures the capacity of bank to meet unexpected demand made by depositors, i.e. current account holders, saving depositors, call and other depositor. This ratio is computed by using the following formula:

$$\text{Cash \& Bank Balance to Total Deposits Ratio} = \frac{\text{Total Cash \& Bank Balance}}{\text{Total Deposit}}$$

d. Cash & Bank Balance to Short Term Deposits Ratio

The Cash & Bank Balance to Short Term Deposits ratio measures the ability of the banks to meet its immediate obligation. The bank should maintain adequate cash and bank balance to meet the unexpected as well as the heavy withdrawal of deposits. The ratio is computed by dividing the cash and bank balance to total short-term deposits i.e. Saving Deposits, Current Deposits, Margin Deposits & Call deposits. It is expressed as;

$$\text{Cash \& Bank Balance to Short Term Deposits} = \frac{\text{Cash \& Bank Balance}}{\text{Short Term Deposits}}$$

e. Fixed Deposit Total Deposit Ratio

Fixed deposit is a long-term and high interest bearing deposit. More fixed deposit may be an advantage if it can be invested in long-term credit. This ratio is calculated in order to find out the proportion of fixed deposit in total deposit. Fixed deposits are long-term deposit and banks can mobilize them on investment, loans and advances. Fixed deposit to total deposit ratio can be calculated by dividing the amount of fixed deposit by the amount of total deposit.

$$\text{Fixed Deposit to Total Deposit Ratio} = \frac{\text{Total Fixed Deposit}}{\text{Total Deposit}}$$

f. Saving Deposit to Total Deposit Ratio

Saving deposit is short-term interest bearing deposit and it has medium rate of interest. Saving deposit is generally regarded as short-term obligation as it can be withdrawn without prior notice or with short notice. This ratio shows the proportion of saving deposits on total deposits. Saving deposit to total deposit ratio can be calculated by dividing the amount of saving deposits by the amount of total deposits.

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Total Saving Deposit}}{\text{Total Deposit}}$$

g. NRB Balance to Current and Saving Deposit Ratio

The ratio shows the percentage of amount deposits by the banks in Nepal Rastra Bank (NRB) as compare to the current and saving deposits. Commercial banks required holding certain position of current and saving deposits in NRB account. It is computed by dividing the NRB balance by current and saving deposits.

$$\text{NRB Balance to Current \& Saving Deposits Ratio} = \frac{\text{NRB Balance}}{\text{Current \& Saving Deposits}}$$

h. NRB Balance to Fixed Deposit Ratio

The ratio shows the proportion of cash balance at Nepal Rastra Bank's current account as compare to the commercial banks' fixed deposits amount. The ratio is calculated as using the following formula;

$$\text{NRB Balance to Fixed Deposits} = \frac{\text{NRB Balance}}{\text{Fixed Deposits}}$$

3.5.1.2 Efficiency Ratio

Efficiency ratio or activity ratio or utilization ratio is concerned with measuring the efficiency in its assets management. This ratio measures the degree of effective use of resources of a firm. It indicates how quickly certain current assets are converted into cash. Higher the rate means more efficient in management on the utilization of its resources and vice-versa.

Following ratio are used under efficiency ratio.

a. Interest Expenses to Total Deposit Ratio

Commercial banks not only make profit from the deposit but also pay interest to the deposit holders. This ratio measures the amount of interest paid on accepting deposit by the banks to its accountholders. Lower the ratio is considered better and vice versa. This ratio is calculated by;

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

b. Loans and Advance to Total Deposit Ratio

This ratio measures the bank's ability to mobilize the depositors fund to earn profit by providing loans and advances. It also measures the extent to which the banks are successful in mobilizing deposits for the purpose of profit generating. The ratio is calculated by dividing loans and advances by total deposits.

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposit}}$$

c. Loan and Advance to Fixed Deposit Ratio

This ratio indicates, how much of loans and advance has been granted against fixed deposit. Fixed deposit is the higher interest rate payable deposit and is payable only after certain date. Hence the bank must utilize the fixed deposit property. Loan and advance to fixed deposit ratio indicates how properly the fixed deposit has been utilized. The ratio is calculated by dividing loans and advance by fixed deposit.

$$\text{Loan \& Advances to Fixed Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Fixed Deposit}}$$

d. Loan and Advance to Total Assets Ratio

Loan and Advances to total assets ratio reflects the extent to which the bank is successful in mobilizing its total assets on loan and advance for the purpose of income generating. It is calculated by dividing loan and advances by total assets.

$$\text{Loan \& Advances to Total Assets Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Assets}}$$

e. Loans and Advances to Saving Deposit Ratio

Saving deposits are the short-term interest bearing liabilities. Loans and advances are the major sources of investment to generate income in commercial banks. Loans and advances to saving deposits ratio is measured to find out how many time of fund is used in loan and advances against saving deposit. High ratio indicates greater utilization of the saving deposits in advancing loans.

$$\text{Loan \& Advances to Savings Deposits Ratio} = \frac{\text{Loan \& Advances}}{\text{Saving Deposit}}$$

f. Investment to Total Deposit Ratio

It indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds. The ratio is obtained by dividing investment by total deposits collected in the bank. Investment comprises investment its HMG treasury bills, development bonds, company shares and other type of investment.

$$\text{Investment to Total Deposit ratio} = \frac{\text{Investment}}{\text{Total Deposits}}$$

g. Performing Assets to Total Assets Ratio

Performing assets include those assets that are invested for income generating purpose. It consists loan and advances, bill purchased and discounted investment and money at call and short notice. This ratio measures what percentage of assets has been funded for income generation or it measures how efficiently the bank uses investment and economic resources at its demand. It is calculated as;

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

3.5.1.3 Leverage Ratio

Leverage ratio, also known as capital structure ratio, indicates the proportionate relationship between debt and equity. Leverage ratios are concerned with the longterm solvency of the bank and show the proportion of outsiders fund and shareholder's fund of the bank.

a. Debt-Equity Ratio

The appropriate ratio of debt to equity varies according to the nature of the business and the volatility of cash flows. This ratio brings out the relation between total debts and equity funds. It is determined to measure the firms obligations to total creditors in relation to the funds invested by the owners. Total debt to equity ratio can be computed by using the following formula:

$$\text{Debt-Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

b. Debt Assets Ratio

Debt to total assets ratio reflects the financial contribution of outsiders and owners on total assets of the firm. It also measures the financial security to the outsiders. Generally creditors prefer a low debt ratio and owners prefer a high debt ratio in order to magnify their earnings on the one hand and to maintain their concentrated control over the firm on the others.

This ratio shows what portion of the capital assets is financed by outside fund; a high debt ratio implies a banks success in exploiting debt to be more profitable and it also implies riskier capital structure.

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

3.5.1.4 Capital Adequacy Ratio

Commercial banks are required to maintain adequate capital. Holding too much capital may result in lower return from their investment and holding too little capital though result in higher return yet may not comply with the rules of central bank. Banks have been directed to meet any short fall in capital adequacy ratio by transferring part of profit to general reserve and thereby increasing equity found.

Capital adequacy ratio is calculated by dividing the capital fund by total risk weighted assets of the firm.

$$\text{Capital Adequacy Ratio} = \frac{\text{Capital Fund}}{\text{Risk Weighted Assets}}$$

3.5.1.5 Profitability Ratio

Profit is the ultimate output of a company and its existence is not justified if it fails to make sufficient profit. Therefore the company should continuously evaluate the efficiency of the company in terms of profit. The profitability ratios are calculated to measure the operating efficiency of the company. Generally, two major types of profitability ratios are calculated:

- a) Profitability in relation to sales
- b) Profitability in relation to investment.

a. Net Profit Margin

Net profit margin indicates margin of compensation left to the owners for providing their capital, after all expenses have met. It helps in determining the efficiency with which the affairs of the business are being managed. A net profit margin would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

$$\text{Net Profit Margin} = \frac{\text{Net Profit After Tax}}{\text{Total Operating Income}} \times 100 \%$$

b. Return on Net Worth / Shareholders Equity

Return on net worth reflects how well the firm has used the recourse of the owner's. The earning of satisfactory return is the most desirable objective of business as common or ordinary shareholders are entitled to the residual profits. It is calculated by dividing profit after tax by net worth.

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Net Worth}} \times 100\%$$

c. Return on Total Assets Ratio (ROA)

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards of assets mobilization. In other words return on total assets ratio is an overall profitability rate, which measures earning power and overall operation efficiency of a firm. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm.

$$\text{Return on Total Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100\%$$

d. Return on Total Deposit Ratio

Return on total deposit ratio measures how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits. It is an explanation of the ability of management in efficient utilization of deposits. The ratio is calculated as;

$$\text{Return on Total Deposits Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Deposit Ratio}} \times 100\%$$

e. Total Interest Expenses to Total Interest Income Ratio

Interest Expenses to Interest Income ratio reveals the proportionate relationship between interest paid on different liabilities and interest income from different source. Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice versa. It is expressed as:

$$\text{Total Interest Expenses to Total Interest Income Ratio} = \frac{\text{Interest Expenses}}{\text{Interest Income}} \times 100\%$$

f. Interest Earned to Total Assets Ratio

Interest earned to total assets ratio shows how much interest has been generated by mobilizing the assets in the bank. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa. The following formula is used to calculate this ratio.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Income}}{\text{Total Assets}} \times 100\%$$

3.5.1.6 Assets Quality Ratios

Assets quality ratios intend to measure the quality of assets owned by the banks. These include loan loss coverage ratio, loan loss provision to total income ratio, loan loss provision to total deposit ratio and accrued interest to total interest income ratio.

a. Loan Loss Coverage Ratio

Nepal Rastra Bank has directed Commercial banks to maintain provision for loan loss on the basis of category of loan & risk grade. The ratio therefore measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. It is computed by dividing loan loss provision by total risk assets.

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Risky Assets}}$$

b. Loan Loss Provision to Total Income Ratio

The ratio shows that portion of total income has been held as safety cushion against the possible bad loan. It is calculated as;

$$\text{Loan Loss Provision to Total Income Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Income}}$$

c. Loan Loss Provision to Total Deposit Ratio

The ratio shows the proportion of banks income held as loan loss provision in relation to total deposits collected. It is calculated as;

$$\text{Loan Loss Provision to Total Deposits Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Deposits}}$$

3.5.1.7 Miscellaneous Ratio

In addition to the above ratios, there are other widely used ratios related to the financial aspects of the company, some of which have been discussed here in this section to supplement the analysis.

a. Earning per Share

The profitability of the common shareholders' investment can also be measured in term of earning per share. The earning per share is calculated by dividing the profit after tax by total number of common share outstanding.

$$\text{Earning Per Share} = \frac{\text{Net Profit After Tax}}{\text{No of Common Shares Outstanding}}$$

b. Dividend Per share

The net profit after taxes belongs to shareholders. But the income, which they really receive, is the amount of earnings distributed as dividends. Therefore, a large number of present and potential investors may be interested in dividend per share, rather than earning per share. DPS is the earnings distributed to ordinary shareholders divided by the number of ordinary shares outstanding.

$$\text{Dividend per Share} = \frac{\text{Dividend Paid}}{\text{No of Common Shares}}$$

c. Dividend Payout Ratio

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earning per share, i.e. this ratio reflects at what percentage of net profit is to be distributed in terms of dividend and what percentage is to be retained in company as retained earning. This ratio is calculated by dividing the dividend per share by earning per share.

$$\text{Dividend Yield Ratio} = \frac{\text{Dividend Per Share}}{\text{Earnings Per share}} \times 100\%$$

d. Price-Earning Ratio (P/E Ratio)

P/E Ratio is widely used to evaluate the bank's performance as expected by investors. It represents the investors' judgment or expectation about the growth in the bank's earning. In other words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates greater expectation of the market towards the achievement of firm. It is obtained by dividing market value per share by earning per share.

$$\text{Price Earning Ratio} = \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

e. Market to Book Value Ratio

Market price is the price of stock quoted in the market for trading and book value of the share is the claim of the shareholders over the company per share held. This ratio is calculated by dividing market price of share by book value per share. The book value per share is the quotient of shareholder's equity and number of share outstanding. Higher market to book value ratio reflects the firm is earning in a satisfactory level.

$$\text{Market to Book Value Ratio} = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$$

3.5.2 Income & Expenditure Analysis

3.5.2.1 Income Analysis

a. Interest Income

Interest is the main & major source of income for the banks. Banks generate income by lending the collected deposit from different account to the needy person, business enterprises and other sectors through different schemes. Banks lend fund as loans & advances, overdrafts, investment on government securities, inter banks loans, investment in debentures and money & short calls. This ratio of banks reflects the operational efficiency. So, higher the ratio indicates higher efficiency and vice-versa.

$$\text{Interest Income to Total Income Ratio} = \frac{\text{Interest Income}}{\text{Total Income}} \times 100\%$$

b. Commission And Discount

Bank receives commission and discount of different sources. Commission & discount are very important sources of income of banks. A bank provides agency service, collect remittances, provide guarantee, letter of credit, purchase and discount bills of exchanges etc. These kinds of services rendered by banks generate commission & discount earnings for the banks.

$$\text{Commission and Discount Ratio} = \frac{\text{Commission and Discount}}{\text{Total Income}} \times 100\%$$

c. Foreign Exchange Income

The banks assist to promoting foreign trade by rendering the service of foreign currency exchange. Bank exchanges the foreign currency through which the banks receive earnings. For this purpose the banks should take permission from NRB to render this service. This income includes the income from selling the foreign currency and also the income from revaluation of the currency in international market. This is calculated as follows:

$$\text{Foreign Exchange Income ratio} = \frac{\text{Foreign Exchange Income}}{\text{Total Income}} \times 100\%$$

d. Other Income

Incomes not included in above categories are put under this heading. This income includes the income from sales of collaterals, revaluations, rent, etc.

$$\text{Other Income} = \frac{\text{Other Income}}{\text{Total Income}} \times 100\%$$

3.5.2.2 Expenditure Analysis

As per the types of expenses the total expenses are classified into the major four different groups which are as follows and the ratios of these title expenses are calculated thoroughly.

a. Interest Expenses

Interest expenses are the major expenses of the banking institutions. These expenses generally occupy the highest proportion in the total expenses. The bank has to pay interest on different deposits accounts, interbank transaction, loan and borrowings. The ratio of interest expenses is calculated as follows :

$$\text{Interest Expenses To Total Expenses Ratio} = \frac{\text{Interest Expenses}}{\text{Total Expenses}} \times 100\%$$

b. Staff Expenses

Staff expenses are also the major source of expenses for the bank. Staff expenses occupy the third highest proportion in the expenses pattern. Human resources of any firm are the key factor for the success of the firm and satisfied and self-motivated employee are the ornaments for the firm. Therefore, to retain satisfied employee in the firm, the firm has to pay remunerations and other facilities to employee of the firm. These expenses involve all those expenses which incurred upon the staff of the firm such as salaries, allowances, bonus, quarter facilities and other facilities. The ratio of staff expenses is calculated as follows :

$$\text{Staff Expense To Total Expenses Ratio} = \frac{\text{Staff Expenses}}{\text{Total Expenses}} \times 100\%$$

c. General Expenses

General expenses include those expenses which are not included in the two expenses above. These expenses involve operating expenses, miscellaneous expenses and other expenses. For the smooth running of day to day operation of a firm, it has to incur different expenses such as stationary, power, water, telephone, etc. The house rent, building, maintenance and repairs, bank commissions, board of directors meeting allowances, refreshment cost, parties expenses, audit fee, etc. This ratio is calculated as follows :

$$\text{General Expenses to Total Expenses Ratio} = \frac{\text{General Expenses}}{\text{Total Expenses}} \times 100\%$$

d. Bonus Facility

Bonus is the intensive to the employee to the company on successful and profitably working of the bank over a certain period of time. This is the way of motivating the employee and participation them in the success of their work. Bonuses are paid from the net profit of the firm. The ratio is calculated as follows :

$$\text{Bonus Facility Ratio} = \frac{\text{Bonus Facility}}{\text{Total Expenses}} \times 100\%$$

3.5.3 Bankruptcy Test

Bankruptcy score is one of the important financial tools to analyze the financial performance of any organization. It shows the condition of firm whether it will go bankrupt or not. The bankruptcy score is calculated and analyzed by using Altman's 1st and 2nd Multivariate Model with relevant data and information of sampled banks i.e. NABIL and NIBL. The calculation is based on the following equations; five financial ratios are been used to calculate the bankruptcy score of NABIL & NIBL. The formula of bankruptcy score is;

Altman's 1st Multivariate Model

$$\text{Bankruptcy score (z)} = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

Altman's 2nd Multivariate Model

$$\text{Bankruptcy score (z)} = 0.717x_1 + 0.84x_2 + 3.10x_3 + 0.420x_4 + 0.988x_5$$

Where,

X₁ = Net Working Capital/Total Assets

The working capital/total assets ratio, frequently found in studies of corporate problems, is a measure of the net liquid assets of the firm relative to the total capitalization. Working capital is defined as the difference between current assets and current liabilities. Liquidity and size characteristics are explicitly considered. Ordinarily, a firm experiencing consistent operating losses will have shrinking current assets in relation to total assets. Of the three liquidity ratios evaluated, this one proved to be the most valuable. Two other liquidity ratios tested were the current ratio and the quick ratio. There were found to be less helpful and subject to perverse trends for some failing firms.

X₂= Retaining Earning/Total Assets

Retained Earnings is the account which reports the total amount of reinvested earnings and/or losses of a firm over its entire life. The account is also referred to as earned surplus. It should be noted that the retained earnings account is subject to "manipulation" via corporate quasi-reorganizations and stock dividend declarations. However, Retained Earnings can be considered as cushion against losses. In addition, the RE/TA ratio measures the leverage of a firm. Those firms with high RE, relative to TA, have financed their assets through retention of profits and have not utilized as much debt.

X₃= Earning Before Interest & Tax /Total Assets

This ratio is a measure of the true productivity of the firm's assets, independent of any tax or leverage factors. Since a firm's ultimate existence is based on the earning power of its assets, this ratio appears to be particularly appropriate for studies dealing with corporate failure. Furthermore, insolvency in a bankrupt sense occurs when the total liabilities exceed a fair valuation of the firm's assets with value determined by the earning power of the assets. As we will show, this ratio continually outperforms other profitability measures, including cash flow.

X₄= Total Market Value of Stock (Equity)/ Book Value of Total Liabilities

Equity is measured by the combined market value of all shares of stock, preferred and common, while liabilities include both current and long term. The measure shows how much the firm's assets can decline in value (measured by market value of equity plus debt) before the liabilities exceed the assets and the firm becomes insolvent. It also shows what extent assets values may decline and still leave the firm in a position to cover the debt.

X₅= Sales (i.e. Performing Assets for bank case)/ Total Assets

The capital-turnover ratio is a standard financial ratio illustrating the sales generating ability of the firm's assets. It is one measure of management's capacity in dealing with competitive conditions. This final ratio is quite important because it is the least significant ratio on an individual basis. In fact, based on the univariate statistical significance test, it would not have appeared at all. However, because of its unique relationship to other

variables in the model, the sales/total assets ratio ranks second in its contribution to the overall discriminating ability of the model.

Altman’s Bankruptcy Score Criteria are presented in the following Table

Bankruptcy Score (z)		Condition	Prediction
1st Model	2nd Model		
Less than 1.81	Less than 1.20	Probability of failure is high	Predict failure
Between 1.81 to 2.99	Between 1.20 to 2.90	Probability of failure may be low	*Predict failure if score is less than 2.675 *Predict success if score is greater than 2.675
Greater than 2.99	Greater than 2.90	No Probability of failure	Predict Success

		1st Model	2nd Model
Assign to non Bankruptcy group	if z >	2.99	2.90
Assign to bankruptcy group	if z <	1.81	1.20
Grey area	if z =	1.81-2.99	1.20-2.90

The above bankruptcy criterion suggests that an organization with the score of less than 1.81(1st Model) and 1.20 (2nd Model) definitely goes to bankruptcy. The firm with a score in between 1.81 & 2.99 in 1st Model and 1.20 & 2.90 in 2nd Model put the analyzer in difficult to predict whether the firm exists or not. Simply a firm with a score greater than 2.99 in 1st Model and 2.90 in 2nd Model means there is a rare chance of a firm going into bankruptcy.

3.5.4 Statistical Tools

The statistical tool is essential to measure the relationship of two or more variable. It is the mathematical technique used to facilitate the analysis and interpretation of the performance of the organization. Various statistical tools can be used in research in order to draw the reliable conclusion according to the financial data available to researcher. In this study, the following statistical tools are use.

3.5.4.1 Arithmetic Mean

Arithmetic Mean of a given set of observations is the sum of the observation divided by the number of observations. In such as case all the items are equally important. Simple Arithmetic Mean is used in this study as per necessary for analysis.

We have,

$$\text{Mean } \bar{X} = \frac{\sum X}{n}$$

Where,

$$\sum X = \text{Sum of Variable 'X'}$$

$$n = \text{No. of observation}$$

3.5.4.2 Standard Deviation

“The standard deviation usually denoted by the letters (σ). Karl Pearson suggested it as a widely used measure of dispersion and defined as the given observations from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis.” (Gupta; 2002: 238)

We have,

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{n} \sum (X - \bar{X})^2}$$

3.5.4.3 Coefficient of Variation (C.V.)

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 times coefficient of standard deviation is called coefficient of variation. It is denoted by C.V. Thus,

$$\text{C. V.} = \frac{\delta}{x} \times 100\%$$

Where, σ = Standard Deviation

X = Mean Value of Variables

It is percentage of variation mean, standard deviation being considered as the total variation in average. Smaller C.V. represents more homogeneous or uniformity of the data about the average line, while greater C.V. represents the high ranged volatility of the data. In the thesis purpose, C.V. has been employed to compute and analyze the vitality of the data over the study period.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This Chapter is the main part of research which deals with the analysis and interpretation of data following the research methodology dealt in the third chapter. In course of analysis, data gathered from the various sources have been inserted in the tabular form according to their homogeneous nature. The various tables prepared for the analysis purpose have been shown in annexes. Using financial and statistical tools, the data have been analyzed. The result of the analysis has been interpreted keeping in mind the conventional standard with respect to ratio analysis, directives of NRB and other factors while using other tools. Data collected from various sources are classified and tabulated as requirement of the study and are presented and analyzed by using different financial and statistical tools and techniques. In the study, we have taken two pioneer banks NABIL Bank Ltd and Nepal Investment Bank Ltd as samples to compare their financial performance. Basically financial performance of any organization is carried out on financial statements of the concerned organization. Financial statement includes balance sheet, income statement, statement of cash flow etc. This information contained on these financial statements of the firm is used by any special group to form qualitative judgment about firm's financial performance and position. The financial performance of any firm is to be analyzed by several view point because of the firm. There are several types of ratios. However, according to the requirement of the various interest groups, we have classified Ratio Analysis into major categories which are analyzed below one by one. To make the study easier and clearer to the understanding, data are presented in the table and figures also.

4.1 Ratio Analysis

Ratio analysis has been adopted to evaluate the financial health, operating result and growth of the sampled banks. In order to analyze and interpret the tabled data, the following ratios have been used.

- ✓ Liquidity Ratios
- ✓ Efficiency/Activity/Turnover Ratios
- ✓ Leverage Ratios

- ✓ Capital Adequacy Ratio
- ✓ Profitability Ratio
- ✓ Assets Quality Ratio
- ✓ Miscellaneous Ratios

4.1.1 Liquidity Ratios

The term 'Liquidity' means the ability of a business to pay its short-term liabilities. Liquidity ratios have been employed to test the ability of the banks to pay immediate liabilities (i.e. short term liabilities). A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Liquidity provides honor, strength, health and prosperity to an organization. A firm should ensure that it does not suffer from lack of liquidity and also that it does not have excess liquidity. If the firm is less liquid i.e. don't have enough cash in hand, the creditworthiness of the firm will be questionable and may even lose creditor's confidence. High degree of liquidity is also not favorable, for idle assets earn nothing. The consequences of inadequate short-term liquidity are very serious and therefore measures of such liquidity have been attached greater importance.

Liquidity Ratios include current ratio, quick ratio, cash & bank balance to current assets ratio, cash & bank balance to deposit (except Fixed Deposits) ratio, cash & bank balance to total deposit ratio, NRB balance to current and saving deposit ratio and NRB balance to Fixed deposits ratio.

4.1.1.1 Current Ratio

Current ratio is one of the best measures of Financial Strength which is most widely used to measure liquidity of a firm. It measures the extent to which current assets are sufficient to pay current liabilities. This ratio is the yardstick to judge the soundness of the short-term financial position of the business unit or industry. A higher ratio greater indicates greater assurance of ability to pay current liabilities. A current ratio of 2:1 is generally considered to be an acceptable standard. This conventional rule is based on the assumption that even if the current assets are decreased by half the firm can meet its obligations. The standard of 2:1 is not a hard and fast rule for current ratio. The ratio of the firm depends upon the kind of the business it does as well. If the firm is a service rendering firm it is considered to be enough to be 1:1 ratio. It can be computed by using following formula,

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

Where,

Current assets = Cash balance, balance with banks / financial institution, balance with NRB, money at call and short notice, investment in government securities, foreign banks, loan, advances & bills purchased, stock of stationery, income receivable on investments, accrued interest on loan, sundry debtors, staff loan and advances, prepayments, other transit items (including cheques), receivable from NRB, premium deposit against staff housing loan and others.

Current Liabilities = Borrowings, deposits liabilities, bills payable, proposed & dividend payable, income tax liabilities, provision for staff bonus, interest payable on deposits, interest payable on borrowings, unearned discount & commission, sundry creditors, unpaid dividend and others. In the following table we can see the data relating to current ratio of NIBL.

Current Ratio

Table#1

Current Ratio (Times)

F/Y	NABIL			NIBL		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
2062/63	22,010,884,931	20,454,976,661	1.08	20,537,703,966	19,077,071,613	1.08
2063/64	26,966,497,784	25,196,343,293	1.07	26,596,591,576	24,565,202,559	1.08
2064/65	36,534,720,151	34,455,560,160	1.06	37,625,617,451	34,648,115,748	1.09
2065/66	43,206,408,518	40,437,156,867	1.07	51,559,022,148	47,342,988,326	1.09
2066/67	51,298,245,300	47,945,499,768	1.07	55,769,728,020	50,809,653,839	1.10
2067/68	57,206,348,734	53,187,183,792	1.08	57,248,379,330	52,147,067,804	1.10
Mean	1.07			1.09		
S.D	0.01			0.01		
C.V	0.49			0.70		

(See: Appendix 1 for Current Assets & 2 for Current Liabilities)

The above table represents the summarized calculation of current ratio of NABIL & NIBL which indicates that the current asset of both the banks has always exceeded the current liabilities throughout the study period.

In case of NABIL, the current ratio is highest in F.Y. 2062/63 and F.Y. 2067/68 which is 1.08 times and lowest figure is 1.06 times in F.Y. 2064/65. The ratio for bank is less than the general standard i.e. 2:1. However, banks are the service rendering organization therefore 1:1 ratio for the bank is also a satisfactory level. The average of the ratio was 1.07 times over the period. The C.V of the ratio was 0.49%.

Similarly the ratio of NIBL ranged from 1.08 times (in F.Y. 2062/63) to 1.10 (in F.Y. 2067/68).

Here the ratio is in increasing trend. The mean ratio of NIBL is 1.09 and C.V is 0.64% which more than that of NABIL. The nature of assets and liabilities of commercial banks, the ratio below the stated standard may be accepted as satisfactory, but it signifies that the banks have the poor liquidity position. The banks may face the problem of working capital if they need to pay the current liabilities at demand. Delay in payment of liabilities may lead the banks to lose their goodwill. They will have the problem in winning the confidence of current depositors and short-term lenders. This indicates that NIBL is more consistent than NABIL in this regards.

For commercial banks, it is very important to maintain a good balance between liquidity and profitability. If banks keep large portion of money under its control it affects in profit because idle money earn nothings but other hand the bank should have enough cash balance with it to fulfill the requirement of short-term liabilities.

The graphical representation of the Current Ratios of NABIL & NIBL is presented below:

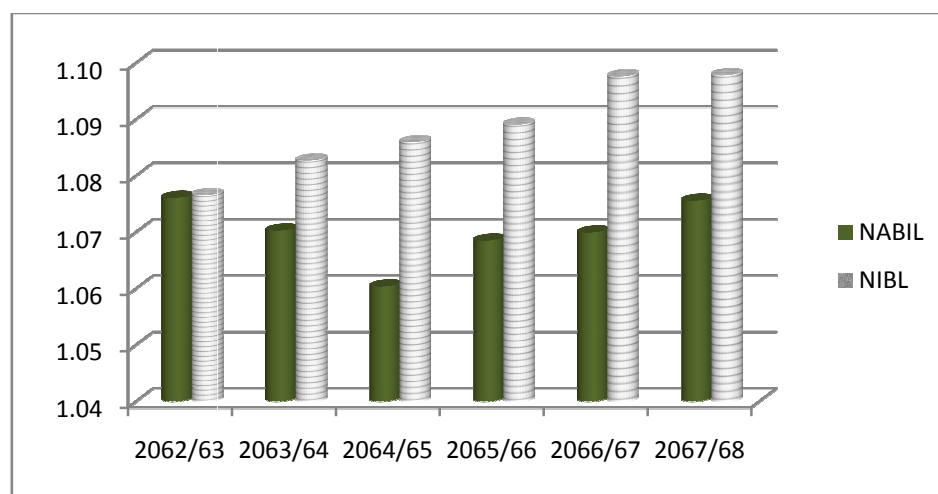


Figure 1

4.1.1.2 Quick Ratio

The Quick Ratio is sometimes called the "acid-test" ratio and is one of the best measures of liquidity. Quick ratio established a relationship between quick asset and current liabilities. The Quick Ratio is a much more exacting measure than the Current Ratio. Quick Assets consists of only Cash & Near Cash Assets. Inventories are deducted from Current Assets on the belief that these are not 'near to cash assets'. It establishes a relationship between quick/liquid assets and current liabilities. An asset is quick/liquid if it can be converted into cash immediately or reasonably soon without a loss of value. It helps answer the question: "If all sales revenues should disappear, could my business meet its current obligations with the readily convertible 'quick' funds on hand?" An acid-test of 1:1 is considered satisfactory unless the majority of your "quick assets" are in accounts receivable, and the pattern of accounts receivable collection lags behind the schedule for paying current liabilities. It is calculated by using following formula:

$$\text{Quick Assets} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Table#2
Quick Ratio (Times)

F/Y	NABIL			NIBL		
	Quick Assets	Current Liabilities	Ratio	Quick Assets	Current Liabilities	Ratio
2062/63	8,543,673,639	20,454,976,661	0.42	7,761,495,929	19,077,071,613	0.41
2063/64	10,908,669,050	25,196,343,293	0.43	9,310,164,187	24,565,202,559	0.38
2064/65	14,563,273,183	34,455,560,160	0.42	10,628,965,193	34,648,115,748	0.31
2065/66	14,751,779,769	40,437,156,867	0.36	15,317,815,590	47,342,988,326	0.32
2066/67	18,119,158,417	47,945,499,768	0.38	15,451,419,958	50,809,653,839	0.30
2067/68	17,970,266,889	53,187,183,792	0.34	15,713,477,157	52,147,067,804	0.30
Mean	0.39			0.34		
S.D	0.03			0.04		
C.V	8.80			12.17		

(See: Appendix 1 for Quick Assets & 2 for Current Liabilities)

The above table represents the calculation of Quick Ratio of NABIL & NIBL. We can clearly see that the quick ratio for NABIL is highest on F.Y. 2063/64 which is 0.43 times and it is lowest on F.Y 2067/6 which is 0.34 times. Similarly the mean of ratios appeared

0.39 times and C.V appeared 8.80%. Similarly, the quick ratio of NIBL was highest in F.Y. 2062/63 which is 0.41 times & it was lowest in F.Y 2066/67 and 2067/68 which is 0.30 times. The average of its ratio is 0.34 and C.V is 12.17%. The mean ratio of NABIL is significantly higher than that of NIBL. However the standard quick ratio is 1.1 i.e Quick Assets must be equal to Current Liabilities. Both the banks showed poor liquidity position because quick ratios of every year were below the standard form. It indicates that they have weak position of immediate payment of short term obligation (i.e. current liabilities) because current liabilities were greater than quick assets. From the standard point of view, we can say that NABIL's ratio is higher than that of NIBL. Higher CV of ratios in NIBL as compared to NABIL signifies greater variation in ratios. Between the two banks, NABIL seems to be in slightly better position as the ratios of NABIL are more consistent than that of NIBL.

The graphical representation of the Quick Ratios of NABIL & NIBL is presented below:

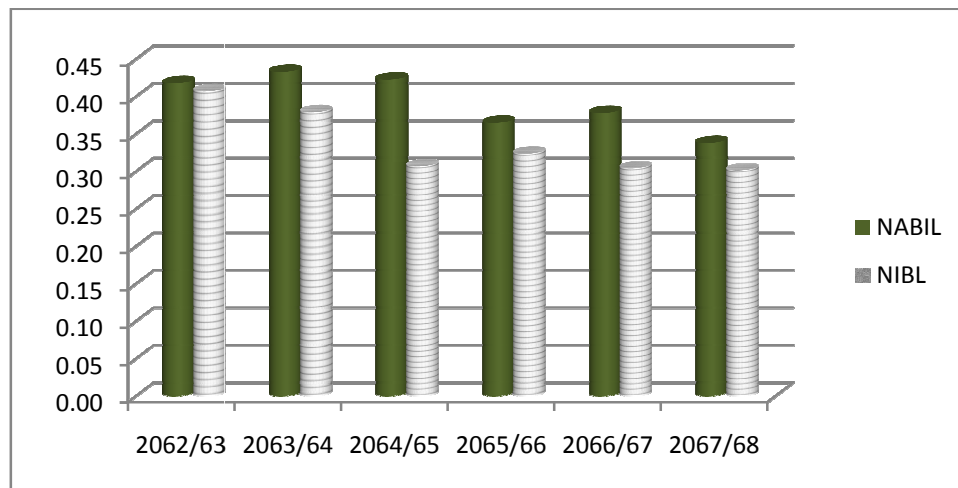


Figure 2

4.1.1.3 Cash and Bank Balance to Total Deposits Ratio

Cash and bank balance to total deposits ratio measures the capacity of bank to meet unexpected demand made by depositors, i.e. current account holders, saving depositors, call and other depositor. Banks will have to maintain enough cash and bank balance to gain and retain confidence of their customers. But too high ratio of cash and bank balance to total deposits may be unsuitable and harmful because it affects their profitability position and also too low ratio is unfavorable as capital will be tied up and opportunity cost will be

higher. Cash and bank balance to total deposit measures the percentage of cash and bank balance maintained. This ratio is computed by using the following formula:

$$\text{Cash \& Bank Balance to Total Deposits Ratio} = \frac{\text{Total Cash \& Bank Balance}}{\text{Total Deposit}}$$

Table#3
Cash & Bank Balance to Total Deposits Ratio (%)

F/Y	NABIL			NIBL		
	Cash & Bank Balance	Total Deposits	Ratio	Cash & Bank Balance	Total Deposits	Ratio
2062/63	2,365,140,531	19,347,399,440	12.22	2,406,521,396	18,927,305,974	12.71
2063/64	1,963,358,483	23,342,285,327	8.41	2,804,484,200	24,488,855,696	11.45
2064/65	4,623,501,755	31,915,047,467	14.49	3,754,941,568	34,451,726,191	10.90
2065/66	3,925,400,768	37,348,255,840	10.51	7,918,003,890	46,698,100,065	16.96
2066/67	4,518,241,804	46,410,700,628	9.74	6,815,889,833	50,094,725,496	13.61
2067/68	4,889,061,362	49,696,112,934	9.84	8,290,370,632	50,138,122,241	16.54
Mean		10.87			13.69	
S.D		1.98			2.33	
C.V		0.18			0.17	

(See: Appendix 3 for Cash & Bank Balance & 10 for Total Deposits)

The above Table#3 shows the Cash & Bank Balance of two sampled banks. The table showed that the ratio of NABIL fluctuated during the five years period. The ratio was 12.22% in fiscal year 2062/63, which decreased to 8.41% in fiscal year 2063/64 but reached highest up to 14.49% in fiscal year 2064/65 but decreased to 10.51% in fiscal year 2065/66 and to 9.74% in fiscal year 2066/67 but again increased to 9.84% in F.Y 2067/68. In average, the Cash & Bank Balance occupied 10.87% of total deposits collected by the bank and CV was 0.18%.

Similarly, 12.71%, 11.45%, 10.90%, 16.96%, 13.60% & 16.54% of the total deposit collection of NIBL remained immobilized as cash reserve in the fiscal year 2062/63, 2063/64, 2064/65, 2065/66, 2066/67 & 2067/68 respectively. In average, NIBL kept 13.69% of total deposit as cash reserve to meet its daily obligations and its CV was 0.17%.

Comparing the two banks on the basis of Cash & Bank Balance to Total Deposits Ratio, it can be considered that NABIL has policy of keeping lowest cash reserve, whereas NIBL has the policy of keeping highest cash reserve ratio to meet the daily obligation. Hence,

NIBL has good liquidity position than NABIL and lower CV of NIBL shows more consistency in its ratios.

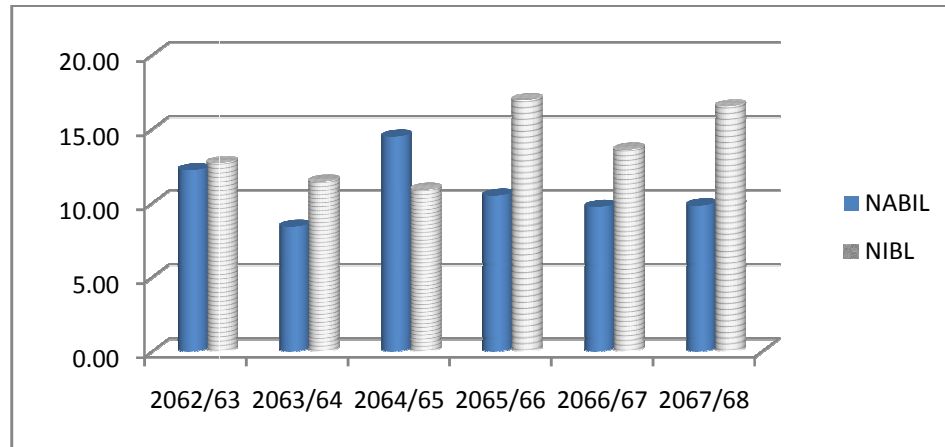


Figure 3

4.1.1.4 Cash & Bank Balance to Short Term Deposits Ratio

The Cash & Bank Balance to Short Term Deposits ratio measures the ability of the banks to meet its immediate obligation. The bank should maintain adequate cash and bank balance to meet the unexpected as well as the heavy withdrawal of deposits. The ratio is computed by dividing the cash and bank balance to total short-term deposits i.e. Saving Deposits, Current Deposits, Margin Deposits & Call deposits. It is expressed as;

$$\text{Cash \& Bank Balance to Short Term Deposits} = \frac{\text{Cash \& Bank Balance}}{\text{Short Term Deposits}}$$

Table#4
Cash & Bank Balance to Short-Term Deposits Ratio (%)

F/Y	NABIL			NIBL		
	Cash & Bank Balance	Short-Term Deposits	Ratio	Cash & Bank Balance	Short-Term Deposits	Ratio
2062/63	2,365,140,531	15,898,305,291	14.88	2,406,521,396	13,514,336,379	17.81
2063/64	1,963,358,483	17,907,095,607	10.96	2,804,484,200	16,972,168,830	16.52
2064/65	4,623,501,755	23,450,961,354	19.72	3,754,941,568	26,507,493,633	14.17
2065/66	3,925,400,768	29,037,547,543	13.52	7,918,003,890	35,064,719,847	22.58
2066/67	4,518,241,804	31,699,542,141	14.25	6,815,889,833	33,269,577,212	20.49
2067/68	4,889,061,362	32,855,281,780	14.88	8,290,370,632	31,759,822,208	26.10
Mean	14.70			19.61		
S.D	2.61			3.96		
C.V	0.18			0.20		

(See: Appendix 3 for Cash & Bank Balance & 14 for Short Term Deposits)

The above table presents the Cash & Bank Balance to Short Term Deposits ratios of NABIL & NIBL for 6 years study period. The ratios of NABIL showed fluctuating trend. It ranged from 14.88% in Fiscal Year 2062/63 till 14.88% in Fiscal Year 2067/68. The ratio was maximum in Fiscal Year 2064/65 i.e 19.72%. The average of these ratios was 14.70% and CV was 0.18%.

Even the ratios of NIBL showed fluctuating trend. Initially it was 17.81% in Fiscal Year 2062/63 which ranged till 26.10% in Fiscal Year 2067/68 which was the maximum ratio of NIBL during the study period. The average of these ratios was 19.61% and the CV was 0.20.

The higher ratio of NIBL indicated the better capacity of NIBL to meet its immediate obligation and its efficiency to maintain adequate cash & bank balance. However the greater CV indicated the greater variation in its ratios.

The graphical representation of the Cash & Bank Balance to Short Term Deposits of NABIL & NIBL is presented below:

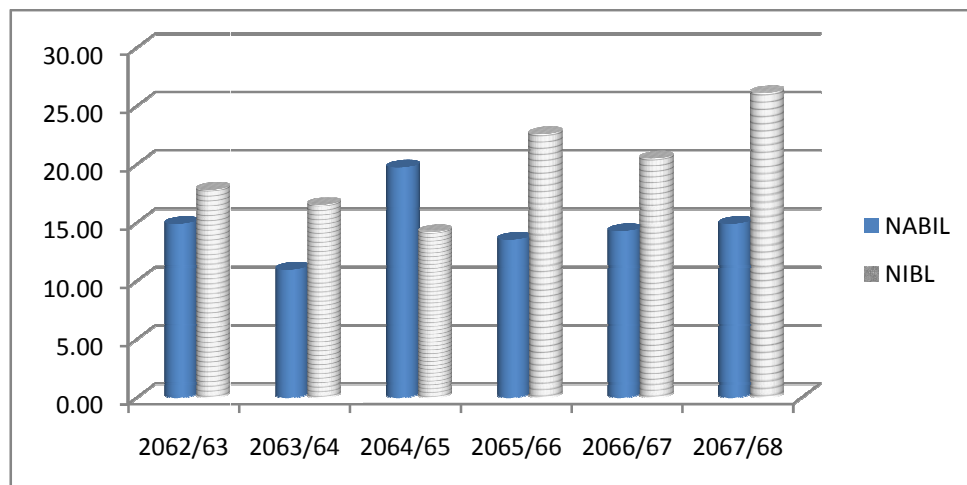


Figure 4

4.1.1.5 Fixed Deposit Total Deposit Ratio

Fixed deposit is a long-term and high interest bearing deposit. More fixed deposit may be an advantage if it can be invested in long-term credit. This ratio is calculated in order to find out the proportion of fixed deposit in total deposit. Fixed deposits are long-term deposit and banks can mobilize them on investment, loans and advances. Fixed deposit to

total deposit ratio can be calculated by dividing the amount of fixed deposit by the amount of total deposit.

$$\text{Fixed Deposit Total Deposit Ratio} = \frac{\text{Total Fixed Deposit}}{\text{Total Deposit}}$$

Table#5
Fixed Deposits to Total Deposit Ratio (%)

F/Y	NABIL			NIBL		
	Fixed Deposits	Total Deposits	Ratio	Fixed Deposits	Total Deposits	Ratio
2062/63	3,449,094,149	19,347,399,440	17.83	5,412,969,595	18,927,305,974	28.60
2063/64	5,435,189,720	23,342,285,327	23.28	7,516,686,866	24,488,855,696	30.69
2064/65	8,464,086,113	31,915,047,467	26.52	7,944,232,558	34,451,726,191	23.06
2065/66	8,310,708,297	37,348,255,840	22.25	11,633,380,218	46,698,100,065	24.91
2066/67	14,711,158,487	46,410,700,628	31.70	16,825,148,284	50,094,725,496	33.59
2067/68	16,840,831,154	49,696,112,934	33.89	18,378,300,034	50,138,122,241	36.66
Mean	25.91			29.58		
S.D	5.52			4.70		
C.V	0.21			0.16		

(See: Appendix 10 for Fixed Deposits & Total Deposits)

The above Table#5 showed the ratio of Fixed Deposit to Total Deposit of sampled banks. The table showed that the ratio was in fluctuating trend in case of NABIL. The fixed deposit covered 17.83% of Total Deposits in Fiscal Year 2062/63, which increased to 23.28%, 26.52%, 22.25% & 31.70% in Fiscal Year 2063/64, 2064/65, 2065/66 & 2066/67 respectively & finally increased to maximum to 33.89% in the Fiscal Year 2066/67. In average, 25.91% of Total Deposit of NABIL has been presented by the Fixed Deposit and its CV is 0.21%.

Similarly the ratio of NIBL was also in fluctuating trend. Initially, it was 28.60% in Fiscal Year 2062/63 and again increased to 30.69% in Fiscal Year 2063/64. But it decreased to 23.06% in Fiscal Year in 2064/65 and 24.91% in Fiscal Year 2065/66. However it again increased to 33.59% in F.Y 2066/67 and reached to maximum to 36.66% in Fiscal Year 2067/68. In average, 29.58% of Total Deposit was represented by Fixed Deposits and its CV was 0.16%.

Comparing these two banks, it can be concluded that NIBL remained more successful than NABIL in maintaining higher proportion of Fixed Deposit to Total Deposit and hence mobilized higher proportion of Total Deposit in Investment and NIBL seemed more consistent than NABIL.

The graphical representation of Fixed Deposits to Total Deposits of NABIL & NIBL is presented below:

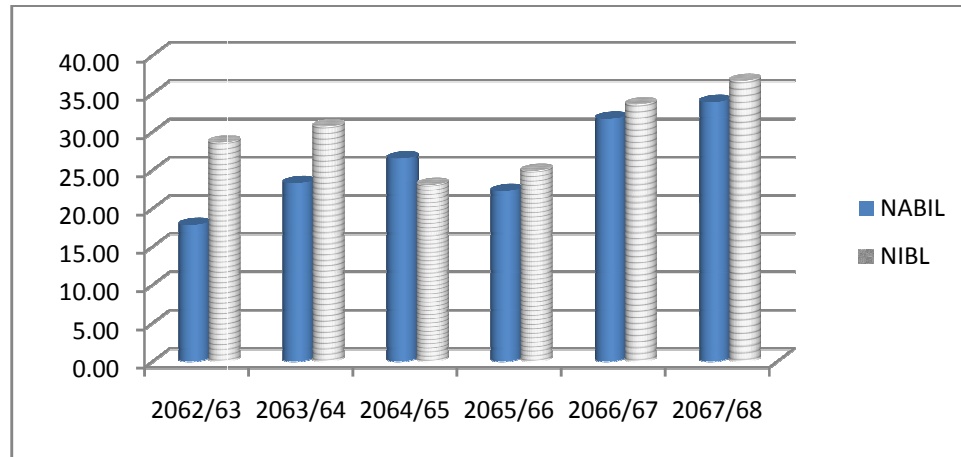


Figure 5

4.1.1.6 Saving Deposit to Total Deposit Ratio

Saving deposit is short-term interest bearing deposit and it has medium rate of interest. Saving deposit is generally regarded as short-term obligation as it can be withdrawn without prior notice or with short notice. This ratio shows the proportion of saving deposits on total deposits. Saving deposit to total deposit ratio can be calculated by dividing the amount of saving deposits by the amount of total deposits.

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Total Saving Deposit}}{\text{Total Deposit}}$$

Table#6
Saving Deposits to Total Deposit Ratio (Times)

F/Y	NABIL			NIBL		
	Saving Deposits	Total Deposits	Ratio	Saving Deposits	Total Deposits	Ratio
2062/63	8,770,759,429	19,347,399,440	45.33	8,081,980,502	18,927,305,974	42.70
2063/64	10,187,354,402	23,342,285,327	43.64	10,742,331,625	24,488,855,696	43.87
2064/65	12,159,966,430	31,915,047,467	38.10	13,688,766,549	34,451,726,191	39.73
2065/66	14,620,407,308	37,348,255,840	39.15	17,066,252,467	46,698,100,065	36.55
2066/67	13,783,585,962	46,410,700,628	29.70	14,324,255,897	50,094,725,496	28.59
2067/68	14,288,520,136	49,696,112,934	28.75	13,490,307,280	50,138,122,241	26.91
Mean	37.45			36.39		
S.D	6.32			6.55		
C.V	0.17			0.18		

(See: Appendix 10 for Saving & Total Deposits)

The Table#6 depicted the ratio of Saving Deposit to Total Deposit of NABIL & NIBL. The table showed that the ratio of NABIL fluctuated during the entire period. The ratio was 45.33% in the Fiscal Year 2062/63, which decreased to 43.64% in Fiscal Year 2063/64 and further decreased to 38.10% in Fiscal Year 2064/65. Then it increased to 39.15% in Fiscal Year 2065/66 but again finally decreased to 29.69% in Fiscal Year 2066/67 and 28.75% in F.Y 2067/68. In average, 37.45% of Total Deposit of NABIL was represented by Savings Deposit. The Coefficient of Variation 0.17% indicated consistency in ratio.

Likewise even the ratio of NIBL showed fluctuating trend. The ratio ranged from 42.70% in Fiscal Year 2062/63 to 43.87% in Fiscal Year 2063/64. It decreased to 39.73% in Fiscal Year 2064/65, 36.54% in Fiscal Year 2065/66, 28.59% in Fiscal Year 2066/67 and finally reached lowest to 26.91% in F.Y 2067/68. In average, 36.39% of the Total Deposit of NIBL came from Savings Deposits and the Coefficient of Variation of such ratio was 0.18% in the six years period.

Comparing these two banks, it can be considered that the liquidity position of NIBL is best than that of NABIL, as the ratio of Savings Deposit to Total Deposit of NIBL was lowest (36.39%) and that of NABIL was higher (37.45%). The CV of NABIL was 0.17% which showed consistency in its ratios.

The graphical representation of the Saving Deposits to Total Deposits of NABIL & NIBL is presented below:

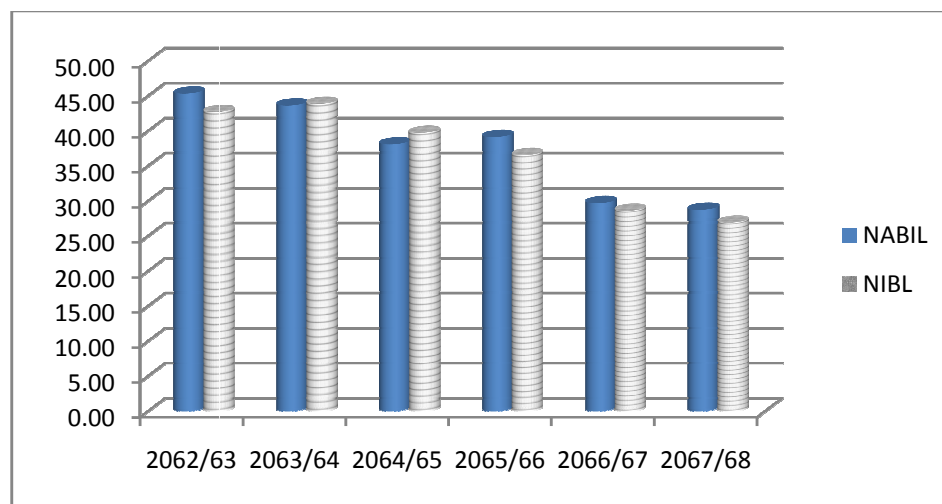


Figure 6

4.1.1.7 NRB Balance to Current and Saving Deposit Ratio

The ratio shows the percentage of amount deposits by the banks in Nepal Rastra Bank (NRB) as compare to the current and saving deposits. Commercial banks required holding certain position of current and saving deposits in NRB account. It is computed by dividing the NRB balance by current and saving deposits.

$$\text{NRB Balance to Current \& Saving Deposits Ratio} = \frac{\text{NRB Balance}}{\text{Current \& Saving Deposits}}$$

Table#7
NRB Balance to Current & Saving Deposits Ratio (%)

F/Y	NABIL			NIBL		
	NRB Balance	Current & Saving Deposits	Ratio	NRB Balance	Current & Saving Deposits	Ratio
2062/63	318,358,771	11,681,349,201	2.73	1,526,066,660	9,787,648,997	15.59
2063/64	1,113,415,436	13,582,594,174	8.20	1,381,351,556	12,917,361,282	10.69
2064/65	1,829,470,769	17,444,334,494	10.49	1,820,006,035	16,827,435,977	10.82
2065/66	2,648,596,348	20,100,940,776	13.18	4,411,133,083	20,822,822,817	21.18
2066/67	549,454,618	21,688,205,814	2.53	3,237,217,030	18,350,076,077	17.64
2067/68	1,473,986,407	19,745,414,769	7.46	4,009,459,910	17,533,000,485	22.87
Mean	7.43			16.47		
S.D	3.85			4.67		
C.V	0.52			0.28		

(See: Appendix 3 for NRB Balance & 16 for Current & Saving Deposits)

The above Table#7 shows the ratio of NRB Balance to Current & Savings Deposit of NABIL & NIBL. The ratio of NABIL was in increasing trend till Fiscal Year 2065/66. It was 2.73% in Fiscal Year 2062/63 which increased to 8.20% in Fiscal Year 2063/64, 10.49% in Fiscal Year 2064/65 and 13.18% in Fiscal Year 2065/66 but eventually it decreased to 2.53% in Fiscal Year 2066/67 and again increased to 7.46% in Fiscal Year 2067/68. In average, 7.43% of Current & Savings Deposit represented Total Deposit in NRB of NABIL. The CV was 0.52% during the study period.

Similarly the ratios of NIBL were also in increasing & decreasing trend. Initially it was 15.59% in Fiscal Year 2062/63 which decreased to 10.69% in Fiscal Year 2063/64. Then it increased to 10.82% in Fiscal Year 2064/65 and 21.18% in Fiscal Year 2065/66 but again decreased to 17.64% in Fiscal Year 2066/67 and increased to 22.87% in Fiscal Year 2067/68. In average, 16.47% of Current & Savings Deposit represented Total Deposit in NRB of NIBL while the CV remained 0.28%.

Comparing these two banks, we can conclude that NIBL maintained the standard as per the directive of NRB. As per the directive of NRB, the required ratio is 8%. The ratio of NIBL was always higher than 8% whereas the ratio of NABIL was always in fluctuating trend. Similarly the mean ratio of NIBL is higher than that of NABIL which indicates that NIBL has greater ability to repay its Current & Savings Deposit which means that NIBL is more efficient to serve its customers from liquidity point of view. On the other hand, excess cash with NRB may affect the profitability of NIBL adversely because idle cash earns nothing. From the C.V analysis, it can be concluded that the ratio of NABIL varied to a greater extent than that of NIBL.

The graphical representation of the NRB Balance to Current & Saving Deposit Ratios of NABIL & NIBL is presented below:

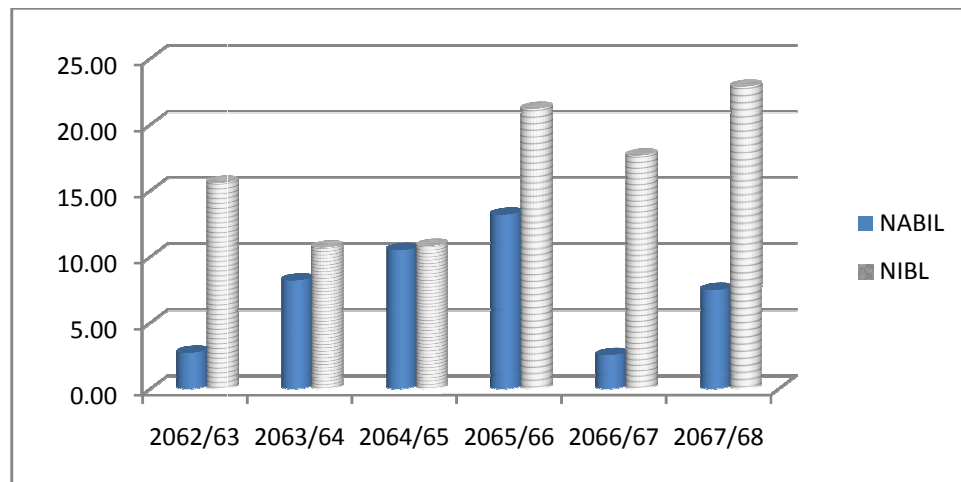


Figure 7

4.1.1.8 NRB Balance to Fixed Deposit Ratio

The ratio shows the proportion of cash balance at Nepal Rastra Bank's current account as compared to the commercial banks' fixed deposits amount. The ratio is calculated as using the following formula;

$$\text{NRB Balance to Fixed Deposits} = \frac{\text{NRB Balance}}{\text{Fixed Deposits}}$$

Table#8
NRB Balance to Fixed Deposits Ratio (%)

F/Y	NABIL			NIBL		
	NRB Balance	Fixed Deposits	Ratio	NRB Balance	Fixed Deposits	Ratio
2062/63	318,358,771	3,449,094,149	9.23	1,526,066,660	5,412,969,595	28.19
2063/64	1,113,415,436	5,435,189,720	20.49	1,381,351,556	7,516,686,866	18.38
2064/65	1,829,470,769	8,464,086,113	21.61	1,820,006,035	7,944,232,558	22.91
2065/66	2,648,596,348	8,310,708,297	31.87	4,411,133,083	11,633,380,218	37.92
2066/67	549,454,618	14,711,158,487	3.73	3,237,217,030	16,825,148,284	19.24
2067/68	1,473,986,407	16,840,831,154	8.75	4,009,459,910	18,378,300,034	21.82
Mean	15.95			24.74		
S.D	9.59			6.69		
C.V	0.60			0.27		

(See: Appendix 3 for NRB Balance & 10 for Fixed Deposits)

Table#8 presents the ratio of NRB balance to Fixed Deposits of two sampled banks NABIL & NIBL. It shows that the ratio of NABIL ranges from 9.23% in Fiscal Year 2062/63 to 3.73% in Fiscal Year 2066/67. It increased till Fiscal Year 2065/66 and reached maximum i.e 31.87% but eventually decreased in Fiscal Year 2066/67 reaching 3.73% and again increased to 8.75% in Fiscal Year 2067/68. The average of the ratios for NABIL was 15.95% and CV was 0.60%.

Similarly, the ratio of NIBL was in fluctuating trend. It was 28.19% in Fiscal Year 2062/63 which decreased to 18.38% in Fiscal Year 2063/64 but again increased in Fiscal Year 2064/65 to 22.91% and 37.92% in Fiscal Year 2065/66. Finally it decreased to lowest as 19.24% in Fiscal Year 2066/67 but again increased to 24.74% in Fiscal Year 2068/69. The average ratio was 24.74% and CV was 0.27%.

During all these years, the ratios of both the banks remained higher than the minimum requirement i.e 6%, but in fiscal year 2066/67 the ratio of NABIL decreased to 3.73% which is less than the minimum requirement fixed by NRB i.e 6%. Similarly, the average ratio of NIBL was 24.74% which is greater than that of NABIL which is 15.95%. Hence we can conclude that NIBL has higher fixed deposits to be repaid than that of NABIL. Furthermore, CV of the ratios concludes that the ratios of NIBL are more consistent as compared to NABIL.

The graphical representation of the NRB Balance to Fixed Deposits Ratios of NABIL & NIBL is presented below:

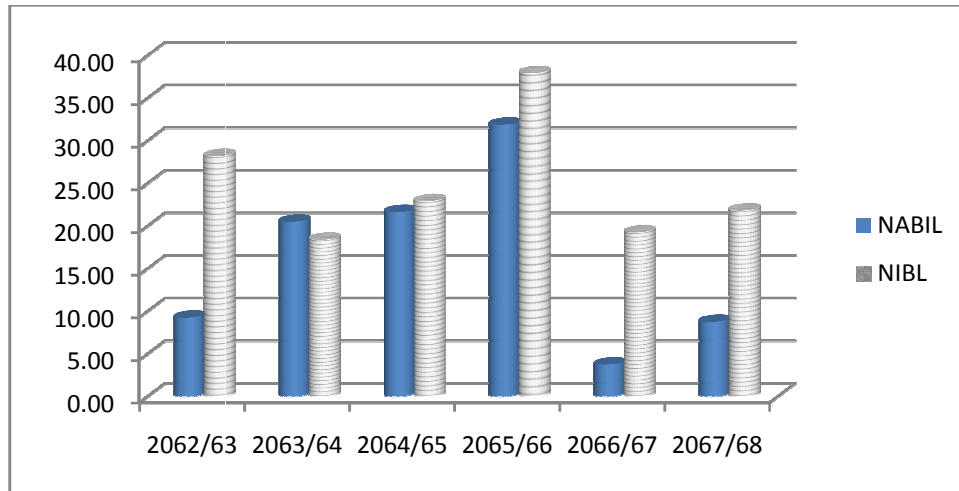


Figure 8

4.1.2 Efficiency Ratio

Funds of depositors and owners are invested in various assets to generate sales and profits. This ratio measures how meticulously a firm is managing its assets. The better the management of assets, the larger the amount of sales. Efficiency Ratios/Activity ratios are employed to evaluate the efficiency with which the firm manage and utilizes its assets. Efficiency ratios, thus, involve a relationship between sales and assets. A proper balance between sales and assets are generally reflects that assets are managed well. Following ratios are used under Efficiency ratio.

4.1.2.1 Interest Expenses to Total Deposit Ratio

Commercial banks not only make profit from the deposit but also pay interest to the deposit holders. This ratio measures the amount of interest paid on accepting deposit by the banks to its accountholders. Lower the ratio is considered better and vice versa. This ratio is calculated by;

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

Table#9
Interest Expenses on Deposits to Total Deposits Ratio (%)

F/Y	NABIL			NIBL		
	Interest Expenses	Total Deposits	Ratio	Interest Expenses	Total Deposits	Ratio
2062/63	357,161,304	19,347,399,440	1.85	490,946,961	18,927,305,974	2.59
2063/64	555,710,109	23,342,285,327	2.38	685,530,264	24,488,855,696	2.80
2064/65	758,436,212	31,915,047,467	2.38	992,158,398	34,451,726,191	2.88
2065/66	1,153,280,052	37,348,255,840	3.09	1,686,973,130	46,698,100,065	3.61
2066/67	1,960,107,902	46,410,700,628	4.22	2,553,847,497	50,094,725,496	5.10
2067/68	2,946,691,281	49,696,112,934	5.93	3,620,336,697	50,138,122,241	7.22
Mean	3.31			4.03		
S.D	1.39			1.65		
C.V	0.42			0.41		

(See: Appendix 11 for Interest Expenses & 10 for Total Deposits)

The above table shows the ratio of interest expenses to total deposits, which is incurred for the deposits maintained by the banks. The table shows that the ratio of both the banks is in increasing trend, which means that these both banks are providing higher interest rate on deposits to attract more customers.

From the above data, we can see that the ratio of NABIL is in increasing trend. It was 1.85% in Fiscal Year 2062/63 which increased to 2.38% in Fiscal Year 2063/64 and continued to increase further and finally reached highest to 5.93% in Fiscal Year 2067/68. Similarly, the ratio of NIBL also seems to be in increasing trend. It was 2.59% in Fiscal Year 2062/63 and kept on rising which finally reached highest to 7.22% in Fiscal Year 2067/68.

Comparing these two banks on the basis of average interest expenses to total deposits ratio, it can be concluded that though both the banks seem to be having increasing interest expenses, NABIL seems to have more control over its cost & thus remained successful in minimizing its interest expenses as compared to NIBL. However, it would be worthwhile if both the banks promote lower interest bearing accounts in order to reduce interest expenses and eventually increase profit.

The graphical representation of Interest Expenses to Total Deposits Ratios of NABIL & NIBL is presented below:

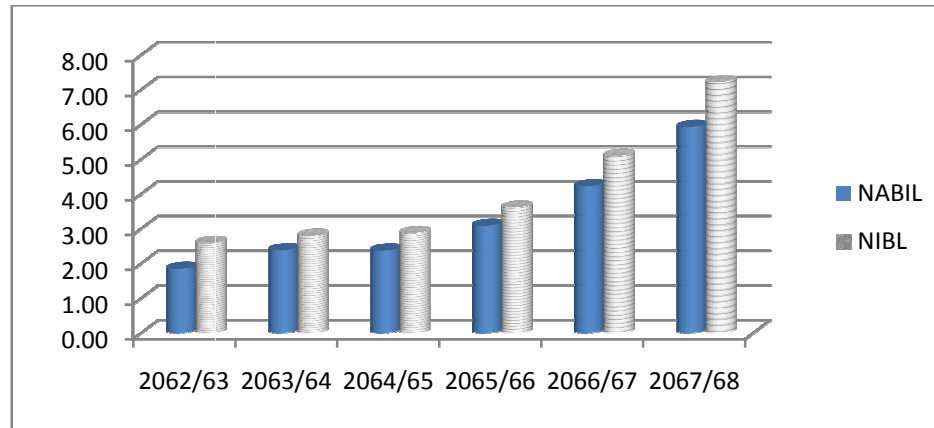


Figure 9

4.1.2.2 Loans and Advance to Total Deposit Ratio

This ratio measures the bank's ability to mobilize the depositors fund to earn profit by providing loans and advances. The core banking function is to mobilize the funds from the depositors to the borrowers. Banks make profit by lending or utilizing the deposited funds by charging a higher rate of interest to the borrowers than they pay to the depositors. Loan and advances refer to total sum of loan, advances, credit, overdraft, local and foreign bills purchased and discounted. Total deposits include total outsiders' fund or all kinds of deposits. A high ratio indicates higher efficiency to utilize depositor's fund and low ratio indicates bank's inability to efficiently utilize the depositor's fund. The ratio is calculated by dividing loans and advances by total deposits.

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposit}}$$

Table#10
Loan & Advances to Total Deposits Ratio (%)

F/Y	NABIL			NIBL		
	Loan & Advances	Total Deposits	Ratio	Loan & Advances	Total Deposits	Ratio
2062/63	12,922,543,153	19,347,399,440	66.79	12,776,208,036	18,927,305,974	67.50
2063/64	15,545,778,730	23,342,285,327	66.60	17,286,427,389	24,488,855,696	70.59
2064/65	21,365,053,318	31,915,047,467	66.94	26,996,652,258	34,451,726,191	78.36
2065/66	27,589,933,041	37,348,255,840	73.87	36,241,206,557	46,698,100,065	77.61
2066/67	32,268,873,283	46,410,700,628	69.53	40,318,308,062	50,094,725,496	80.48
2067/68	38,034,097,554	49,696,112,934	76.53	41,095,514,519	50,138,122,241	81.96
Mean	70.04			76.08		
S.D	3.85			5.25		
C.V	0.06			0.07		

(See: Appendix 6 for Loan & Advances & 10 for Total Deposits)

The above table demonstrates the Loan & Advances to Total Deposits of the selected two banks NABIL & NIBL. The table shows that the ratio of NABIL increased during the four years and then decreased in the fifth year. It was 66.79% in F/Y 2062/63, 66.60% in F/Y 2063/64, 66.94% in F/Y 2064/65 and finally 73.87% in F/Y 2065/66 but decreased in F/Y 2066/67 to 69.53% which again reached 76.53% in Fiscal Year 2067/68.

Likewise, the ratio of NIBL showed increasing trend. It was 67.50% in F/Y 2062/63, 70.59% in F/Y 2063/34, 78.36% in F/Y 2064/65, 77.60% in F/Y 2065/66, 80.48% in F/Y 2066/67 and reached highest 81.96% in F/Y 2067/68.

Comparing these two banks, we can conclude that NIBL followed aggressive policy where as NABIL followed moderate policy in mobilizing its total deposits in loans & advances. Higher Ratio of NIBL indicates that NIBL has efficiently utilized depositors fund to earn high profit. Hence, NIBL can be considered better than NABIL in mobilizing its Deposits. The graphical representation of Loan & Advances to Total Deposits Ratios of NABIL & NIBL is presented below:

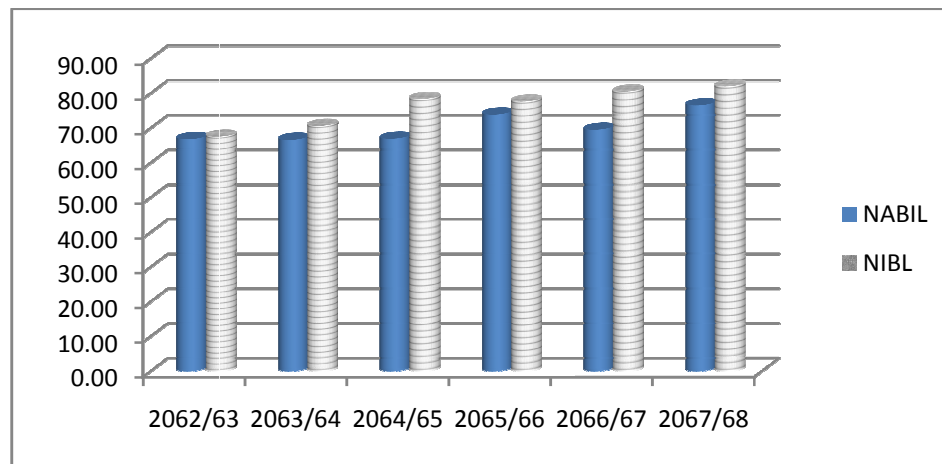


Figure 10

4.1.2.3 Loan and Advance to Fixed Deposit Ratio

This ratio indicates, how much of loans and advance has been granted against fixed deposit. Fixed deposit is the higher interest rate payable deposit and is payable only after certain date. Hence the bank must utilize the fixed deposit property. Loan and advance to fixed deposit ratio indicates how properly the fixed deposit has been utilized. The ratio is calculated by dividing loans and advance by fixed deposit.

$$\text{Loan \& Advances to Fixed Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Fixed Deposit}}$$

Table#11
Loan & Advances to Total Fixed Deposit Ratio (Times)

F/Y	NABIL			NIBL		
	Loan & Advances	Fixed Deposits	Ratio	Loan & Advances	Fixed Deposits	Ratio
2062/63	12,922,543,153	3,449,094,149	3.75	12,776,208,036	5,412,969,595	2.36
2063/64	15,545,778,730	5,435,189,720	2.86	17,286,427,389	7,516,686,866	2.30
2064/65	21,365,053,318	8,464,086,113	2.52	26,996,652,258	7,944,232,558	3.40
2065/66	27,589,933,041	8,310,708,297	3.32	36,241,206,557	11,633,380,218	3.12
2066/67	32,268,873,283	14,711,158,487	2.19	40,318,308,062	16,825,148,284	2.40
2067/68	38,034,097,554	16,840,831,154	2.26	41,095,514,519	18,378,300,034	2.24
Mean	2.82			2.63		
S.D	0.56			0.45		
C.V	0.20			0.17		

(See: Appendix 6 for Loan & Advances & 10 for Fixed Deposits)

The above Table#11 shows the ratio of Loan & Advances to Fixed Deposits of NABIL & NIBL. It shows that the ratio of both NABIL & NIBL fluctuated in consecutive 6 years. The Loan & Advances of NABIL was 3.75 times, 2.86 times, 2.52 times, 3.32 times, 2.19 times & 2.26 times greater than the Fixed Deposit amount collected in Fiscal Year 2062/63, 2063/64, 2064/65, 2065/66, 2066/67 & 2067/68 respectively. In average, NABIL disbursed 2.82 times of Fixed Deposits as Loan & Advances, which implied that almost 35.46% (1/2.82) of the total Loan & Advances was covered by Fixed Deposits.

Similarly, the ratio of NIBL was 2.36 times, 2.30 times, 3.40 times, 3.12 times, 2.40 times & 2.24 times in Fiscal Year 2062/63, 2063/64, 2064/65, 2065/66, 2066/67 & 2067/68 respectively. In average, NIBL flows of Loans & Advances which was 2.63 times greater than the Fixed Deposits collected.

Comparing these two banks, we can conclude that NABIL is more efficient in utilizing the Fixed Deposits than NIBL, as the ratio of NABIL was higher (2.82) than that of NIBL (2.63). However lower Coefficient of Variation of NIBL indicated consistency in its ratio.

The graphical representation of Loan & Advances to Fixed Deposits Ratios of NABIL & NIBL is presented below :

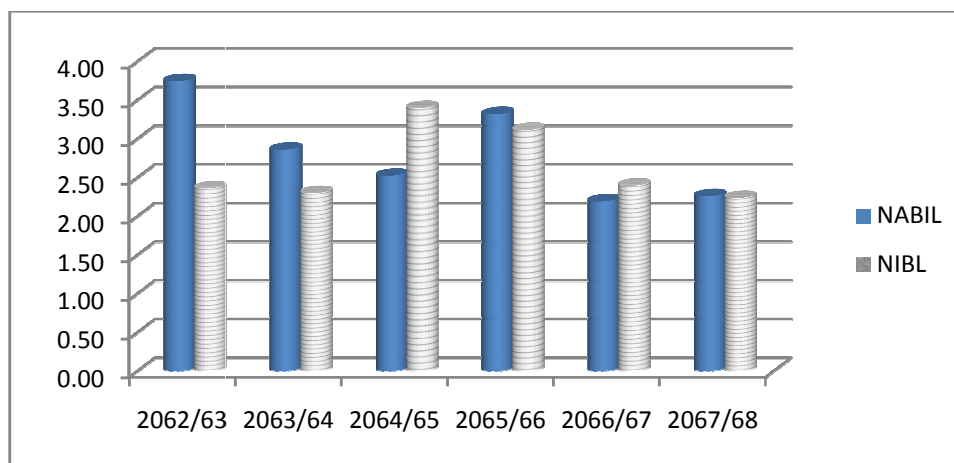


Figure 11

4.1.2.4 Loan and Advance to Total Assets Ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of bank to channelize its deposits in the form of loan and advances. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets as loan and advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan and advances and vice versa.

We have,

$$\text{Loan \& Advances to Total Assets Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Assets}}$$

Table#12
Loan & Advances to Total Assets Ratio (%)

F/Y	NABIL			NIBL		
	Loan & Advances	Total Assets	Ratio	Loan & Advances	Total Assets	Ratio
2062/63	12,922,543,153	22,329,971,078	57.87	12,776,208,036	21,330,137,542	59.90
2063/64	15,545,778,730	27,253,393,008	57.04	17,286,427,389	27,590,844,761	62.65
2064/65	21,365,053,318	37,132,759,149	57.54	26,996,652,258	38,873,306,084	69.45
2065/66	27,589,933,041	43,867,397,504	62.89	36,241,206,557	53,010,803,126	68.37
2066/67	32,268,873,283	52,079,725,697	61.96	40,318,308,062	57,305,413,482	70.36
2067/68	38,034,097,554	58,141,437,401	65.42	41,095,514,519	58,356,827,501	70.42
Mean	60.45			66.86		
S.D	3.15			4.08		
C.V	0.05			0.06		

(See: Appendix 6 for Loan & Advances & 8 for Total Assets)

Table#12 presents the ratio of Loan & Advances to Total Assets of NABIL & NIBL. The ratio of NABIL was in increasing trend till F/Y 2065/66 but somehow decreased in F/Y 2066/67. Initially it was 57.87% in F/Y 2062/63, which increased to 57.04 in F/Y 2063/64, 57.54% in F/Y 2064/65, 62.89% in F/Y 2065/66 and decreased to 61.96% in F/Y 2066/67 but finally increased to 65.42% in F/Y 2067/68. In average, the loan & advances occupied 60.45% of the total assets of NABIL and hence played dominant role in the total assets. Further the coefficient of variation 0.05% also indicated higher uniformity in ratio.

Similarly the ratio of NIBL was in increasing trend. The loan & advances to total deposit ratio ranged from 59.90% in F/Y 2062/63 to 70.42% in F/Y 2067/68. In average, 66.86% of the total assets was covered by loans & advances. The coefficient of variation on such ratio was 0.06% indicating uniformity in ratio.

Comparing these two banks, it can be concluded that NIBL remained more successful than NABIL in mobilizing total assets in loans & advances. However, the higher ratio also indicated that the total asset of NIBL was more risky than that of NABIL.

The graphical representation of Interest Expenses to Total Assets Ratios of NABIL & NIBL is presented below:

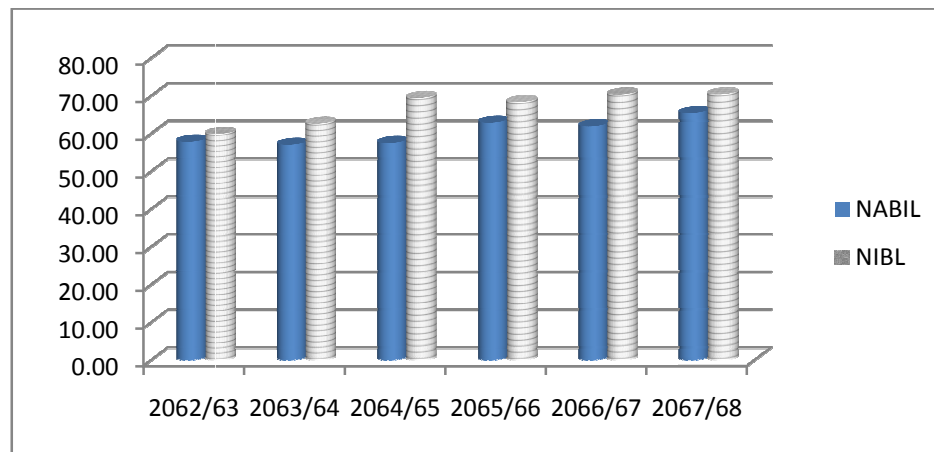


Figure 12

4.1.2.5 Loans and Advances to Saving Deposit Ratio

Saving deposits are the short-term interest bearing liabilities. Loans and advances are the major sources of investment to generate income in commercial banks. Loans and advances to saving deposits ratio is measured to find out how many time of fund is used in loan and advances against saving deposit. High ratio indicates greater utilization of the saving deposits in advancing loans.

$$\text{Loans and Advances to Saving Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Saving Deposit}}$$

Table#13
Loan & Advances to Savings Deposit Ratio (%)

F/Y	NABIL			NIBL		
	Loan & Advances	Savings Deposit	Ratio	Loan & Advances	Savings Deposit	Ratio
2062/63	12,922,543,153	8,770,759,429	1.47	12,776,208,036	9,787,648,997	1.31
2063/64	15,545,778,730	10,187,354,402	1.53	17,286,427,389	12,917,361,282	1.34
2064/65	21,365,053,318	12,159,966,430	1.76	26,996,652,258	16,827,435,977	1.60
2065/66	27,589,933,041	14,620,407,308	1.89	36,241,206,557	20,822,822,817	1.74
2066/67	32,268,873,283	13,783,585,962	2.34	40,318,308,062	18,350,076,077	2.20
2067/68	38,034,097,554	14,288,520,136	2.66	41,095,514,519	17,533,000,485	2.34
Mean	1.94			1.75		
S.D	0.43			0.40		
C.V	0.22			0.23		

(See: Appendix 6 for Loan & Advances & 16 for Savings Deposit)

Table#13 represents the ratio of Loan & Advances to Saving Deposits of NABIL & NIBL. It is seen that the ratio of NABIL was in increasing trend. It ranged from 1.47 times in F/Y 2062/63 to 2.66 times in F/Y 2067/68. The average of these ratios in 6 fiscal years was 1.94 times while coefficient of variation was 0.22%.

Likewise even the ratios of NIBL showed increasing trend from 1.46 times in F/Y 2062/63 to 2.34 times in F/Y 2067/68. The average ratio of NIBL was 1.75 times while coefficient of variation was 0.23%.

Comparing these two banks, we can conclude that both of these banks have performed well and efficiently utilized the interest bearing deposits in terms of loans & advances. However the average of the ratios of NABIL seemed higher than that of NIBL which means that the turnover position of NABIL was greater than that of NIBL. Hence, NABIL turned to be

more efficient in utilizing its short term deposits as loan & advances for generating income and its lower CV showed consistency in its ratios.

The graphical representation of Loan & Advances to Saving Deposits ratios of NABIL & NIBL is presented below:

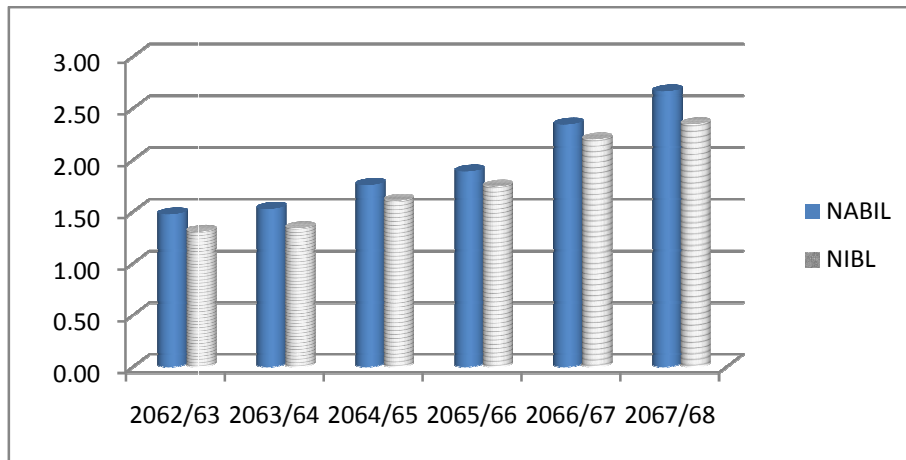


Figure 13

4.1.2.6 Investment to Total Deposit Ratio

Investment is one of the major credits created to earn income. This implies the utilization of firms deposit on investment in government securities and shares, debentures of other companies and banks. Investment function or funds management is gaining widespread importance in the banking sector. Treasury of the bank is involved in investing the surplus fund with the bank in the income generating investments. In order to fill this gap between borrowing, lending, bank rather go for investments such as HMG treasury bills, government securities, development bonds, overseas placement and inter banking lending. Hence, this ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds. The ratio is obtained by dividing investment by total deposits collected in the bank.

$$\text{Investment to Total Deposit ratio} = \frac{\text{Investment}}{\text{Total Deposits}}$$

Table#14
Investment to Total Deposit Ratio (%)

F/Y	NABIL			NIBL		
	Investment	Total Deposit	Ratio	Investment	Total Deposit	Ratio
2062/63	6,178,533,108	19,347,399,440	31.93	5,602,868,649	18,927,305,974	29.60
2063/64	8,945,310,567	23,342,285,327	38.32	6,505,679,987	24,488,855,696	26.57
2064/65	9,939,771,428	31,915,047,467	31.14	6,874,023,625	34,451,726,191	19.95
2065/66	10,826,379,001	37,348,255,840	28.99	7,399,811,700	46,698,100,065	15.85
2066/67	13,670,916,614	46,410,700,628	29.46	8,635,530,125	50,094,725,496	17.24
2067/68	13,081,205,527	49,696,112,934	26.32	7,427,006,525	50,138,122,241	14.81
Mean	31.03			20.67		
S.D	3.72			5.54		
C.V	0.12			0.27		

(See: Appendix 5 for Total Investment & 10 for Total Deposits)

Table#14 represents the ratios of how efficiently NABIL & NIBL have utilized its deposits in form of investment in HMG's treasury bills, development bonds & company shares. The ratio of NABIL showed fluctuating trend. Initially it increased from 31.93% in F/Y 2062/63 to 38.32% in F/Y 2063/64, and then it decreased to 31.14% in F/Y 2064/65, 28.99% in F/Y 2065/66, 29.31% in F/Y 2066/67 and eventually decreased to 26.32% in F/Y 2067/68. NABIL had efficiently utilized its resources in investment portfolio for first 3 years but it gradually decreased in last 3 years.

Even the ratios were NIBL was in fluctuating trend. It had highest ratio 29.60% in F/Y 2062/63 which decreased to 26.57% in F/Y 2063/64, 19.95% in F/Y 2064/65 and 15.85% in F/Y 2065/66. Then it increased to 17.24% in F/Y 2066/67 but again decreased to 14.81% in F/Y 2067/68.

Comparing these two banks, we can see that the average of the ratio of NABIL (31.03%) is higher than that of NIBL (20.67%). High ratio indicates management efficiency regarding the utilization of deposits where as low ratio is result of less efficiency in use of funds. Hence, it signifies that NABIL has more successfully allocated its deposits in investment portfolio. Similarly the less CV of NABIL i.e 0.12% indicated more consistency in its ratios throughout the study period.

The graphical representation of Investment to Total Deposits ratios of NABIL & NIBL is presented below:

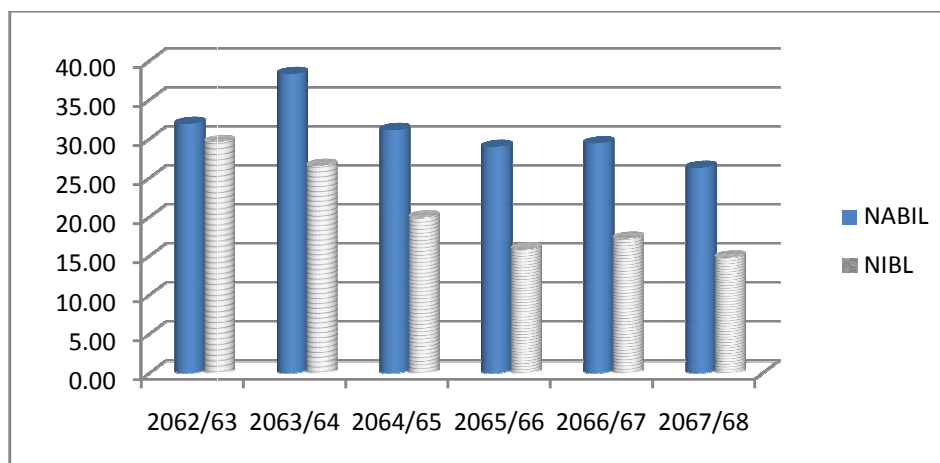


Figure 14

4.1.2.7 Performing Assets to Total Assets Ratio

Performing assets include those assets that are invested for income generating purpose. It consists loan and advances, bill purchased and discounted investment and money at call and short notice. This ratio measures what percentage of assets has been funded for income generation or it measures how efficiently the bank uses investment and economic resources at its demand. It is calculated as;

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

Table#15
Performing Assets to Total Assets Ratio

F/Y	NABIL			NIBL		
	Performing Assets	Total Assets	Ratio	Performing Assets	Total Assets	Ratio
2062/63	20,835,978,204	22,329,971,078	93.31	18,449,076,686	21,330,137,542	86.49
2063/64	25,054,621,929	27,253,393,008	91.93	24,155,077,376	27,590,844,761	87.55
2064/65	33,257,185,446	37,132,759,149	89.56	33,870,675,883	38,873,306,084	87.13
2065/66	38,969,200,339	43,867,397,504	88.83	43,641,018,258	53,010,803,126	82.32
2066/67	48,987,933,896	52,079,725,697	94.06	48,953,838,187	57,305,413,482	85.43
2067/68	53,567,814,859	58,141,437,401	92.13	48,668,621,044	58,356,827,501	83.40
Mean	91.64			85.39		
S.D	1.88			1.93		
C.V	0.02			0.02		

(See: Appendix 7 for Performing Assets & 8 for Total Assets)

The above table#15 represents the ratios of Performing Assets to Total Assets of selected two banks NABIL & NIBL. The ratios of NABIL were seen in fluctuating trend. In fiscal

year 2062/63, the ratio was 93.31% which decreased to 91.93% in F/Y 2063/64, 89.56% in F/Y 2064/65 and 88.83% in F/Y 2065/66 but again increased to 94.06% in F/Y 2066/67 and finally reached 92.13% in F/Y 2067/68. The average of these ratios appeared 91.64% whereas CV appeared 0.02%.

In case of NIBL too, the ratios were seen in fluctuating trend. Initially it increased from 86.49% in F/Y 2062/63 to 87.55% in F/Y 2063/64 but decreased to 87.13% in F/Y 2064/64, 82.32% in F/Y 2065/66 and again increased to 85.43% in F/Y 2066/67 but again decreased to 83.40% in F/Y 2067/68. The average of these ratios for NIBL was 85.39% and CV was 0.02%.

Throughout the study period, NABIL utilized its assets in terms of loan & advances, investment and bill discounting and purchasing more effectively than NIBL. NIBL too utilized its assets in terms of loan & advances and other performing assets effectively but less than NABIL.CV of the ratios of NABIL remained same as that of NIBL.

The graphical representation of Performing Assets to Total Assets ratios of NABIL & NIBL is presented below:

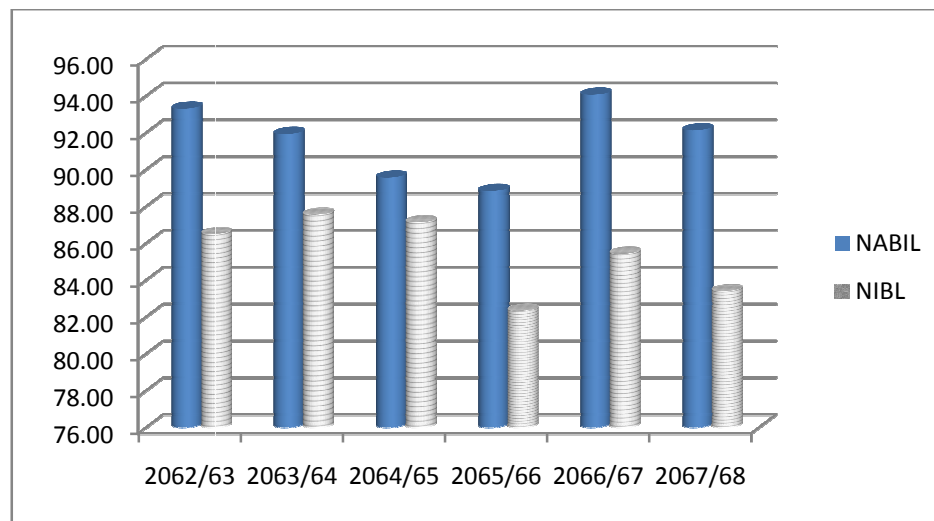


Figure 15

4.1.3 Leverage Ratio

The Capital Structure or Leverage Ratios may be defined as those Financial Ratios which measure the long term stability and structure of the firm. These ratios are used to indicate the extent to which a firm has financed its assets with borrowed funds. Leverage ratio shows the proportion of debt capital and equity capital. It shows the long-term solvency of the firm. It judges the long-term financial position of the firm. In other words, Leverage ratio is capital structure ratio which indicates the proportionate relationship between debt and equity.

The short-term creditors like bankers and suppliers of raw materials are more concerned with the firm's current debt paying ability where as long term creditors like debenture holders, financial institutions etc. are concerned with the firm's long term financial strength. Debt fund is an important mix of capital structure of the company with equity fund. As a general rule, there should be an appropriate mix of debt and owners' equity in financing the firm's assets.

Thus, Leverage ratios indicate the mix of funds provided by the owners and lenders and assure the lenders of long term funds with regard to:

- (a) Periodic Payment of interest during the period of loan and
- (b) Repayment of Principal amount on maturity

4.1.3.1 Debt-Equity Ratio

A debt-equity ratio indicates the proportion of debt fund in relation to equity. This measure tells us the relative importance of debt in the capital structure. Generally very high debt to equity ratio is unfavorable to the business. Excess debt allows the third party to have legal claims on the company. Similarly, a very low debt to equity ratio is also unfavorable from the shareholder's point of view as it affects their profitability. Total debt refers to current liabilities, short-term, loan bills payable, tax provision, staff bonus, dividend payable and other liabilities. Total equity includes share capital, reserves and surplus. The appropriate ratio of debt to equity varies according to the nature of the business and the volatility of cash flows. This ratio brings out the relation between total debts and equity funds. It is determined to measure the firm's obligations to total creditors in relation to the funds

invested by the owners. Total debt to equity ratio can be computed by using the following formula:

$$\text{Debt – Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Table#16
Total Debt to Total Equity Ratio

F/Y	NABIL			NIBL		
	Total Debt	Total Equity	Ratio	Total Debt	Total Equity	Ratio
2062/63	20,454,976,661	1,874,994,417	10.91	19,364,697,827	1,415,439,715	13.68
2063/64	25,196,343,293	2,057,049,715	12.25	25,912,721,223	1,878,123,538	13.80
2064/65	34,695,560,160	2,437,198,989	14.24	36,186,520,036	2,686,786,048	13.47
2065/66	40,737,156,867	3,130,240,637	13.01	49,102,963,418	3,907,839,708	12.57
2066/67	48,245,499,768	3,834,225,929	12.58	52,720,020,390	4,585,393,092	11.50
2067/68	53,574,920,380	4,566,517,021	11.73	53,197,067,804	5,159,759,697	10.31
Mean	12.45			12.55		
S.D	1.04			1.28		
C.V	0.08			0.1		

(See: Appendix 13 for Total Debt & Total Equity)

The above table#16 presents the Debt-Equity ratio of the samples banks. The table depicted that the Debt-Equity ratio of NABIL ranged from 10.91 times in F/Y 2062/63 to 12.50 times in F/Y 2066/67. In average, the debt financing of NABIL was 12.45 times more than the equity financing. The coefficient of variation on such debt-equity policy was 0.08% which indicated higher uniformity in its ratios.

Similarly, the ratio of NIBL was seen to be fluctuating trend. It was 13.68 times in F/Y 2062/63 which decreased to 13.80 times in F/Y 2063/64, 13.08 times in F/Y 2064/65, 12.30 times in F/Y 2065/66 and reached lowest in F/Y 2066/67. In average, the debt financing of NIBL was 12.55 times more than the equity financing and the coefficient of variation on such policy was 0.10%, indicating lower uniformity in its ratios.

Comparing these two banks on the basis of average Debt-Equity ratio, it can be concluded that the capital structure of NIBL was more risky than that of NABIL, as higher portion of its Total Capital was financed through Debt.

The graphical representation of Total Debt to Total Equity ratios of NABIL & NIBL is presented below:

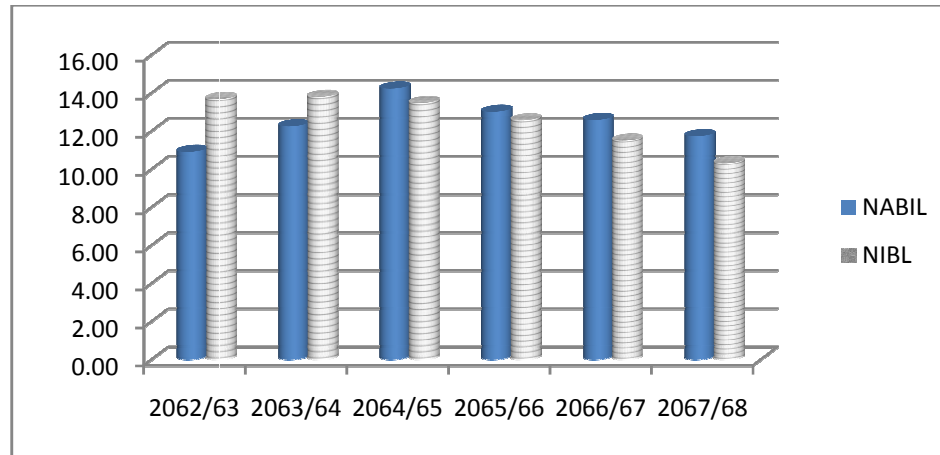


Figure 16

4.1.3.2 Debt-Assets Ratio

Debt to total assets ratio reflects the financial contribution of outsiders and owners on total assets of the firm. It also measures the financial security to the outsiders. Generally creditors prefer a low debt ratio and owners prefer a high debt ratio in order to magnify their earnings on the one hand and to maintain their concentrated control over the firm on the others.

This ratio shows what portion of the capital assets in financed by outside fund; a high debt ratio implies a banks success in exploiting debt to be more profitable and it also implies riskier capital structure. Total debt to Assets ratio can be computed by using the following formula:

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

Table#17
Total Debt to Total Assets Ratio (%)

F/Y	NABIL			NIBL		
	Total Debt	Total Assets	Ratio	Total Debt	Total Assets	Ratio
2062/63	20,454,976,661	22,329,971,078	91.60	19,364,697,827	21,330,137,542	90.79
2063/64	25,196,343,293	27,253,393,008	92.45	25,912,721,223	27,590,844,761	93.92
2064/65	34,695,560,160	37,132,759,149	93.44	36,186,520,036	38,873,306,084	93.09
2065/66	40,737,156,867	43,867,397,504	92.86	49,102,963,418	53,010,803,126	92.63
2066/67	48,245,499,768	52,079,725,697	92.64	52,720,020,390	57,305,413,482	92.00
2067/68	53,574,920,380	58,141,437,401	92.15	53,197,067,804	58,356,827,501	91.16
Mean		92.52			92.26	
S.D		0.57			1.08	
C.V		0.01			0.01	

(See: Appendix 13 for Total Debt & 8 for Total Assets)

The table#17 reveals the Debt-Assets ratio of NABIL & NIBL. The table showed that 91.60% in F/Y 2062/63, 92.45% in F/Y 2063/64, 93.44% in F/Y 2064/65, 92.86% in F/Y 2065/66, 92.64% in F/Y 2066/67 and 92.15% in F/Y 2067/68 of the total assets of NABIL was financed through debt capital. In average, 92.52% of the total assets were debt financed and CV of the ratios

Similarly, the ratio of NIBL ranged from 90.79% in F/Y 2062/63 to 91.16% in F/Y 2067/68. In average, 92.26% of the total assets of NIBL was financed through debt capital and the coefficient of variation on such ratio was 0.01%, indicating more consistency in its ratios.

All of the sampled banks followed aggressive policy of financing total assets through outside fund. However, comparing these two banks on the basis of average debt-assets ratio, it can be concluded that the total assets of NIBL was more risky than that of NABIL. The graphical representation of Total Debt to Total Assets ratios of NABIL & NIBL is presented below:

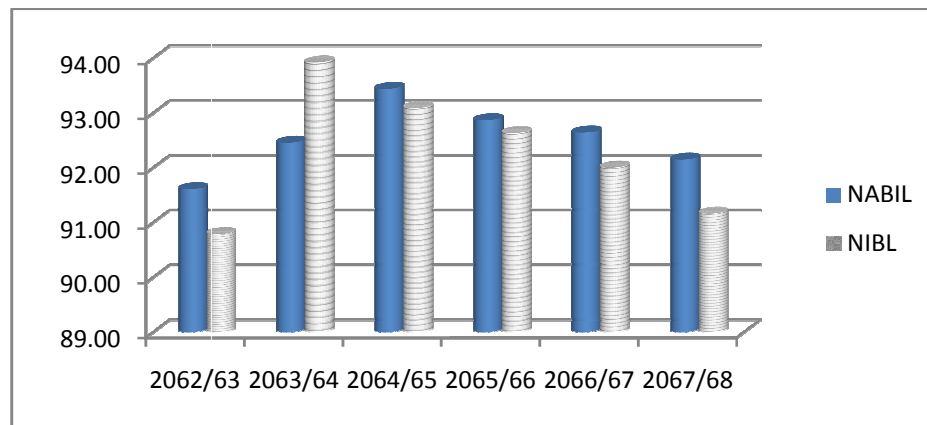


Figure 17

4.1.4 Capital Adequacy Ratio

Capital Adequacy Ratio measures whether a firm has maintained sufficient capital or not. In other words, it helps to decide whether the existing capital is adequate or there is need of some reforms. This ratio is tested to ensure the safety & stability of firm in long run.

Over capitalization and under capitalization both have adverse effect on profitability of the firm. If the capital is excess, it remains idle. If the capital is insufficient, the firm may not be able to grasp the opportunity from potential profitable sectors. Therefore, the commercial banks have been directed to retain sufficient ratio by the central bank. Here,

capital fund refers to the core capital and supplementary capital. Banks have been directed to meet any short fall in capital adequacy ratio by transferring part of profit to general reserve and thereby increasing equity found.

Capital adequacy ratio is calculated by dividing the capital fund by total deposit of the firm.

$$\text{Capital Adequacy Ratio} = \frac{\text{Capital Fund}}{\text{Risk Weighted Assets}}$$

As per the regulations of NRB, the capital has been divided into 2 parts:

a. Core Capital (Tier 1)

The key element of capital on which the main emphasis should be placed is the Tier 1 (core) capital, which comprises of equity capital and disclosed reserves. This key element of capital is the basis on which most market judgments of capital adequacy are made; and it has a crucial bearing on profit margins and a bank's ability to compete.

The BCBS has therefore concluded that capital, for supervisory purposes, should be defined in two tiers in a way, which will have the effect of requiring at least 50% of a bank's capital base to consist of a core element comprised of equity capital and published reserves from post-tax retained earnings.

In order to rank as Tier 1, capital must be fully paid up, have no fixed servicing or dividend costs attached to it and be freely available to absorb losses ahead of general creditors. Capital also needs to have a very high degree of permanence if it is to be treated as Tier 1.

b. Supplementary Capital (Tier 2)

The Supplementary (Tier 2) Capital includes reserves which, though unpublished, have been passed through the profit and loss account and all other capital instruments eligible and acceptable for capital purposes. Elements of the Tier 2 capital will be reckoned as capital funds up to a maximum of 100 percent of Tier 1 capital arrived at, after making adjustments referred to in 2.4. In case, where the Tier 1 capital of a bank is negative, the Tier 2 capital for regulatory purposes shall be considered as zero and hence the capital fund, in such cases, shall be equal to the core capital.

Table#18 (A)
Capital Fund (Tier 1 & 2) to Total Risk Weighted Assets Ratio (%)

F/Y	NABIL			NIBL		
	Capital Fund	Risk Weighted Assets	Ratio	Capital Fund	Risk Weighted Assets	Ratio
2062/63	2,089,324,022	16,976,368,426	12.31	2,094,199,650	17,491,787,660	11.97
2063/64	2,307,632,395	19,166,766,033	12.04	2,851,619,010	23,435,634,330	12.17
2064/65	2,998,730,164	27,010,564,315	11.10	3,891,235,000	38,236,768,000	10.18
2065/66	3,727,082,787	34,816,500,849	10.70	5,095,353,000	45,312,265,000	11.24
2066/67	4,390,228,607	41,822,660,075	10.50	5,651,045,000	53,553,866,000	10.55
2067/68	5,173,399,192	48,884,969,486	10.58	6,324,627,000	57,993,926,000	10.91
Mean	11.21			11.17		
S.D	0.71			0.72		
C.V	0.06			0.06		

(See: Appendix 10 for Total Deposits & Annual Report of NABIL Bank Ltd. For Capital Fund)

The above table#18(A) represents the Capital Fund to Risk Weighted Assets Ratios of two sampled banks NABIL & NIBL. The Capital Fund consists of Tier 1 Capital (Core Capital) and Tier 2 Capital (Supplementary Capital). The ratios of NABIL showed fluctuating trend. It was 12.31% Fiscal Year 2062/63 but finally increased to 12.04% in Fiscal Year 2063/64 but kept on decreasing to 10.58% in Fiscal Year 2067/68. The average of these ratios was 11.21% with CV of 0.06%. Even the ratios of NIBL showed fluctuating trend. The ratio was highest in Fiscal Year 2067/68 as 12.17% and lowest in Fiscal Year 2064/65 as 10.18%. The mean of these ratios was 11.17% and CV was 0.06%.

The NRB standard on total Capital Adequacy for Commercial Banks is 10%. Comparing these two banks, both the banks have maintained the standard. However, the higher average of NABIL indicates the superiority of NABIL in comparison to NIBL. NABIL has met the standard as per NRB and can easily handle any possible risk that might arise due to high leverage. The CV of both the banks were 0.06% which indicated same consistency in their ratios.

The graphical representation of Capital Fund to Risk Weighted Assets ratios of NABIL & NIBL is presented below:

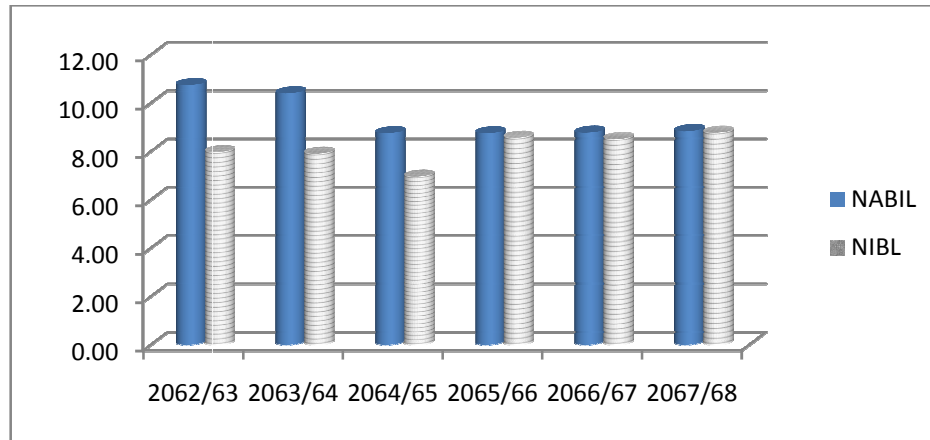


Figure 18 (A)

Table#18 (B)
Capital Fund (Tier 1) to Total Risk Weighted Assets Ratio (%)

F/Y	NABIL			NIBL		
	Capital Fund	Risk Weighted Assets	Ratio	Capital Fund	Risk Weighted Assets	Ratio
2062/63	1,823,044,417	16,976,368,426	10.74	1,393,273,570	17,491,787,660	7.97
2063/64	1,992,849,715	19,166,766,033	10.40	1,852,197,400	23,435,634,330	7.90
2064/65	2,363,598,989	27,010,564,315	8.75	2,658,915,000	38,236,768,000	6.95
2065/66	3,044,340,637	34,816,500,849	8.74	3,879,969,000	45,312,265,000	8.56
2066/67	3,667,854,525	41,822,660,075	8.77	4,554,094,000	53,553,866,000	8.50
2067/68	4,318,697,617	48,884,969,486	8.83	5,083,617,000	57,993,926,000	8.77
Mean		9.37			8.11	
S.D		0.85			0.60	
C.V		0.09			0.07	

(See: Appendix 10 for Total Deposits & Annual Report of NABIL Bank Ltd. For Capital Fund)

The above table#18(B) represents the Capital Fund to Risk Weighted Assets Ratios of two sampled banks NABIL & NIBL. The Capital Fund consists of Tier 1 Capital (Core Capital). Here, the ratios of NABIL showed decreasing trend. It was initially 10.74% in Fiscal Year 2062/63 which kept on decreasing till 8.83% in Fiscal Year 2067/68. The average of these ratios was 9.37% and CV was 0.09%.

However the ratios of NIBL showed fluctuating trend. It kept on decreasing till Fiscal Year 2064/65 but again increased up to 8.77% in Fiscal Year 2067/68. The average of the ratios was 8.11% and CV was 0.07%.

Comparing these two banks on the basis of Tier 1 Capital Fund to Risk Weighted Assets, we can see that NABIL can easily cope with possible risk that may come in future. NABIL

has maintained its standard as prescribed by NRB though there is less consistency in its ratios.

The graphical representation of Capital Fund to Total Deposits ratios of NABIL & NIBL is presented below:

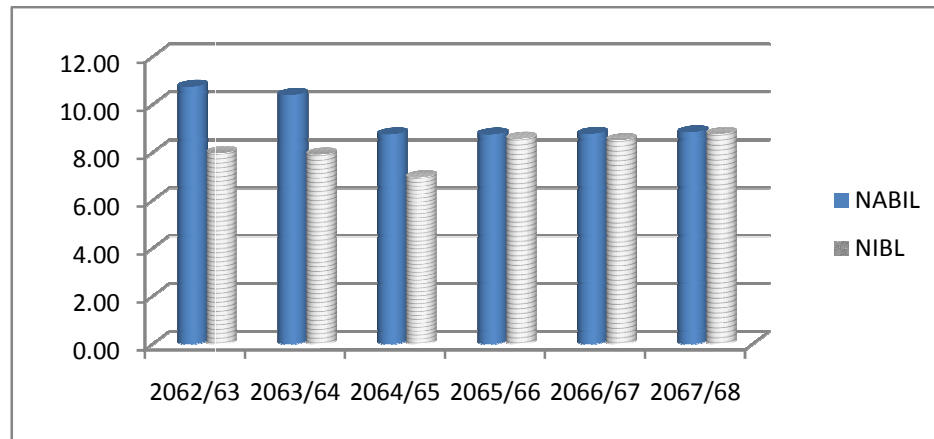


Figure 18 (B)

4.1.5 Profitability Ratio

Profit is the ultimate output of a company and its existence is not justified if it fails to make sufficient profit. Profit maximization and wealth maximization are primary objectives of any organization. Therefore all the organization tries to maximize its profit. It is very important for their survival in this competitive market for their future growth.

Profit is the difference between revenues and expenses over a period of time (usually one year). Profit is the ultimate 'output' of a company, and it will have no future if it fails to make sufficient profits. Profitability, ratios, which measures management overall effectiveness, are shown by the returns generated on sales and investment. A bank should be able to earn profit to survive and grow over long period of time and profit is the indicator of efficient operation of a bank. The banks acquire profit by providing different services to its customers or by making investment of different kinds.

Profitability ratios measure the profitability and overall operational efficiency of the firm. It is the device to indicate the financial performance of any institution. Higher profit ratio shows the higher the efficiency of the bank. The following profitability ratios are related to study in this heading.

4.1.5.1 Net Profit Margin

Net profit margin indicates margin of compensation left to the owners for providing their capital, after all expenses have been met. It helps in determining the efficiency with which the affairs of the business are being managed. A net profit margin would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

$$\text{Net Profit Margin} = \frac{\text{Net Profit After Tax}}{\text{Total Operating Income}} \times 100 \%$$

Table#19
Net Profit Margin (Ratio in %)

F/Y	NABIL			NIBL		
	Net Profit After Tax	Total Operating Income	Ratio	Net Profit After Tax	Total Operating Income	Ratio
2062/63	635,262,349	1,359,512,633	46.73	350,536,413	959,386,995	36.54
2063/64	673,959,698	1,480,157,875	45.53	501,398,853	1,246,030,265	40.24
2064/65	746,468,394	1,670,427,262	44.69	700,614,196	1,649,624,924	42.47
2065/66	1,031,053,098	2,220,983,026	46.42	900,619,071	2,116,661,581	42.55
2066/67	1,139,099,397	2,766,076,583	41.18	1,265,949,588	2,734,929,605	46.29
2067/68	1,337,745,485	3,046,127,914	43.92	1,176,641,030	2,833,593,749	41.52
Mean	44.74			41.60		
S.D	1.86			2.92		
C.V	0.04			0.07		

(See: Appendix 15 for Net Profit After Tax & Annual Reports of NABIL & NIBL for Total Operating Income)

The above table reveals the net profit margin of the sampled two banks. The net profit margin of NABIL was seen to be in fluctuating trend. Initially it was 46.73% in F/Y 2062/63 which kept on decreasing till next two Fiscal Years and then increased to 46.42% in F/Y 2065/66 which again decreased in next two sampled Fiscal Years. In average, the net profit margin of NABIL for sampled Six Years period was 44.74% and Coefficient of Variation on such ratios was 0.04% indicating higher consistency in its ratios.

Similarly the ratios of NIBL showed increasing trend from Fiscal Year 2062/63 (36.54%) till Fiscal Year 2066/67 (46.29%). The average of the ratios of NIBL was 41.60% and CV was 0.07%.

Comparing these two banks on the basis on the basis of average net profit margin, it can be considered that NABIL enjoyed highest portion of net income out of the total sales in the

form of interest than NIBL. However, the increasing trend of net profit margin of NIBL indicated better management of controlling cost and increasing interest income.

The graphical representation of Net Profit After Tax to Total Operating Income ratios of NABIL & NIBL is presented below:

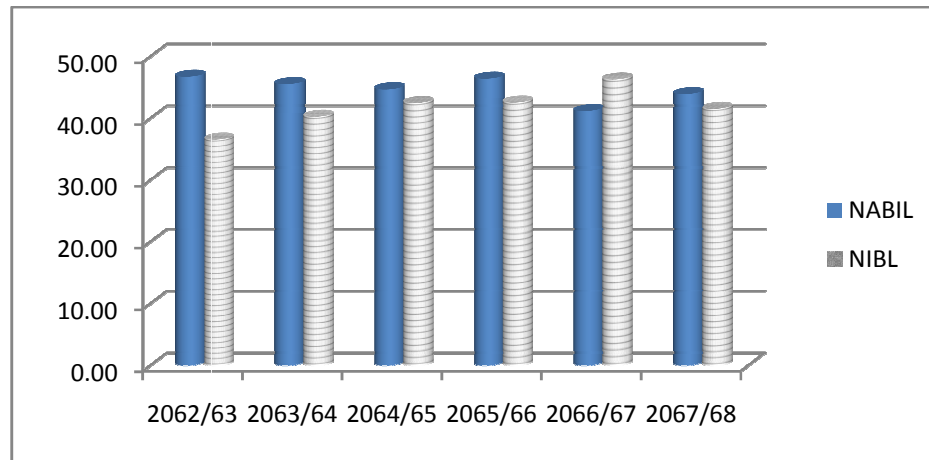


Figure 19

4.1.5.2 Return on Net Worth / Shareholders Equity

Return on net worth/equity measures how efficiently the banks have utilized the funds of shareholders. If bank can mobilize its equity capital properly, they can earn high profit. The return on equity capital also measures to which degree the bank has successfully mobilizes its total equity capital. It is calculated by dividing profit after tax by net worth. The ratio of net profit to owners' equity also reflects the extent to which social responsibility toward owners has been accomplished. This ratio is thus a great interest to present as well as prospective shareholders and a great concern to management. It is calculated by dividing profit after tax by net worth.

We have,

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Net Worth}} \times 100\%$$

Table#20
Return on Net Worth / Shareholder's Equity

F/Y	NABIL			NIBL		
	Net Profit After Tax	Net Worth	Ratio	Net Profit After Tax	Net Worth	Ratio
2062/63	635,262,349	1,874,994,417	33.88	350,536,413	1,415,439,715	24.77
2063/64	673,959,698	2,057,049,715	32.76	501,398,853	1,878,123,538	26.70
2064/65	746,468,394	2,437,198,989	30.63	700,614,196	2,686,786,048	26.08
2065/66	1,031,053,098	3,130,240,637	32.94	900,619,071	3,907,839,708	23.05
2066/67	1,139,099,397	3,834,225,929	29.71	1,265,949,588	4,585,393,092	27.61
2067/68	1,337,745,485	4,566,517,021	29.29	1,176,641,030	5,159,759,697	22.80
Mean	31.54			25.17		
S.D	01.74			1.80		
C.V	0.06			0.07		

(See: Appendix 13 for Net Worth & 15 for Net Profit After Tax)

Table#23 depicted the return on the sum invested by the shareholders. The table showed that the ratio of NABIL was in fluctuating trend. The ratio was highest in Fiscal Year 2062/63 which is 33.88% and lowest in Fiscal Year 2067/68 which is 29.29%. In average, NABIL was able to convert 31.54% of the total amount invested by shareholders in the form of net profit. Also the coefficient of variation on the ratio was only 0.06% indicating higher uniformity in ratios.

Even the ratio of NIBL was seen to be in fluctuating trend. Its ratio was recorded to be lowest in Fiscal Year 2067/68 which is 22.80% and highest in Fiscal Year 2066/67 which is 27.61%. The table showed that the NIBL generated 25.17% of the total investment of shareholders as net profit. The coefficient of variation was 0.07% which indicated lower uniformity in its ratios.

Comparing these two banks, we can conclude that NABIL remained more successful than NIBL in efficiently generating net profit from the net worth of the bank. Similarly, there was more uniformity in the ratio of NABIL than that of NIBL.

The graphical representation of Net Profit After Tax to Net Worth ratios of NABIL & NIBL is presented below:

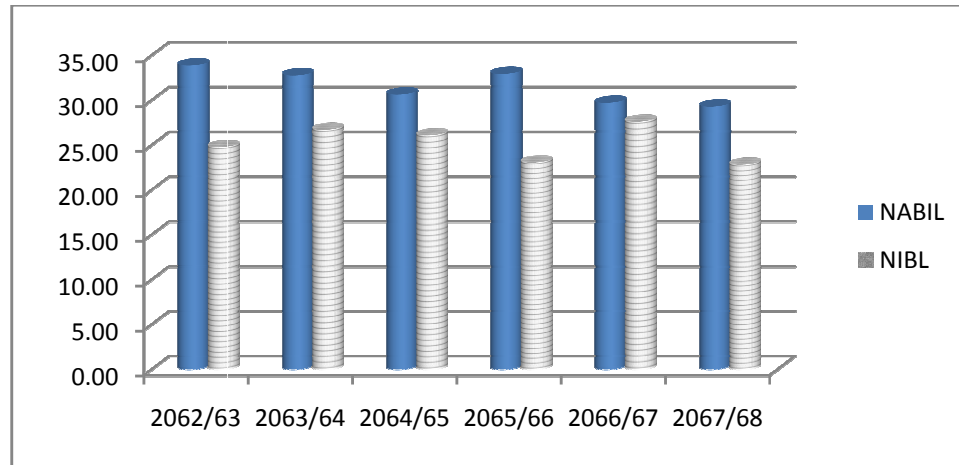


Figure 20

4.1.5.3 Return on Total Assets Ratio (ROA)

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards of assets mobilization. In other words return on total assets ratio measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks total assets are well managed and efficiency utilized. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm.

$$\text{Return on Total Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100\%$$

Table#21
Return on Total Assets

F/Y	NABIL			NIBL		
	Net Profit After Tax	Total Assets	Ratio	Net Profit After Tax	Total Assets	Ratio
2062/63	635,262,349	22,329,971,078	2.84	350,536,413	21,330,137,542	1.64
2063/64	673,959,698	27,253,393,008	2.47	501,398,853	27,590,844,761	1.82
2064/65	746,468,394	37,132,759,149	2.01	700,614,196	38,873,306,084	1.80
2065/66	1,031,053,098	43,867,397,504	2.35	900,619,071	53,010,803,126	1.70
2066/67	1,139,099,397	52,079,725,697	2.19	1,265,949,588	57,305,413,482	2.21
2067/68	1,337,745,485	58,141,437,401	2.30	1,176,641,030	58,356,827,501	2.02
Mean	2.36			1.86		
S.D	0.26			0.19		
C.V	0.11			0.10		

(See: Appendix 15 for Net Profit After Tax & 4 for Total Assets)

Table#24 represents the ratio of Net Profit After Tax to Total Assets of two sampled banks NABIL & NIBL. The above table depicted that the ratio of NABIL was in fluctuating trend. It was recorded to be lowest in Fiscal Year 2064/65 which is 2.01% and highest in Fiscal Year 2062/63 which is 2.84%. In average, the return on assets (ROA) was 2.36% which indicated that NABIL earned Rs. 2.37 as net profit for per Rs.100 investment in total assets. The coefficient of variation was 0.11%.

Similarly the ratio of NIBL too showed increasing trend. The lowest ratio was recorded in Fiscal Year 2062/63 which is 1.64% and the highest ratio was recorded in Fiscal Year 2066/67 which is 2.21%. The average ratio of 1.86% indicated that from Rs.100 invested in total assets, NIBL earned Rs. 1.83 as net profit. The coefficient of variation on such ratio was 0.10%.

Comparing these two banks, it can be concluded that NABIL utilized its assets more effectively to generate highest profit than NIBL though the ratios of NIBL showed more uniformity than NABIL.

The graphical representation of Net Profit After Tax to Total Assets ratios of NABIL & NIBL is presented below:

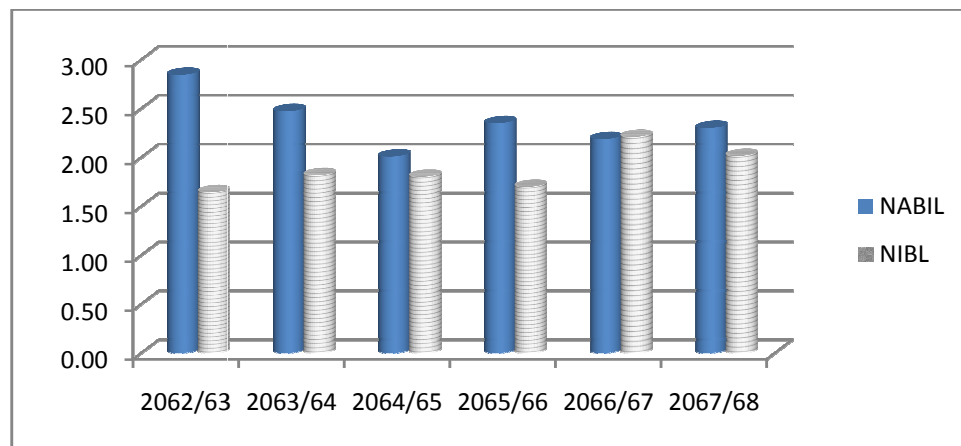


Figure 21

4.1.5.4 Return on Total Deposit Ratio

Return on total deposit ratio measures how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits. It is an explanation of the ability of management in efficient utilization of deposits. The ratio is calculated as;

$$\text{Return on Total Deposits Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Deposit Ratio}} \times 100\%$$

Table#22
Return on Total Deposits

F/Y	NABIL			NIBL		
	Net Profit After Tax	Total Deposits	Ratio	Net Profit After Tax	Total Deposits	Ratio
2062/63	635,262,349	19,347,399,440	3.28	350,536,413	18,927,305,974	1.85
2063/64	673,959,698	23,342,285,327	2.89	501,398,853	24,488,855,696	2.05
2064/65	746,468,394	31,915,047,467	2.34	700,614,196	34,451,726,191	2.03
2065/66	1,031,053,098	37,348,255,840	2.76	900,619,071	46,698,100,065	1.93
2066/67	1,139,099,397	46,410,700,628	2.45	1,265,949,588	50,094,725,496	2.53
2067/68	1,337,745,485	49,696,112,934	2.69	1,176,641,030	50,138,122,241	2.35
Mean	3			2.12		
S.D	0.31			0.24		
C.V	0.11			0.11		

(See: Appendix 15 for Net Profit After Tax & 10 for Total Deposits)

The above Table#25 shows the relationship between Total Deposits and Net Profit After Tax of NABIL and NIBL. It shows that the ratio of NABIL was highest in Fiscal Year 2062/63 which is 3.28% which decreased to 2.89% in F/Y 2063/64, 2.34% in F/Y 2064/65, 2.76% in F/Y 2065/66, 2.45% in F/Y 2066/67 and 2.69% in F/Y 2067/68. In average, the return on total deposits of NABIL was 3% which indicated that NABIL earned Rs.3 as net profit by investing Rs.100 deposit collected and its CV was 0.12%.

In case of NIBL, the ratio was seen to be in fluctuating trend. It was 1.85% in F/Y 2062/63 which increased to 2.05% in F/Y 2063/64, then decreased to 2.03% in F/Y 2064/65, 1.93% in F/Y 2065/66 but again increased to 2.53% in F/Y 2066/67 and finally decreased to 2.35% in F/Y 2067/68. In average, the ratio of NIBL was seen to be 2.12% which indicated that NIBL earned Rs.2.08 as profit from the investment of Rs.100 collected as deposits and its CV was 0.11%.

Comparing these two banks on the ground of return on total deposits, it can be concluded that the capacity of turning total deposits into net profit of NABIL is much more admirable than that of NIBL. Hence, it can be considered that the investment sector of the total deposit amount of NABIL was more fruitful than that of NIBL.

The graphical representation of Net Profit After Tax to Total Deposits ratios of NABIL & NIBL is presented below:

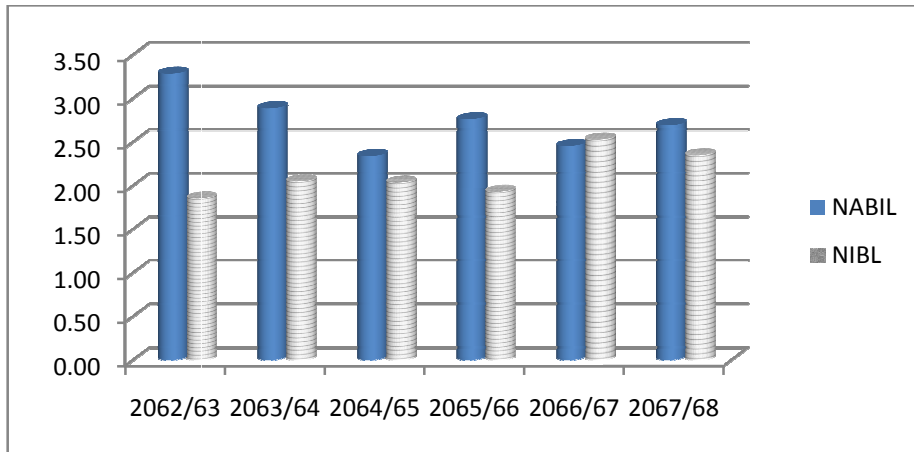


Figure 22

4.1.5.5 Interest Earned to Total Assets Ratio

Interest earned to total assets ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa. The following formula is used to calculate this ratio.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Income}}{\text{Total Assets}} \times 100\%$$

Table#23
Interest Earned to Total Assets Ratio

F/Y	NABIL			NIBL		
	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio
2062/63	1,309,998,500	22,329,971,078	5.87	1,172,742,193	21,330,137,542	5.50
2063/64	1,587,758,714	27,253,393,008	5.83	1,584,987,354	27,590,844,761	5.74
2064/65	1,978,696,727	37,132,759,149	5.33	2,194,275,722	38,873,306,084	5.64
2065/66	2,798,486,196	43,867,397,504	6.38	3,267,941,142	53,010,803,126	6.16
2066/67	4,047,725,657	52,079,725,697	7.77	4,653,521,338	57,305,413,482	8.12
2067/68	5,254,030,458	58,141,437,401	9.04	5,803,440,174	58,356,827,501	9.94
Mean	6.70			6.85		
S.D	1.29			1.64		
C.V	0.19			0.24		

(See: Appendix 12 for Interest Income & 4 for Total Assets)

Table#26 shows the interest earning capacity of NABIL & NIBL from total assets. In case of NABIL, the interest earning capacity ranged from 5.87% in F/Y 2062/63 till 9.04% in F/Y 2067/68. Similarly in case of NIBL, its interest earning capacity ranged from 5.50% in F/Y 2062/63 to 9.94% in F/Y 2067/68. The ratios of both the banks were seen to be in increasing trend. In average, the interest earned to total assets ratio of NIBL was 6.85%, which indicated that NIBL generated Rs. 6.85 as interest income from investment in total assets. Likewise, NABIL generated Rs. 6.70 as interest income. The coefficient of variation of NABIL & NIBL was 0.19% and 0.24% respectively.

Comparing these two banks, we can conclude that the capacity of utilizing total assets to generate interest income is slightly higher of NIBL. Both NABIL & NIBL have efficiently utilized its assets in generating interest income while NABIL is more consistent in utilization of its total assets.

The graphical representation of Interest Earned to Total Assets ratios of NABIL & NIBL is presented below:

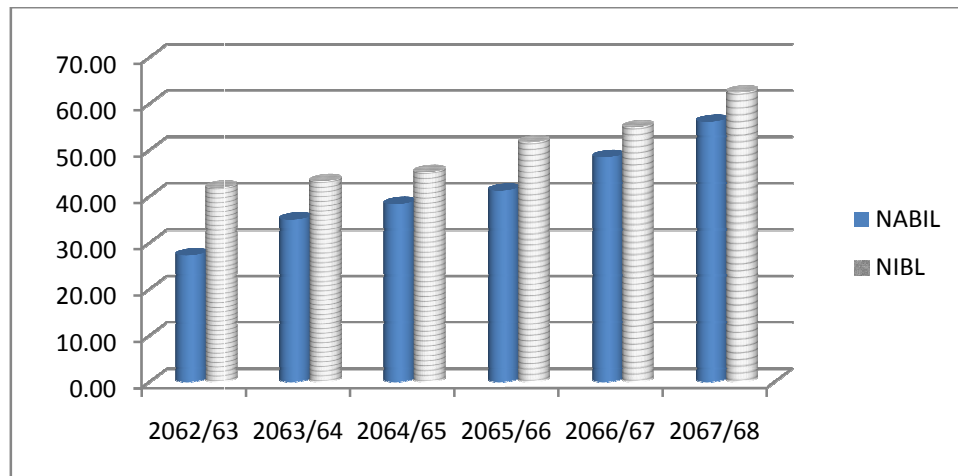


Figure 23

4.1.5.6 Total Interest Expenses to Total Interest Income Ratio

The ratio shows the percentage of interest expenses incurred in relation to the interest income incurred. In other words, it indicates the how much percent of interest income is used as interest paid and expressed as;

$$\text{Total Interest Expenses to Total Interest Income Ratio} = \frac{\text{Interest Expenses}}{\text{Interest Income}} \times 100\%$$

Table#24
Interest Expenses to Interest Income Ratio

F/Y	NABIL			NIBL		
	Interest Expense	Interest Income	Ratio	Interest Expense	Interest Income	Ratio
2062/63	357,161,304	1,309,998,500	27.26	490,946,961	1,172,742,193	41.86
2063/64	555,710,109	1,587,758,714	35.00	685,530,264	1,584,987,354	43.25
2064/65	758,436,212	1,978,696,727	38.33	992,158,398	2,194,275,722	45.22
2065/66	1,153,280,052	2,798,486,196	41.21	1,686,973,130	3,267,941,142	51.62
2066/67	1,960,107,902	4,047,725,657	48.42	2,553,847,497	4,653,521,338	54.88
2067/68	2,946,691,281	5,254,030,458	56.08	3,620,336,697	5,803,440,174	62.38
Mean	41.05			49.87		
S.D	9.26			7.24		
C.V	0.23			0.15		

(See: Appendix 11 for Interest Expense & 12 for Interest Income)

The above Table#27 represents the ratio of Interest Expenses to the Interest Income of two sampled banks NABIL & NIBL. According to the above table, we can see that the ratio of NABIL is in increasing trend. Initially it was 27.26% in Fiscal Year 2062/63 which kept on increasing till it reached 56.08% in Fiscal Year 2067/68. In average, 41.05% of the total interest income of NABIL was used to pay interest.

Similarly in case of NIBL as well the ratio was seen to be in increasing trend. Initially it was 41.86% in Fiscal Year 2062/63 and kept on increasing till Fiscal Year 2067/68 which was 62.38%. In average, 47% of the total interest income of NIBL was used to pay off its interest.

Comparing these two banks, we can see that the average interest income of NIBL (49.87%) is higher than that of NABIL (41.05%). Hence, we can conclude that NIBL is more successful in efficiently utilizing its resources to generate interest income which is more than the interest paid by it. Similarly the Coefficient of Variation of NIBL is lower than that of NABIL indicating more uniformity in its ratios.

The graphical representation of Interest Expenses to Interest Income of NABIL & NIBL is presented below:

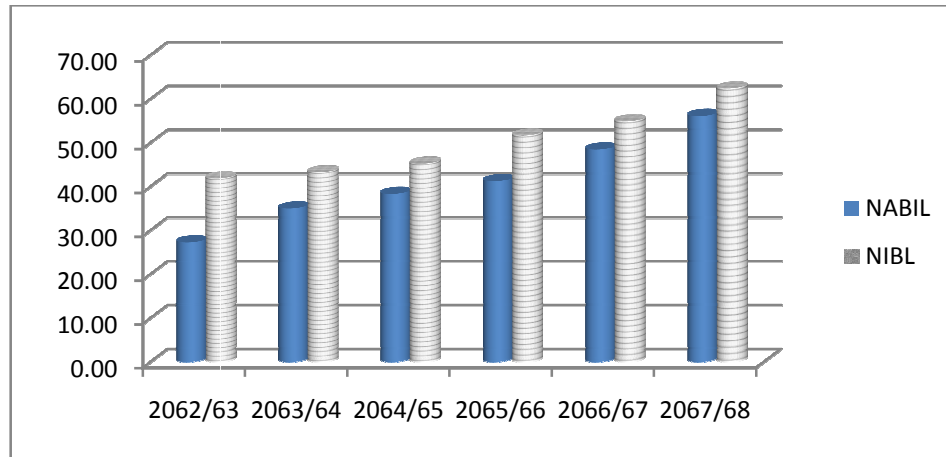


Figure 24

4.1.6 Assets Quality Ratios

Assets quality ratios intend to measure the quality of assets owned by the banks. These include loan loss coverage ratio, loan loss provision to total income ratio, loan loss provision to total deposit ratio and accrued interest to total interest income ratio.

4.1.6.1 Loan Loss Coverage Ratio

Nepal Rastra Bank has directed Commercial banks to maintain provision for loan loss on the basis of category of loan & risk grade. The ratio therefore measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. It is computed by dividing loan loss provision by total risk assets.

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Risky Assets}}$$

Table#25
Loan Loss Coverage Ratio

F/Y	NABIL			NIBL		
	Loan Loss Provision	Total Risky Assets	Ratio	Loan Loss Provision	Total Risky Assets	Ratio
2062/63	356,239,106	13,278,782,259	2.68	401,943,787	13,178,151,824	3.05
2063/64	357,245,035	15,903,023,765	2.25	482,672,514	17,769,099,903	2.72
2064/65	394,407,016	21,759,460,334	1.81	532,652,478	27,529,304,736	1.93
2065/66	409,079,030	27,999,012,071	1.46	585,950,852	36,827,157,409	1.59
2066/67	762,095,405	33,030,968,688	2.31	630,131,971	40,948,440,033	1.54
2067/68	871,390,335	38,905,487,889	2.24	792,179,392	41,887,693,911	1.89
Mean		2.12			2.12	
S.D		0.39			0.57	
C.V		0.18			0.27	

(See: Appendix 6 for Loan Loss Provision & Risky Assets)

The above Table#28 exhibits that the ratios for different years of the review period remained 2.68%,2.24%,1.81%,1.46%,2.30% & 2.24% respectively in NABIL. Mean of the ratios was 2.12% whereas CV was 0.18%. Accordingly the ratios of NIBL remained 3.05%, 2.72%, 1.93%, 1.59%, 1.54% & 1.89% in the corresponding years. Mean of the ratios was 2.12% whereas CV was 0.27%.

The ratios of NABIL showed decreasing trend. Initially it was 2.68% in Fiscal Year 2062/63 which kept on decreasing till 1.46% in Fiscal Year 2065/67. Then it increased to 2.31% in Fiscal Year 2066/67 and 2.24% in F/Y 2067/68. But in case of NIBL, the ratios showed decreasing trend. Fiscal Year 2062/63 recorded 3.05% as loan loss provision ratio which kept on decreasing till 1.56% in Fiscal Year 2066/67 but slightly increased to 1.89% in F/Y 2067/68.

Comparing these two banks, we can witness that the mean ratio of NIBL and NABIL is same which signifies that both banks held comparatively same portion of risky assets. Moreover both banks have been forced to retain greater portion of its income idle as cushion against loans of inferior quality. CV analysis signifies that the ratios of NIBL were less consistent than that of NABIL.

The graphical representation of Loan Loss Provision to Total Risky Assets ratios of NABIL & NIBL is presented below:

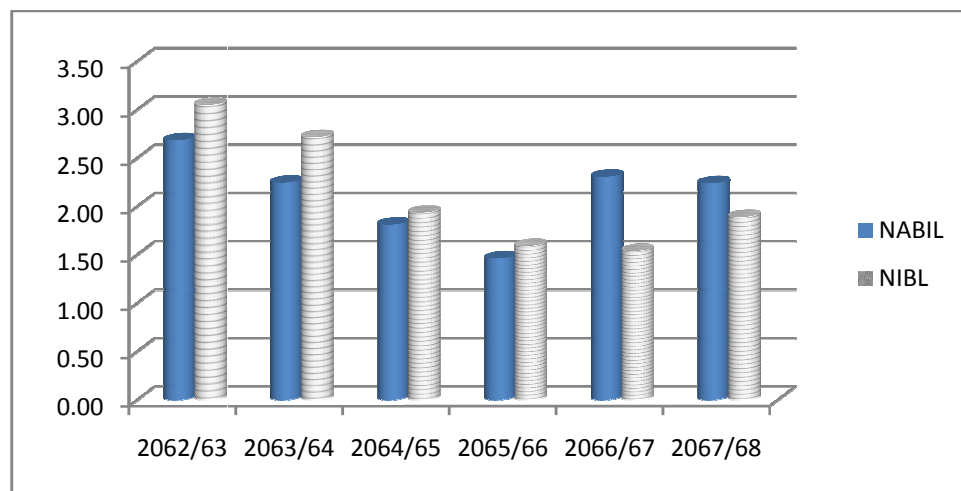


Figure 25

4.1.6.2 Loan Loss Provision to Total Income Ratio

The ratio shows that portion of total income has been held as safety cushion against the possible bad loan. It is calculated as;

$$\text{Loan Loss Provision to Total Income Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Income}}$$

Table#26
Loan Loss Provision to Total Income Ratio

F/Y	NABIL			NIBL		
	Loan Loss Provision	Total Income	Ratio	Loan Loss Provision	Total Income	Ratio
2062/63	356,239,106	1,359,512,633	26.20	401,943,787	959,386,995	41.90
2063/64	357,245,035	1,480,157,875	24.14	482,672,514	1,246,030,265	38.74
2064/65	394,407,016	1,670,427,262	23.61	532,652,478	1,649,624,924	32.29
2065/66	409,079,030	2,220,983,026	18.42	585,950,852	2,116,661,581	27.68
2066/67	762,095,405	2,764,088,059	27.57	630,131,971	2,734,929,605	23.04
2067/68	871,390,335	3,046,127,914	28.61	792,179,392	2,833,593,749	27.96
Mean	24.76			31.93		
S.D	3.33			6.57		
C.V	0.13			0.21		

(See: Appendix 6 for Loan Loss Provision & 15 for Total Income)

Table#29 highlights the ratios of NABIL for the respective years of analysis period which were 26.20%, 24.13%, 23.61%, 18.41%, 27.57% & 28.61%. Mean and CV of the ratios were 24.76% & 0.13% respectively. Similarly the ratios of NIBL were 41.90%, 38.74%, 32.29%, 27.68%, 23.04% & 27.96%. Mean of the ratios was 31.93% & CV was 0.21%.

The ratios in NABIL showed decreasing trend in comparison of 1st Year till Fiscal Year 2065/66. It was at maximum in FY 2067/68 i.e. 28.61% & minimum in FY 2065/66 i.e. 18.42%. But the ratios of NIBL showed decreasing trend till Fiscal Year 2066/67 i.e. 23.04%. It was maximum in FY 2062/63 i.e. 41.90% and minimum in FY 2066/67 i.e. 23.04%. Mean ratio remained significantly higher in NIBL than in NABIL, which signifies that NIBL held comparatively greater portion of risky assets. Moreover, NIBL has been forced to retain greater portion of its income idle as Provision against bad loans. CV analysis signifies that the ratios of NIBL showed less uniformity as compared with NABIL.

The graphical representation of Loan Loss Provision to Total Income ratios of NABIL & NIBL is presented below:

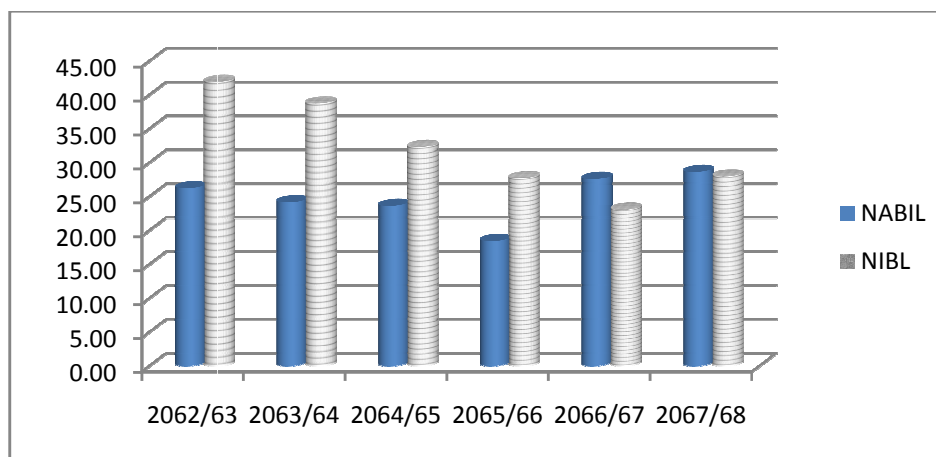


Figure 26

4.1.6.3 Loan Loss Provision to Total Deposit Ratio

The ratio shows the proportion of banks income held as loan loss provision in relation to total deposits collected. It is calculated as;

$$\text{Loan Loss Provision to Total Deposits Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Deposits}}$$

Table#27
Loan Loss Provision to Total Deposits Ratio

F/Y	NABIL			NIBL		
	Loan Loss Provision	Total Deposits	Ratio	Loan Loss Provision	Total Deposits	Ratio
2062/63	356,239,106	19,347,399,440	1.84	401,943,787	18,927,305,974	2.12
2063/64	357,245,035	23,342,285,327	1.53	482,672,514	24,488,855,696	1.97
2064/65	394,407,016	31,915,047,467	1.24	532,652,478	34,451,726,191	1.55
2065/66	409,079,030	37,348,255,840	1.10	585,950,852	46,698,100,065	1.25
2066/67	762,095,405	46,410,700,628	1.64	630,131,971	50,094,725,496	1.26
2067/68	871,390,335	49,696,112,934	1.75	792,179,392	50,138,122,241	1.58
Mean	1.52			1.62		
S.D	0.27			0.33		
C.V	0.18			0.20		

(See: Appendix 6 for Loan Loss Provision & 10 for Total Deposits)

Table#30 highlights that the ratios of NABIL were 1.84%, 1.53%, 1.24%, 1.10%, 1.64% & 1.75% in the respective years of review period. Mean ratio appeared 1.52% & CV appeared 0.18%. In NIBL, they were 2.12%, 1.97%, 1.55%, 1.25%, 1.26% & 1.58% for the corresponding years. Mean and CV of the ratios came 1.62% and 0.20% respectively.

The ratios of NABIL showed decreasing trend over the study till Fiscal Year 2065/66. It was maximum in FY 2062/63 i.e 1.84% and minimum in FY 2065/66 i.e 1.10%. Even the ratios of NIBL showed decreasing trend as compared to First Year. It was highest in FY 2062/63 i.e 2.12% and lowest in FY 2065/66 i.e 1.25%. Average ratio of NIBL exceeded than that of NABIL, which means that the assets owned by NABIL are superior than that of NIBL. In other words, NIBL has lent greater portion of its loans in riskier sectors. Hence it has separated more amount of its total deposits as provision against its riskier loans. Lower CV of the ratios in NABIL shows the consistency in the loan loss provision with respect to the deposits as compared to NIBL.

The graphical representation of Loan Loss Provision to Total Deposits ratios of NABIL & NIBL is presented below:

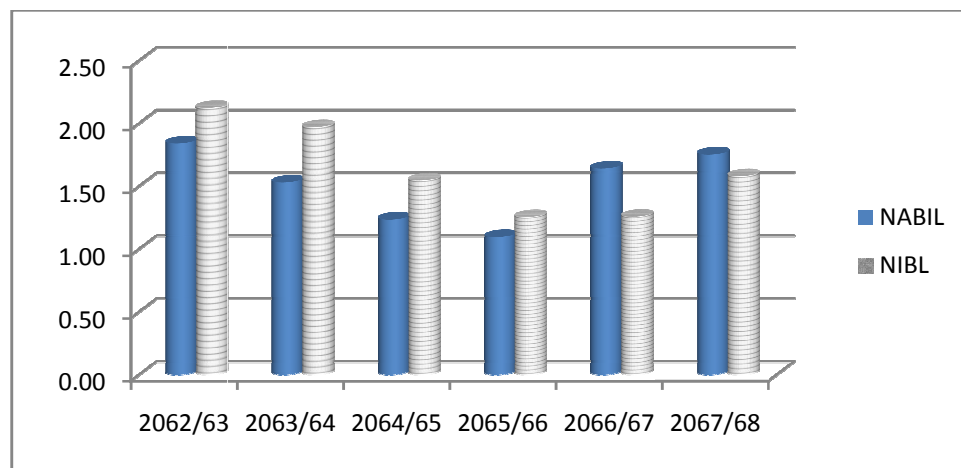


Figure 27

4.1.7 Other Indicators

Above stated ratio shows light on various aspect of the banks from which management, investment & creditors can get information regarding their investment. Besides the above-analyzed ratios, some indicators have been tested to have the boarder knowledge of financial performance of the banks. For this, EPS, P/E ratio and MVPS to BVPS have been analyzed.

4.1.7.1 Earning per Share

EPS measures the profitability of common shareholder. The earning may be on a per share basis. The firm's earning per share is matter of interest to present or prospective stockholders and management. The EPS represents the amount earned on behalf of each outstanding share of common stock. They are closely watched by the investor and consider as significant indicator of the firm's success. The earnings per share is calculated by dividing the profit after tax by total number of common share outstanding.

$$\text{Earning Per Share} = \frac{\text{Net Profit After Tax}}{\text{No of Common Shares Outstanding}}$$

Table#28
Earning Per Share (EPS) in Rs

F/Y	NABIL			NIBL		
	Net Profit After Tax	Equity Shares	EPS	Net Profit After Tax	Equity Shares	EPS
2062/63	635,262,349	4,916,544	129.21	350,536,413	5,905,860	59.35
2063/64	673,959,698	4,916,544	137.08	501,398,853	8,013,526	62.57
2064/65	746,468,394	6,892,160	108.31	700,614,196	12,039,154	58.19
2065/66	1,031,053,098	9,657,470	106.76	900,619,071	24,070,689	37.42
2066/67	1,139,099,397	14,491,240	78.61	1,265,949,588	24,090,977	52.55
2067/68	1,337,745,485	20,297,694	65.91	1,176,641,030	24,090,977	48.84
Mean	104.31			53.15		
S.D	25.34			8.36		
C.V	0.24			0.16		

(See: Appendix 15 for Net Profit After Tax & Annual Reports of NABIL & NIBL for Equity Shares)

Table 31# depicts that the ratios in NABIL were 129.21, 137.08, 108.31, 106.76, 78.61 & 65.91 rupees in the respective years of the review period. Mean of the ratios was Rs. 104.31 and CV was 0.24%. Similarly, the EPS in NIBL remained 59.35, 62.57, 58.19, 37.38, 52.55 & 48.84 rupees in the same period. Mean of the EPS appeared Rs.53.15 and CV was 0.16%.

EPS of NABIL showed fluctuating trend. It increased in the second year while decreased in the further years of analysis period. EPS remained highest for NABIL in Fiscal Year 2063/64 i.e Rs.137.08 while it was lowest in Fiscal Year 2067/68 i.e Rs.65.91. Even the ratios of NIBL showed fluctuating trend. It kept on decreasing till Fiscal Year 2065/66 and

then increased in Fiscal Year 2066/67. It was highest in Fiscal Year 2063/64 i.e Rs.62.57 and lowest in Fiscal Year 2065/66 i.e Rs. 37.42 .Mean of the EPS was much higher in NABIL in contrast to NIBL; which indicates that the profitability position of the former is far better than that of the latter. In this sense, NABIL seems more successful to attract the investors. CV of the EPS in NABIL exceeded the same in NIBL which shows lack of consistency in NABIL in different years. Net profit earned by NABIL is greater than that of NIBL but number of equity share outstanding in NIBL is greater than NABIL, so EPS of NABIL was seemed well than NIBL.

The graphical representation of Earning Per Share of NABIL & NIBL during study period is presented below:

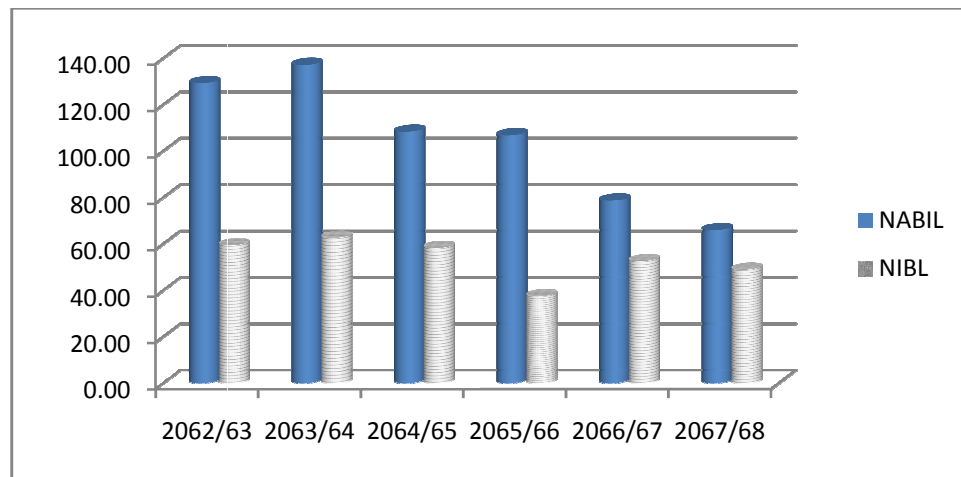


Figure 28

4.1.7.2 Dividend Per share

The net profit after taxes belongs to shareholders. But the income, which they really receive, is the amount of earnings distributed as dividends. Therefore, a large number of present and potential investors may be interested in dividend per share, rather than earning per share. DPS is the earnings distributed to ordinary shareholders divided by the number of ordinary shares outstanding.

We have,

$$\text{Dividend per Share} = \frac{\text{Dividend Paid}}{\text{No of Common Shares}}$$

Table#29
Dividend Per Share (DPS) in %

F/Y	NABIL			NIBL		
	Cash Dividend	Bonus Share Dividend	Total Dividend	Cash Dividend	Bonus Share Dividend	Total Dividend
2062/63	85.00	0.00	85.00	20.00	35.46	55.46
2063/64	100.00	40.00	140.00	5.00	25.00	30.00
2064/65	60.00	40.00	100.00	7.50	33.33	40.83
2065/66	35.00	50.00	85.00	20.00	0.00	20.00
2066/67	30.00	40.00	70.00	25.00	0.00	25.00
2067/68	30.00	0.00	30.00	25.00	25.00	50.00
Mean	85.00			36.88		
S.D	32.91			12.95		
C.V	0.39			0.35		

(See: Annual Reports of NABIL & NIBL for Dividend Paid)

The above table 32 depicted the dividend pattern of sampled banks. The table showed that NABIL distributed 85%, 100%, 60%, 35%, 30% and 30% of par value as cash dividend in Fiscal Year 2062/63, 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. Similarly bank distributed 40%, 40%, 50% and 40% as bonus share divided per unit share holding in Fiscal Year 2063/64, 2064/65, 2065/66 & 2066/67 respectively. In average, NABIL distributed 85% of face value per share as total dividend. The coefficient of variation on dividend payment was 0.39%.

Likewise, NABIL paid 20%, 5%, 7.50%, 20%, 25% & 25% as cash dividend in Fiscal Year 2062/63, 2063/64, 2064/65, 2065/66, 2066/67 & 2067/68 respectively. Also the bonus share dividend of 35.46%, 25%, 33.33% & 25% of face value was disbursed in Fiscal Year 2062/63, 2063/64, 2064/65 & 2067/68 respectively. In average, NIBL distributed 36.88% of face value per share as total dividend and coefficient of variation of 0.35% indicated more consistency in its dividend policy.

On the basis of Dividend per Share, it can be concluded that NABIL remained more successful to retain its existing shareholders and to allure the potential shareholders towards it by distributing highest amount of dividend per share than NIBL.

The graphical representation of Dividend Per Share of NABIL & NIBL during study period is presented below:

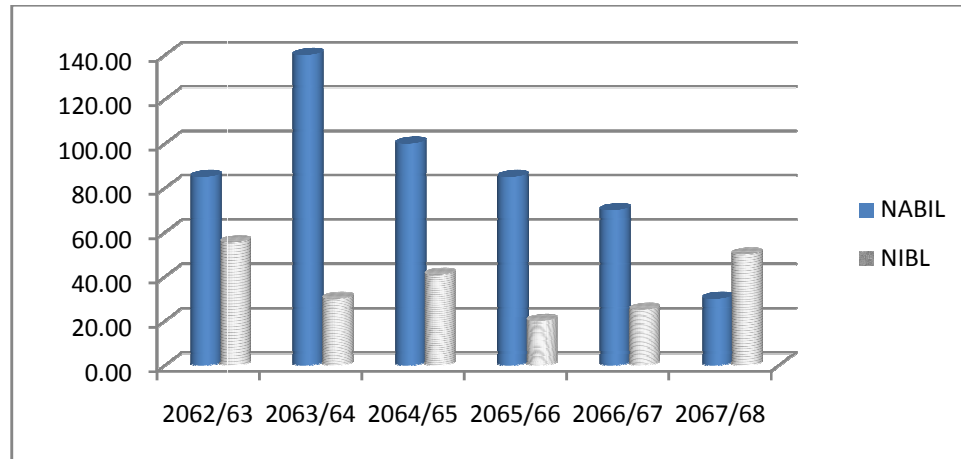


Figure 29

4.1.7.3 Dividend Payout Ratio (Dividend Yield Ratio)

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earning per share, i.e. this ratio reflects at what percentage of net profit is to be distributed in terms of dividend and what percentage is to be retained in company as retained earning. Higher the ratio reflects higher the proportion of earnings is distributed as dividends. Generally most of the firms retain some position of earnings to strengthen the financial position of the firm and to avail fund for the future purpose. This ratio is calculated by dividing the dividend per share by earning per share.

$$\text{Dividend Yield Ratio} = \frac{\text{Dividend Per Share}}{\text{Earnings Per share}} \times 100\%$$

Table#30
Dividend Yield Ratio (%)

F/Y	NABIL			NIBL		
	DPS	EPS	Ratio	DPS	EPS	Ratio
2062/63	85.00	129.21	65.78	55.46	59.35	93.45
2063/64	140.00	137.08	102.13	30.00	62.57	47.95
2064/65	100.00	115.86	86.31	40.83	57.87	70.55
2065/66	85.00	113.44	74.93	20.00	37.42	53.45
2066/67	70.00	83.81	83.52	25.00	52.55	47.57
2067/68	30.00	70.67	42.45	50.00	48.84	102.38
Mean	75.85			69.22		
S.D	18.60			21.82		
C.V	0.25			0.32		

(See: Annual Reports of NABIL & NIBL for MVPS & EPS)

The above table 33 indicated the dividend payout ratio of the sampled banks NABIL & NIBL. The table showed fluctuating trend of the dividend payout ratio of NABIL for sampled six consecutive years. The average of the ratios of NABIL was 75.85% with coefficient of variation of 0.25%.

Even the ratios of NIBL showed fluctuating trend. It was 93.45% in Fiscal Year 2062/63 which reached 102.38% in Fiscal Year 2067/68. The average of the ratios was 69.22% and coefficient of variation was 0.32%.

Comparing these two banks, NABIL can be considered better than NIBL since the average dividend payout ratio of NABIL is higher than that of NIBL. Hence it can be considered that the shareholders of NABIL were more satisfied than of NIBL as they got more percentage of EPS in form of dividend. In addition lower CV of NABIL (0.25%) indicated more uniformity in its dividend payout ratio.

The graphical representation of Dividend Payout Ratio of NABIL & NIBL during study period is presented below:

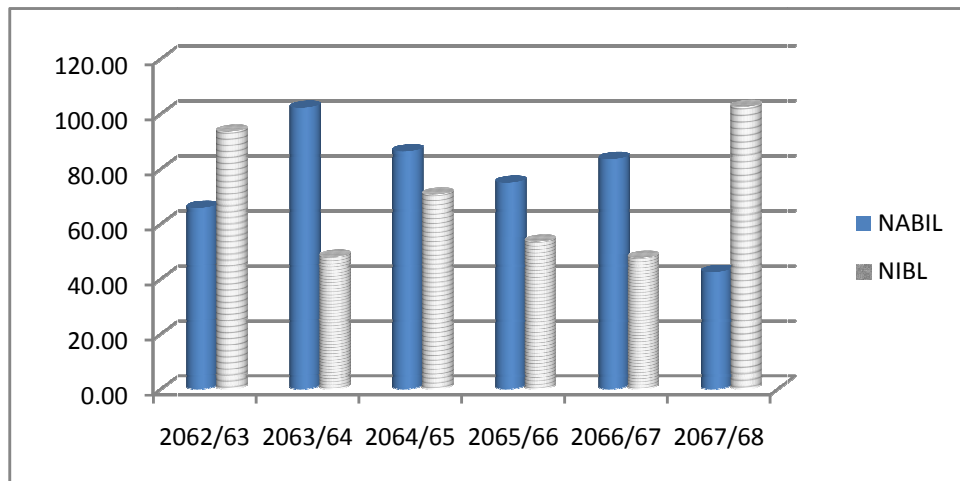


Figure 30

4.1.7.4 Price-Earning Ratio (P/E Ratio)

P/E Ratio is widely used to evaluate the bank's performance as expected by investors. It represents the investors' judgment or expectation about the growth in the bank's earning. In other words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates greater expectation of the market towards the achievement of firm. It is obtained by dividing market value per share by earning per share.

$$\text{Price Earning Ratio} = \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

Table#31
Price Earning Ratio (Times)

F/Y	NABIL			NIBL		
	MVPS	EPS	Ratio	MVPS	EPS	Ratio
2062/63	2,240.00	129.21	17.34	1,260.00	59.35	21.23
2063/64	5,050.00	137.08	36.84	1,729.00	62.57	27.63
2064/65	5,275.00	115.86	45.53	2,450.00	57.87	42.34
2065/66	4,899.00	113.44	43.19	1,388.00	37.42	37.09
2066/67	2,384.00	83.81	28.45	705.00	52.55	13.42
2067/68	1,252.00	70.67	17.72	515.00	48.84	10.54
Mean	31.51			25.38		
S.D	11.27			11.62		
C.V	0.36			0.46		

(See: Annual Reports of NABIL & NIBL for MVPS & EPS)

The above table 34 depicts the price-earning ratios of NABIL & NIBL during 6 years study period. The ratios of NABIL showed fluctuating trend. It was maximum in F/Y 2064/65 i.e 45.53 times and minimum in F/Y 2062/63 i.e 17.34 times. The average of its ratios was 31.51 times & CV was 36%.

Even the ratios of NIBL showed fluctuating trend. The highest ratio was 42.34 times in F/Y 2064/65 and the lowest was 10.54 times in F/Y 2067/68. The mean of the ratios was 25.38 times with CV of 46%.

Comparing these two banks, we can conclude that the investors of NABIL were well satisfied with its performance and market has positively judged its performance since the

mean ratio of NABIL is higher than that of NIBL. Likewise the CV of NABIL indicated consistency in its ratios.

The graphical representation of Price Earnings ratios of NABIL & NIBL during the study period is presented below:

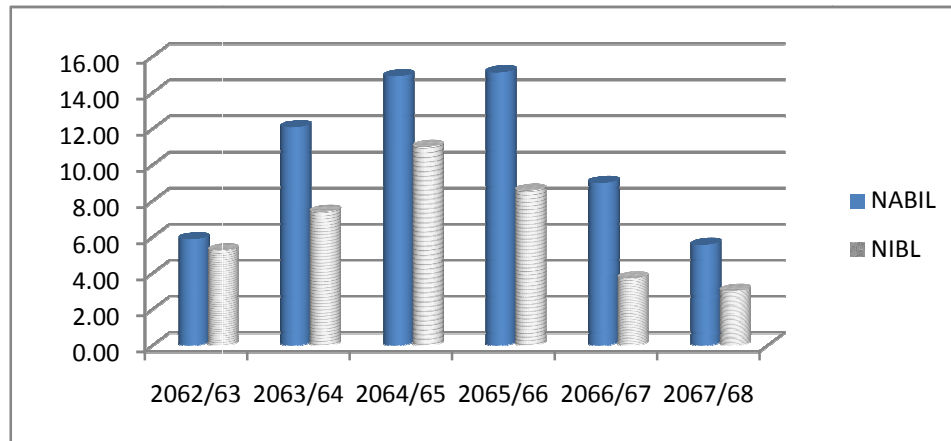


Figure 31

4.1.7.5 Market Value Per Share to Book Value Per Share (MVPS/BVPS)

The ratio measures the value that the financial market attaches to the management and organization of the bank as a growing concern. High ratio is the indication of strong management and organization. It is the ratio of market value per share to book value per share.

$$\text{Market Value Per Share to Book Value Per Share} = \frac{\text{Market Value Per Share}}{\text{Book Value Per Share}}$$

Table#32
Market Value Per Share to Book Value Per Share (Times)

F/Y	NABIL			NIBL		
	MVPS	BVPS	Ratio	MVPS	BVPS	Ratio
2062/63	2,240.00	381.00	5.88	1,260.00	240.00	5.25
2063/64	5,050.00	418.00	12.08	1,729.00	234.00	7.39
2064/65	5,275.00	354.00	14.90	2,450.00	223.00	10.99
2065/66	4,899.00	324.00	15.12	1,388.00	162.00	8.57
2066/67	2,384.00	265.00	9.00	705.00	190.00	3.71
2067/68	1,252.00	225.00	5.56	515.00	171.00	3.01
Mean	10.42			6.49		
S.D	3.90			2.79		
C.V	0.37			0.43		

(See: Annual Reports of NABIL & NIBL for MVPS & EPS)

The above table 35 presents the MVPS & BVPS of two sampled banks NABIL & NIBL. The ratios of NABIL were seen to be in increasing trend till F/Y 2065/66 but decreased in last two sampled years. The mean of the ratios was 10.42 times with CV as 37%.

Similarly the ratios of NIBL showed increasing trend till F/Y 2064/65 but decreased in rest 3 sampled years. The mean of the ratios was 6.49 times & CV was 43%.

Mean value of the indicators appeared greater in NABIL, which indicates comparatively stronger management and organization in NABIL than NIBL. CV of the indicators came less in NABIL, which means the indicators, varied less over the period of study.

The graphical representation of Market Value per Share to Book Value per Share ratios of NABIL & NIBL during the study period is presented below:

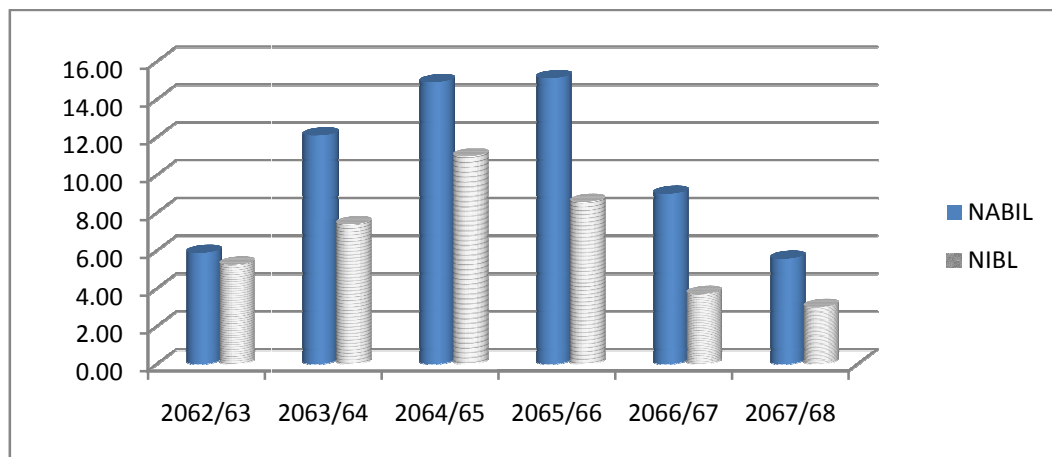


Figure 32

4.1.8 Income and Expenditure Analysis

This sort of ratio analyzes the income & expenditure pattern of the banks. This ratio basically highlights the dominant sources of income & expenditure of the firm. Under this title mainly two types of analysis are carried out. They are as follows:

4.1.8.1 Income Analysis

This group of ratio includes such ratio which measures the income pattern of the firm. A firm earns the income from different functions. This ratio shows the proportion of the income under different headings in respect to total earnings. To compute this ratio, the sources of income under different headings are divided by the total income. For the purpose of earnings ratio computation, the earnings are split under these headings.

4.1.8.1.1 Interest Income

Interest is the main & major source of income for the banks. Banks generate income by lending the collected deposit from different account to the needy person, business enterprises and other sectors through different schemes. Banks lend fund as loans & advances, overdrafts, investment on government securities, inter banks loans, investment in debentures and money & short calls. This ratio of banks reflects the operational efficiency. So, higher the ratio indicates higher efficiency and vice-versa.

$$\text{Interest Income to Total Income Ratio} = \frac{\text{Interest Income}}{\text{Total Income}} \times 100\%$$

Table#33
Interest Income to Total Income (Ratio in %)

F/Y	NABIL			NIBL		
	Interest Income	Total Income	Ratio	Interest Income	Total Income	Ratio
2062/63	1,309,998,500	1,359,512,633	96.36	1,172,742,193	959,386,995	122.24
2063/64	1,587,758,714	1,480,157,875	107.27	1,584,987,354	1,246,030,265	127.20
2064/65	1,978,696,727	1,670,427,262	118.45	2,194,275,722	1,649,624,924	133.02
2065/66	2,798,486,196	2,220,983,026	126.00	3,267,941,142	2,116,661,581	154.39
2066/67	4,047,725,656	2,764,088,060	146.44	4,653,521,338	2,734,929,605	170.15
2067/68	5,254,030,458	3,046,127,914	172.48	5,803,440,174	2,833,593,749	204.81
Mean	127.83			151.97		
S.D	25.31			28.82		
C.V	0.20			0.19		

(See: Appendix 12 for Interest Income & Appendix 15 for Total Income)

Table#36 represents the interest income ratios of NABIL & NIBL respectively. We can see that the ratios of NABIL seem to be in increasing trend. It ranged from 96.35% in Fiscal

Year 2062/63 to 172.48% in Fiscal Year 2067/68. Interest Income alone contributes 127.83% average on total income of NABIL and CV is 0.20%.

Likewise, the ratios of NIBL too seem to be in increasing trend. It ranged from 122.24% in Fiscal Year 2062/63 to 204.81% in Fiscal Year 2067/68. Interest Income contributes 151.97% average on total income of NIBL and CV is 0.19%.

Comparing these two banks, we can see that the mean ratio of NIBL is higher than that of NABIL. Hence we can conclude that NIBL is generating more of its earnings from interest earnings than that of NABIL. Looking at the CV of ratios of these two banks, NABIL & NIBL is 0.20% & 0.19% respectively, reflects that the ratios of NIBL is more consistent than NABIL.

The graphical representation of Interest Income to Total Income NABIL & NIBL during the study period is presented below:

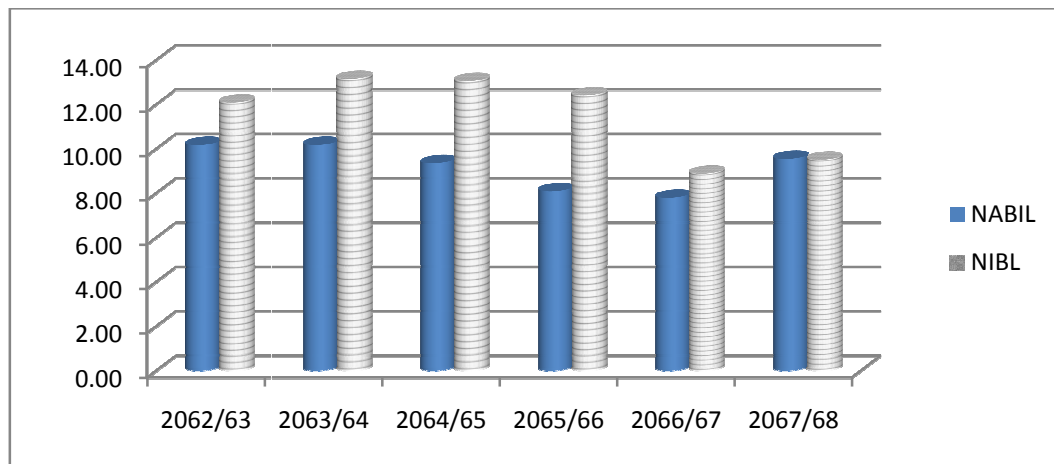


Figure 33

4.1.8.1.2 Commission And Discount

Bank receives commission and discount of different sources. Commission & discount are very important sources of income of banks. A bank provides agency service, collect remittances, provide guarantee, letter of credit, purchase and discount bills of exchanges etc. These kinds of services rendered by banks generate commission & discount earnings for the banks.

$$\text{Commission and Discount Ratio} = \frac{\text{Commission and Discount}}{\text{Total Income}} \times 100\%$$

Table#34
Commission & Discount to Total Income (Ratio in %)

F/Y	NABIL			NIBL		
	Commission & Discount	Total Income	Ratio	Commission & Discount	Total Income	Ratio
2062/63	138,293,913	1,359,512,633	10.17	115,942,016	959,386,995	12.09
2063/64	150,608,550	1,480,157,875	10.18	163,899,110	1,246,030,265	13.15
2064/65	156,234,754	1,670,427,262	9.35	215,292,193	1,649,624,924	13.05
2065/66	179,693,027	2,220,983,026	8.09	262,791,664	2,116,661,581	12.42
2066/67	215,481,543	2,764,088,060	7.80	242,886,274	2,734,929,605	8.88
2067/68	290,855,057	3,046,127,914	9.55	269,429,160	2,833,593,749	9.51
Mean	9.19			11.52		
S.D	0.93			1.69		
C.V	0.10			0.15		

(See: Annual Reports of NABIL & NIBL for Commission & Discount & Appendix 15 for Total Income)

Commission & Discount stands as second major source of income for NABIL & NIBL. Table#37 presents the ratio of Commission & Discount to Total Income of these two sampled banks. The ratios of NABIL seem to be in decreasing trend. It decreased from 10.17% in Fiscal Year 2062/63 to 7.80% in Fiscal Year 2066/67. The ratio was highest in Fiscal Year 2063/64 as 10.18% and lowest in Fiscal Year 2066/67 as 7.80%. The average of commission & discount to total earning appeared to be 9.19% and CV appeared 0.10% for NABIL.

Similarly the ratios of NIBL too were in decreasing trend. The ratio accounted highest in Fiscal Year 2063/64 as 13.15% and lowest as 8.88% in Fiscal Year 2066/67. The average of these ratios appeared as 11.52% and CV as 0.15%.

Comparing these two banks, the average of commission & discount of NIBL seems to be higher than that of NABIL. Hence we can conclude that the Commission & Discount proves to be major source of income for NIBL than NABIL.

The graphical representation of Commission & Discount to Total Income ratios of NABIL & NIBL during the study period is presented below:

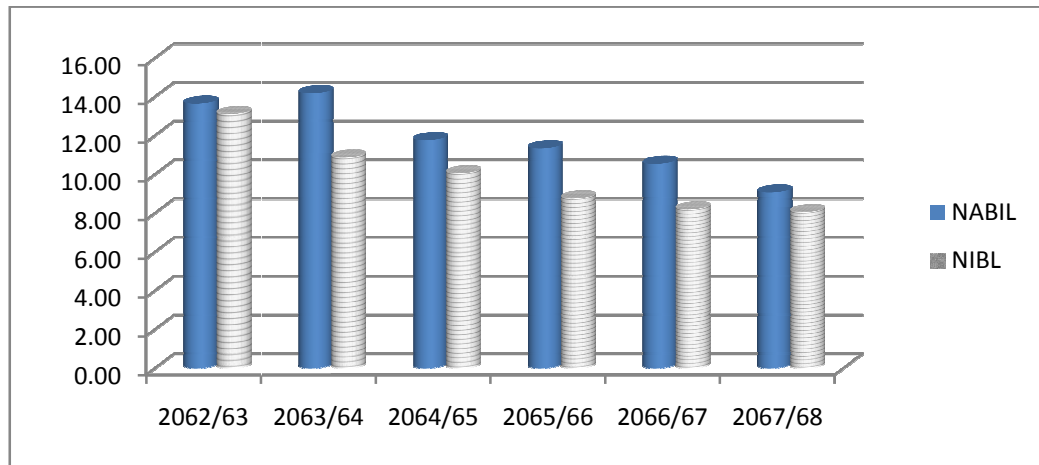


Figure 34

4.1.8.1.3 Foreign Exchange Income

The banks assist to promoting foreign trade by rendering the service of foreign currency exchange. Bank exchanges the foreign currency through which the banks receive earnings. For this purpose the banks should take permission from NRB to render this service. This income includes the income from selling the foreign currency and also the income from revaluation of the currency in international market. This is calculated as follows:

$$\text{Foreign Exchange Income ratio} = \frac{\text{Foreign Exchange Income}}{\text{Total Income}} \times 100\%$$

Table#35
Foreign Exchange Income to Total Income (Ratio in %)

F/Y	NABIL			NIBL		
	Foreign Exchange Income	Total Income	Ratio	Foreign Exchange Income	Total Income	Ratio
2062/63	185,483,662	1,359,512,633	13.64	125,747,407	959,386,995	13.11
2063/64	209,926,167	1,480,157,875	14.18	135,355,345	1,246,030,265	10.86
2064/65	196,487,415	1,670,427,262	11.76	165,838,748	1,649,624,924	10.05
2065/66	251,919,712	2,220,983,026	11.34	185,327,111	2,116,661,581	8.76
2066/67	291,440,756	2,764,088,060	10.54	224,056,830	2,734,929,605	8.19
2067/68	276,102,798	3,046,127,914	9.06	228,076,344	2,833,593,749	8.05
Mean	11.76			9.84		
S.D	1.75			1.77		
C.V	0.15			0.18		

(See: Appendix 15 for Foreign Exchange Income & Total Income)

Table#38 shows the ratio of Foreign Exchange Income to Total Income of NABIL & NIBL. It is another source of income for these 2 banks. The ratios of NABIL seem to be in increasing trend. It was witnessed to be highest in Fiscal Year 2063/64 as 14.18% and lowest in Fiscal Year 2067/68 as 0.15%. The average of these ratios appeared 12.30% and CV appeared 0.11%.

Likewise the ratios of NIBL were seen to be in decreasing trend. It was highest as 13.11% in Fiscal Year 2062/63 which gradually decreased and reached lowest as 8.05% in Fiscal Year 2067/68. The average of these ratios appeared 9.84% and CV appeared 0.18%.

The average ratio of Foreign Exchange Income to Total Income of NABIL seems to be higher than that of NIBL which means that the NABIL is more successful in earning income through foreign exchange than NIBL. Similarly the less CV of NABIL shows more consistency in its foreign exchange income than NIBL.

The graphical representation of Foreign Exchange Income to Total Income ratios of NABIL & NIBL during the study period is presented below:

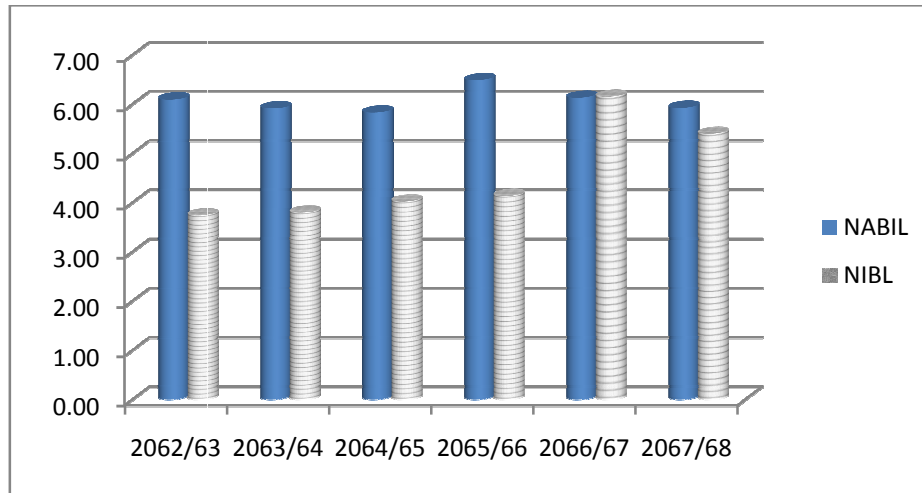


Figure 35

4.1.8.1.4 Other Income

Incomes not included in above categories are put under this heading. This income includes the income from sales of collaterals, revaluations, rent, etc.

$$\text{Other Income} = \frac{\text{Other Income}}{\text{Total Income}} \times 100\%$$

Table#36
Other Income to Total Income (Ratio in %)

F/Y	NABIL			NIBL		
	Other Income	Total Income	Ratio	Other Income	Total Income	Ratio
2062/63	82,897,862	1,359,512,633	6.10	35,902,340	959,386,995	3.74
2063/64	87,574,553	1,480,157,875	5.92	47,318,720	1,246,030,265	3.80
2064/65	97,444,578	1,670,427,262	5.83	66,376,659	1,649,624,924	4.02
2065/66	144,164,143	2,220,983,026	6.49	87,574,794	2,116,661,581	4.14
2066/67	169,548,006	2,764,088,060	6.13	168,312,660	2,734,929,605	6.15
2067/68	180,570,347	3,046,127,914	5.93	152,984,768	2,833,593,749	5.40
Mean	6.07			4.54		
S.D	0.22			0.91		
C.V	0.04			0.20		

(See: Annual Reports of NABIL & NIBL for Other Income & Total Income)

Table #39 represents the ratio of Other Income to Total Income of NABIL & NIBL for 6 Fiscal Years. The ratios of NABIL seem to be in fluctuating trend. It was highest in Fiscal Year 2065/66 as 6.49% and lowest in Fiscal Year 2064/65 as 5.83%. The average of these ratios was 6.07 and coefficient of variation was 0.04%.

Likewise the ratios of NIBL were in increasing trend. It ranged from 3.74% in Fiscal Year 2062/63 to 5.40% in Fiscal Year 2067/68. The average of these ratios was 4.54% and coefficient of variation was 0.20%.

Comparing these two sampled banks, we can conclude that NABIL has more earning under Other Income than NIBL as the average ratio of NABIL (6.07%) is higher than that of NIBL (4.54) and more consistency in its ratios.

The graphical representation of Other Income to Total Income ratios of NABIL & NIBL during the study period is presented below:

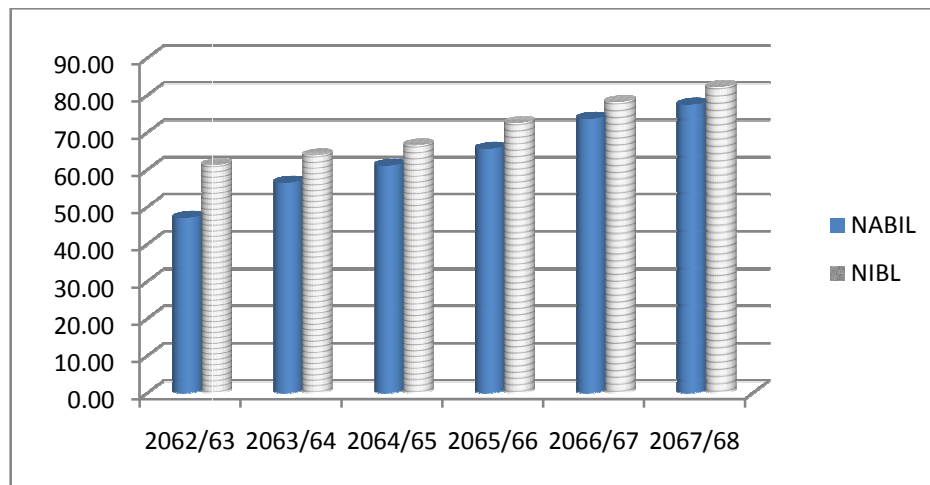


Figure 36

4.1.8.2 Expenditure Analysis

Of course in the process of operation, a firm has to incurred several kind of cost termed as expenses. In this context, a bank has to occur different types of expenses for the smooth run of operation. This type of expenses varies as per nature and types of business of the firm. Our study is on two joint venture banks whose major business nature is to collect

deposits and lend the fund collected to the needy parties, in short service rendering nature of business. As per the types of expenses the total expenses are classified into the major four different groups which are as follows and the ratios of these title expenses are calculated thoroughly.

4.1.8.2.1 Interest Expenses

Interest expenses are the major expenses of the banking institutions. These expenses generally occupy the highest proportion in the total expenses. The bank has to pay interest on different deposits accounts, interbank transaction, loan and borrowings. The ratio of interest expenses is calculated as follows :

$$\text{Interest Expenses To Total Expenses Ratio} = \frac{\text{Interest Expenses}}{\text{Total Expenses}} \times 100\%$$

Table#37
Interest Expenses to Total Expenses (Ratio in %)

F/Y	NABIL			NIBL		
	Interest Expenses	Total Expenses	Ratio	Interest Expenses	Total Expenses	Ratio
2062/63	357,161,304	759,638,570	47.02	490,946,961	802,215,803	61.20
2063/64	555,710,109	984,054,714	56.47	685,530,264	1,074,331,497	63.81
2064/65	758,436,212	1,242,094,358	61.06	992,158,398	1,492,462,178	66.48
2065/66	1,153,280,052	1,758,335,998	65.59	1,686,973,130	2,326,578,375	72.51
2066/67	1,960,107,902	2,661,234,168	73.65	2,553,847,497	3,267,295,137	78.16
2067/68	2,946,691,281	3,806,299,934	77.42	3,620,336,697	4,402,936,754	82.23
Mean	63.53			70.73		
S.D	10.23			7.61		
C.V	0.16			0.11		

(See: Appendix 18 for Interest Expenses & Annual Reports of NABIL & NIBL for Total Expenses)

Table#40 presents the proportion of Interest Expenses to Total Expenses of NABIL & NIBL for sampled 6 Fiscal Years. The ratios of both of these banks seem to be in increasing trend. The ratio was highest for NABIL in Fiscal Year 2067/68 as 77.42% and lowest in Fiscal Year 47.02%. Similarly the ratio was highest for NIBL in Fiscal Year 2067/68 as 82.23% and lowest in Fiscal Year 2062/63 as 61.20%. The average of these ratios was 63.53% for NABIL and 70.73% for NIBL.

Comparing the ratios of these two banks, we can conclude that the mean ratios of NIBL were higher than that of NABIL which indicated that the interest expenses covered major portion of NIBL than of NABIL. Lower CV of NIBL indicated more consistency in the interest expenses of NIBL.

The graphical representation of Interest Expenses to Total Expenses ratios of NABIL & NIBL during the study period is presented below:

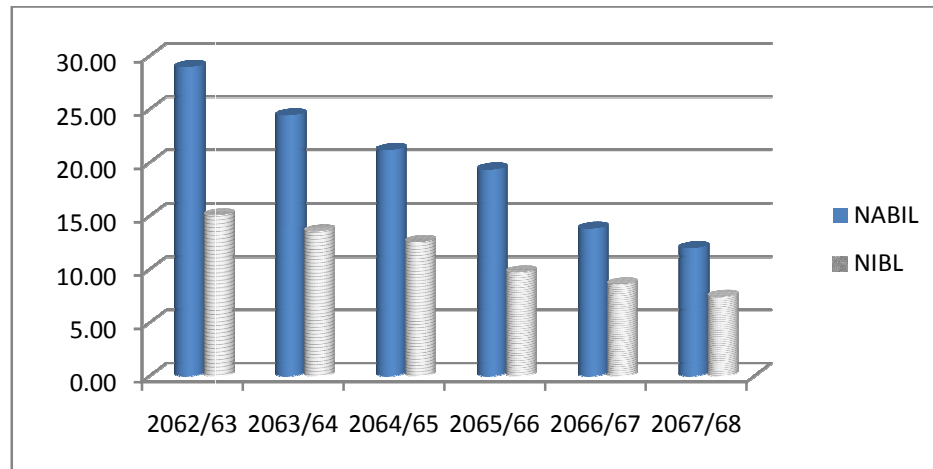


Figure 37

4.1.8.2.2 Staff Expenses

Staff expenses are also the major source of expenses for the bank. Staff expenses occupy the third highest proportion in the expenses pattern. Human resources of any firm are the key factor for the success of the firm and satisfied and self-motivated employee are the ornaments for the firm. Therefore, to retain satisfied employee in the firm, the firm has to pay remunerations and other facilities to employee of the firm. These expenses involve all those expenses which incurred upon the staff of the firm such as salaries, allowances, bonus, quarter facilities and other facilities. The ratio of staff expenses is calculated as follows:

$$\text{Staff Expense To Total Expenses Ratio} = \frac{\text{Staff Expenses}}{\text{Total Expenses}} \times 100\%$$

Table#38
Staff Expenses to Total Expenses (Ratio in %)

F/Y	NABIL			NIBL		
	Staff Expenses	Total Expenses	Ratio	Staff Expenses	Total Expenses	Ratio
2062/63	219,780,853	759,638,570	28.93	120,663,710	802,215,803	15.04
2063/64	240,161,275	984,054,714	24.41	145,370,601	1,074,331,497	13.53
2064/65	262,907,576	1,242,094,358	21.17	187,149,985	1,492,462,178	12.54
2065/66	339,897,913	1,758,335,998	19.33	225,721,490	2,326,578,375	9.70
2066/67	366,940,054	2,661,234,168	13.79	279,851,360	3,267,295,137	8.57
2067/68	455,616,099	3,806,299,934	11.97	326,543,424	4,402,936,754	7.42
Mean	19.93			11.13		
S.D	5.83			2.75		
C.V	0.29			0.25		

(See: Appendix 18 for Staff Expenses & Annual Reports of NABIL & NIBL for Total Expenses)

Table#41 presents the ratio of Staff Expenses to Total Expenses of two sampled banks NABIL & NIBL. The ratios of NABIL seem to be in decreasing trend. It ranged from 28.93% in Fiscal Year 2062/63 to 11.97% in Fiscal Year 2067/68. The average of these ratios was 19.93% and coefficient of variation was 0.29%.

In case of NIBL, the ratios were seen to be in decreasing trend. It was highest in Fiscal Year 2062/63 as 15.04% and lowest in Fiscal Year 2067/68 as 7.42%. The average of these ratios was 11.13% and coefficient of variation was 0.25%.

Comparing these two banks we can conclude that NABIL has more contribution towards its staff than NIBL since the mean ratio of its staff expenses is higher than that of NIBL and the higher CV indicated more varied proportion of its expenses.

The graphical representation of Staff Expenses to Total Expenses ratios of NABIL & NIBL during the study period is presented below:

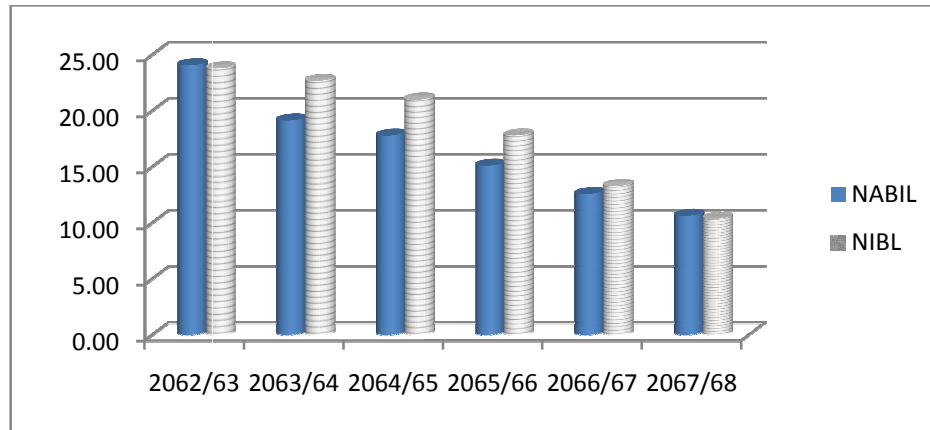


Figure 38

4.1.8.2.3 General Expenses

General expenses include those expenses which are not included in the two expenses above. These expenses involve operating expenses, miscellaneous expenses and other expenses. For the smooth running of day to day operation of a firm, it has to incur different expenses such as stationary, power, water, telephone, etc. The house rent, building, maintenance and repairs, bank commissions, board of directors meeting allowances, refreshment cost, parties expenses, audit fee, etc. This ratio is calculated as follows :

$$\text{General Expenses to Total Expenses Ratio} = \frac{\text{General Expenses}}{\text{Total Expenses}} \times 100\%$$

Table#39
General Expenses to Total Expenses (Ratio in %)

F/Y	NABIL			NIBL		
	General Expenses	Total Expenses	Ratio	General Expenses	Total Expenses	Ratio
2062/63	182,696,413	759,638,570	24.05	190,605,132	802,215,803	23.76
2063/64	188,183,330	984,054,714	19.12	243,430,632	1,074,331,497	22.66
2064/65	220,750,570	1,242,094,358	17.77	313,153,795	1,492,462,178	20.98
2065/66	265,158,033	1,758,335,998	15.08	413,883,755	2,326,578,375	17.79
2066/67	334,186,212	2,661,234,168	12.56	433,596,280	3,267,295,137	13.27
2067/68	403,992,554	3,806,299,934	10.61	456,056,633	4,402,936,754	10.36
Mean	16.53			18.14		
S.D	4.43			4.91		
C.V	0.27			0.27		

(See: Appendix 18 for General Expenses & Annual Reports of NABIL & NIBL for Total Expenses)

Table#42 shows the ratio of general expenses to total expenses of NABIL & NIBL. It shows the total amounts that are incurred as general expenses out of the total expenses in 6 sampled Fiscal Years. The ratios of both of these banks were in decreasing trend. The ratios of NABIL ranged from 24.05% in Fiscal Year 2062/63 to 10.61% in Fiscal Year 20667/68. The average of these ratios was 16.53% with coefficient of variation as 0.27%. Similarly the ratios of NIBL ranged from 23.76% in Fiscal Year 2062/63 to 10.36% in Fiscal Year 2067/68. The average of these ratios for NIBL was 0.27%.

Both of these banks seem to be successful in decreasing its general expenses. However the lower mean of NABIL indicated that it was more successful in decreasing its General Expenses and efficient in performing its operation.

The graphical representation of General Expenses to Total Expenses ratios of NABIL & NIBL during the study period is presented below:

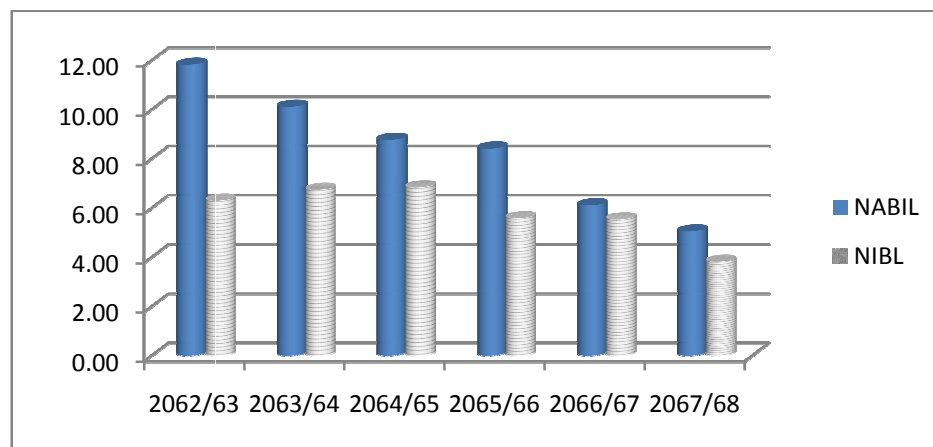


Figure 39

4.1.8.2.4 Bonus Facility

Bonus is the intensive to the employee to the company on successful and profitably working of the bank over a certain period of time. This is the way of motivating the employee and participation them in the success of their work. Bonuses are paid from the net profit of the firm. The ratio is calculated as follows :

$$\text{Bonus Facility Ratio} = \frac{\text{Bonus Facility}}{\text{Total Expenses}} \times 100\%$$

Table#40
Bonus Facility to Total Expenses (Ratio in %)

F/Y	NABIL			NIBL		
	Bonus Facility	Total Expenses	Ratio	Bonus Facility	Total Expenses	Ratio
2062/63	89,800,379	759,638,570	11.82	50,491,407	802,215,803	6.29
2063/64	99,504,596	984,054,714	10.11	72,337,548	1,074,331,497	6.73
2064/65	108,899,000	1,242,094,358	8.77	101,996,038	1,492,462,178	6.83
2065/66	147,866,771	1,758,335,998	8.41	129,860,089	2,326,578,375	5.58
2066/67	162,518,278	2,661,234,168	6.11	180,821,081	3,267,295,137	5.53
2067/68	192,007,714	3,806,299,934	5.04	167,802,911	4,402,936,754	3.81
Mean	8.38			5.80		
S.D	2.28			1.02		
C.V	0.27			0.18		

(See: Annual Reports of NABIL & NIBL for Bonus Facility & Total Expenses)

The above Table#43 presents the clear picture of total amount distributed as bonus facility to the employees of NABIL & NIBL. The ratios of NABIL were seen to be in decreasing trend. It was 11.82% in Fiscal Year 2062/63 which kept on decreasing till 5.04% in Fiscal Year 2067/68. The average of these ratios was 8.38% and CV was 0.27%.

Similarly the ratio of NIBL was in fluctuating trend. It ranged from 6.29% in Fiscal Year 2062/63 till 6.83% in Fiscal Year 2064/65 but then decreased in further Fiscal Years and reached minimum in Fiscal Year 2067/68 as 3.81%. The average of these ratios was 5.80% and CV was 0.18%.

Comparing these two banks we can see that NABIL earned more profit & distributed more bonus to its employees than NIBL as a result motivated its staff towards better performance in future.

The graphical representation of Bonus Facility to Total Expenses ratios of NABIL & NIBL during the study period is presented below:

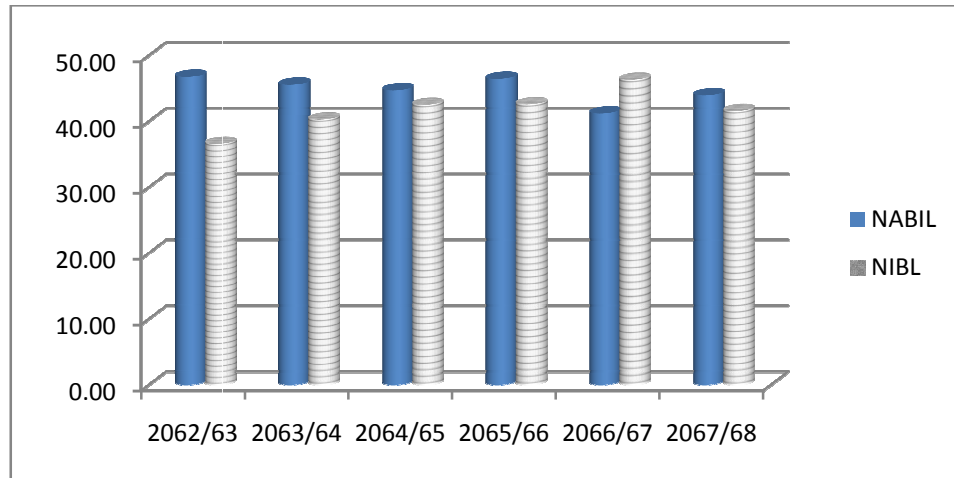


Figure 40

4.1.9 Bankruptcy Score

Bankruptcy score is one of the power and important financial tools to test the condition of any organization whether they can run smoothly or will go bankrupt. To calculate the bankruptcy score by using the ATLMAN'S MULTIVARIATE MODEL. The formula of bankruptcy score is;

Altman's 1st Multivariate Model

$$\text{Bankruptcy score (z)} = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

Altman's 2nd Multivariate Model

$$\text{Bankruptcy score (z)} = 0.717x_1 + 0.84x_2 + 3.10x_3 + 0.420x_4 + 0.988x_5$$

In order to calculate the Bankruptcy Score, first the researcher calculates the following ratios:

Table#41
Net Working Capital to Total Assets Ratio (X₁)

F/Y	NABIL			NIBL		
	Net Working Capital	Total Assets	(X ₁)	Net Working Capital	Total Assets	(X ₁)
2062/63	1,555,908,270	22,329,971,078	0.07	1,460,632,353	21,330,137,542	0.07
2063/64	1,770,154,491	27,253,393,008	0.06	2,031,389,017	27,590,844,761	0.07
2064/65	2,079,159,991	37,132,759,149	0.06	2,977,501,703	38,873,306,084	0.08
2065/66	2,769,251,651	43,867,397,504	0.06	4,216,033,822	53,010,803,126	0.08
2066/67	3,352,745,532	52,079,725,697	0.06	4,960,074,181	57,305,413,482	0.09
2067/68	4,019,164,942	58,141,437,401	0.07	5,101,311,526	58,356,827,501	0.09
Mean	0.06			0.08		
S.D	0.005			0.01		
C.V	0.07			0.09		

(See: Appendix 17 Net Working Capital & 4 for Total Assets)

The above table 44 indicates the Net Working Capital to Total Assets ratios of NABIL and NIBL for sampled 6 consecutive Fiscal Years. The ratios of NABIL showed similar trend for many years. Initially it was 0.07 in Fiscal Year 2062/63 which remained 0.06 in Fiscal Year 2063/64, 2064/65, 2065/66 & 2066/67 but finally reached 0.07 again in Fiscal Year 2067/68.

The ratios of NIBL showed increasing trend. It was 0.07 in Fiscal Year 2062/63 which kept on increasing till it reached 0.09 in Fiscal Year 2067/68.

The mean ratio of NIBL (0.08) is higher than that of NABIL (0.06) which indicated better liquidity position of NIBL than that of NABIL but the lower CV(0.07%) of the ratios of NABIL indicated more uniformity in its ratios.

Table#42
Retained Earning to Total Assets Ratio (X₂)

F/Y	NABIL			NIBL		
	Retained Earning	Total Assets	(X ₂)	Retained Earning	Total Assets	(X ₂)
2062/63	1,383,340,017	22,329,971,078	0.06	824,853,715	21,330,137,542	0.04
2063/64	1,565,395,315	27,253,393,008	0.06	1,076,770,938	27,590,844,761	0.04
2064/65	1,747,982,989	37,132,759,149	0.05	1,482,870,648	38,873,306,084	0.04
2065/66	1,681,620,137	43,867,397,504	0.04	1,500,770,808	53,010,803,126	0.03
2066/67	1,805,452,329	52,079,725,697	0.03	2,176,295,392	57,305,413,482	0.04
2067/68	2,536,747,621	58,141,437,401	0.04	2,148,387,572	58,356,827,501	0.04
Mean	0.05			0.04		
S.D	0.01			0.004		
C.V	0.21			0.10		

(See: Appendix 13 for Retained Earnings & 4 for Total Assets)

Table#45 presents the Retained Earnings to Total Assets ratios of NABIL & NIBL. The ratios of both the banks showed fluctuating trend. The ratio of NABIL was 0.06 in Fiscal Year 2062/63 which reached 0.04 in Fiscal Year 2067/68. The average of these ratios was 0.05 and CV was 0.21%.

Similarly the ratios of NIBL was 0.04 in Fiscal Year 2062/63 which remained constant till Fiscal Year 2064/65 but decreased to 0.03 in Fiscal Year 2065/66 and again increased to 0.04 in Fiscal Year 2066/67 & remained same for Fiscal Year 2067/68. The average of these ratios was 0.04 and CV was 0.10%.

The higher mean of NABIL indicated better profitability position of NABIL in comparison to NIBL. However the higher CV of the ratios indicated less consistency in its ratios.

Table#43
EBIT to Total Assets Ratio (X3)

F/Y	NABIL			NIBL		
	EBIT	Total Assets	(X3)	EBIT	Total Assets	(X3)
2062/63	1,255,165,097	22,329,971,078	0.06	995,861,024	21,330,137,542	0.05
2063/64	1,550,756,070	27,253,393,008	0.06	1,408,905,745	27,590,844,761	0.05
2064/65	1,847,426,216	37,132,759,149	0.05	2,012,118,773	38,873,306,084	0.05
2065/66	2,631,947,762	43,867,397,504	0.06	2,985,574,015	53,010,803,126	0.06
2066/67	3,585,290,678	52,079,725,697	0.07	4,362,058,308	57,305,413,482	0.08
2067/68	4,862,908,905	58,141,437,401	0.08	5,404,087,038	58,356,827,501	0.09
Mean	0.06			0.06		
S.D	0.01			0.02		
C.V	0.18			0.26		

(See: Appendix 13 for Retained Earnings & 4 for Total Assets)

The above table 46 presents the EBIT to Total Assets ratios of two sampled banks. We can see that the ratios of NABIL showed fluctuating trend. It was 0.06 in Fiscal Year 2062/63 which finally reached 0.08 in Fiscal Year 2067/68. The average ratio of NABIL was 0.06 and the CV of the ratios was 0.18%.

Likewise the ratios of NIBL showed increasing trend. Initially it was 0.05 in Fiscal Year 2062/63 which kept on increasing till it reached 0.09 in Fiscal Year 2067/68. The mean ratio was 0.06 and CV was 0.26%.

Comparing these two banks, we can see that the mean ratio of both the banks is same. However the lower CV of NABIL indicates the more consistency in its ratios than that of NIBL.

Table#44
Total Market Value Of Shares to Total Book Value Of Debt Ratio (X4)

F/Y	NABIL			NIBL		
	TMVPS	TBVD	X4	TMVPS	TBVD	X4
2062/63	11,013,058,560	20,454,976,661	0.54	7,441,383,600	19,914,697,827	0.37
2063/64	24,828,547,200	25,196,343,293	0.99	13,855,386,454	25,712,721,223	0.54
2064/65	36,356,144,000	34,695,560,160	1.05	29,495,927,300	36,186,520,036	0.82
2065/66	47,311,945,530	40,737,156,867	1.16	33,410,116,332	49,102,963,418	0.68
2066/67	34,547,116,160	48,245,499,768	0.72	16,984,138,785	52,720,020,390	0.32
2067/68	25,412,712,888	53,487,183,792	0.48	12,406,853,155	53,197,067,804	0.23
Mean	0.82			0.49		
S.D	0.26			0.20		
C.V	0.32			0.41		

(See: Appendix 20 for Total Market Value of Shares & 21 for Total Book Value of Debt)

Table#46 indicates the Total Market Value of Shares to Total Book Value of Debt of sampled banks NABIL and NIBL. The ratios of NABIL showed fluctuating trend. Initially it was 0.54 in Fiscal Year 2062/63 which kept on increasing till 1.16 in Fiscal Year 2065/66 but finally decreased to 0.48 in Fiscal Year 2067/68. The average of the ratios was 0.82 and CV was 0.32%.

Even the ratios of NIBL showed fluctuating trend. It ranged from 0.37 in Fiscal Year 2062/63 to 0.23 in Fiscal Year 2067/68. The average of the ratios 0.49 and CV was 0.41%.

The average ratio of NABIL was greater than that of NIBL which indicated greater ability of NABIL in covering the debt by market value of stock. The lower CV of NABIL (0.32%) indicated more consistency in its ratios as compared to NIBL.

Table#45
Sales to Total Assets Ratio (X5)

F/Y	NABIL			NIBL		
	Sales	Total Assets	(X5)	Sales	Total Assets	(X5)
2062/63	20,835,978,204	22,329,971,078	0.93	18,449,076,686	21,330,137,542	0.86
2063/64	25,054,621,929	27,253,393,008	0.92	24,155,077,376	27,590,844,761	0.88
2064/65	33,257,185,446	37,132,759,149	0.90	33,870,675,883	38,873,306,084	0.87
2065/66	38,969,200,339	43,867,397,504	0.89	43,641,018,258	53,010,803,126	0.82
2066/67	48,987,933,896	52,079,725,697	0.94	48,953,838,187	57,305,413,482	0.85
2067/68	53,567,814,859	58,141,437,401	0.92	48,668,621,044	58,356,827,501	0.83
Mean	0.92			0.85		
S.D	0.02			0.02		
C.V	0.02			0.02		

(See: Appendix 4 for Sales & 8 for Total Assets)

Table 47 presents the Sales to Total Assets ratios of NABIL & NIBL for consecutive six Fiscal Years. The ratios of NABIL ranged from 0.93 in Fiscal Year 2062/63 to 0.92 in Fiscal Year 2067/68. The average of the ratios was 0.92 and CV was 0.02%.

Likewise the ratios of NIBL ranged from 0.86 in Fiscal Year 2062/63 to 0.83 in Fiscal Year 2067/68. The average of the ratios was 0.85 and CV was 0.02%.

Comparing these two banks, we can see that the ratios of both the banks were in fluctuating trend. However the higher mean of the ratios of NABIL indicated that NABIL effectively used more proportion of assets in income generating purpose than that of NIBL. CV of both the banks was same which indicated equal uniformity in their ratios.

Table#46
Bankruptcy Score

Fiscal Year	1st Model		2nd model	
	NABIL	NIBL	NABIL	NIBL
2062/63	1.62	1.38	1.43	1.24
2063/64	1.87	1.51	1.60	1.34
2064/65	1.82	1.68	1.56	1.45
2065/66	1.91	1.55	1.63	1.35
2066/67	1.72	1.46	1.52	1.31
2067/68	1.63	1.44	1.46	1.30

The above table#49 presents the Bankruptcy ratios of NABIL & NIBL from Fiscal Year 2062/63 to 2067/68. As per Altman's First Model, the bankruptcy scores of NABIL were 1.62, 1.87, 1.82, 1.91, 1.72 & 1.63 for Fiscal Year 2062/63 to 2067/68. According to bankruptcy criteria, the probability of failure of NABIL was high in Fiscal Year 2062/63, 2066/67 & 2067/68 since the bankruptcy score was less than 1.81. However the probability of failure was low during Fiscal Year 2063/64, 2064/65 & 2065/66. The highest score of NABIL was in Fiscal Year 2065/66 i.e 1.91. Similarly as per Altman's First Model, the bankruptcy scores of NIBL were 1.38, 1.51, 1.68, 1.55, 1.46 & 1.44 from Fiscal Year 2062/63 to 2067/68. The highest score for NIBL was 1.68 in Fiscal Year 2064/65. As per bankruptcy criteria, the probability of failure of NIBL was high during all sampled Fiscal Years.

According to Altman's Second Model, the bankruptcy score of NABIL were 1.43, 1.60, 1.56, 1.63, 1.52 & 1.46 from Fiscal Year 2062/63 to 2067/68 while bankruptcy score for NIBL were 1.24, 1.34, 1.45, 1.35, 1.31 & 1.30 from Fiscal Year 2062/63 to 2067/68. The bankruptcy scores of both the banks were greater than 1.20 which indicates that both banks show poor condition but they are not in the way to the bankruptcy. The highest score of NABIL was 1.63 in FY 2065/66 while the highest score of NIBL was 1.45 in FY 2064/65.

From the above table of Bankruptcy scores, we can clearly see that the results obtained from 1st and 2nd Model are contradictory to each other. Altman's First Model showed that NABIL showed probability of bankruptcy in some years but as per Altman's Second

Model, NABIL didn't show probability of failure. Similarly in case of NIBL, Altman's First Model showed probability of failure but as per Second Model, NIBL didn't show probability of bankruptcy. Hence, we can say that the analysis of ratios may not show actual situation of bank. The true picture may vary from the data analysis.

The graphical presentation of the bankruptcy score of NABIL & NIBL as per Altman's First & Second Model is as follows:

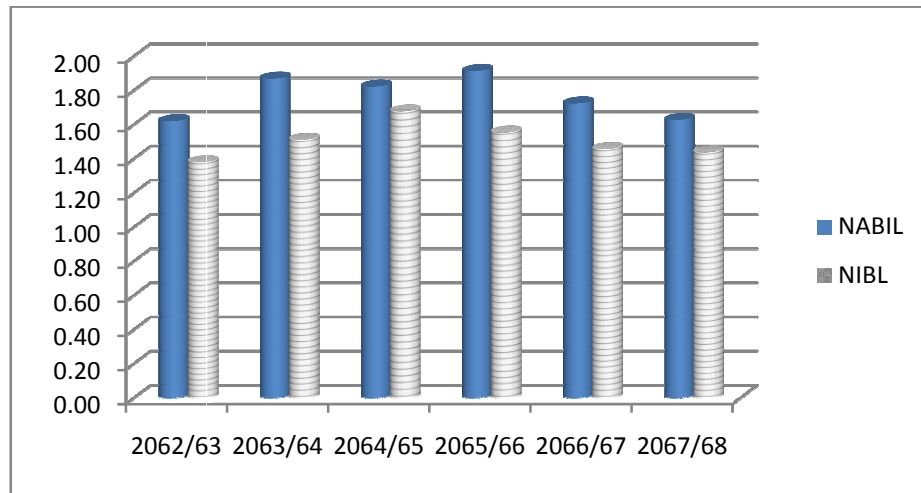


Figure 44 (Altman's First Model)

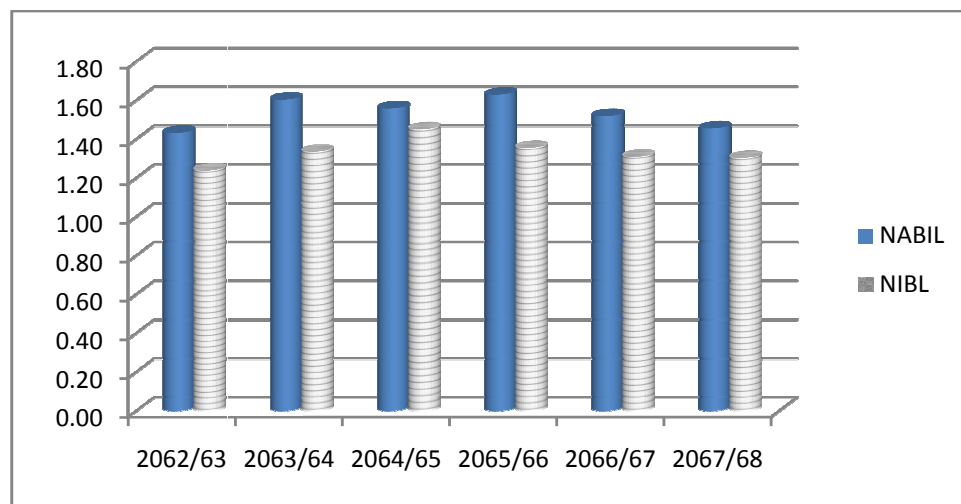


Figure 45 (Altman's Second Model)

CHAPTER - V

SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary

A bank is an institution which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. To the greater extent, economic growth rate is based on the banks and other financial institutions' performance in an economy. Many researchers have revealed that banks and economic condition are two wheels of the same chariot. Nowadays, banking activities are spreading all over the world.

Every country in the world developed or underdeveloped is in pursuit of attaining the goal of rapid economic development in the same way or other depending upon the prevailing prospectus and nature of instrument for economic growth. In this context, commercial banks play the role of financial intermediary collecting the fund from surplus unit (i.e. Investors). The structure of modern economy will be no better than ancient period of better system without financial intermediaries. Therefore, commercial banks play an important role in boosting the national economy. They play the vital role in the affairs of the economy in various ways. Their operations record the economic pulse of the economy. They have played an important role in giving a direction to economy's development over time by financing the requirement of trade and industry in the country. It should not be forgotten that the country can hardly achieve its goal of economic development without strong capital base and commercial banks have pivotal role in forming such base.

Financial performance as part of the financial management is the main indicators of the success or failure of the firm (i.e. Banks). So, the financial performance analysis can be considered as the heart of financial decision for the growth and development of the firm which is directly influenced by its financial policies. There are different persons / institutions that are affected by the financial decision of the firm, stakeholder such as owners, managers, creditors, tax authorities etc are directly interrelated in the final information analysis of the bank's position.

In the financial sectors there are various commercial banks established as joint venture. After implementation of open market policy the joint venture commercial banks are operated as private banks. Till today, there are Commercial Banks across different part of the country. Private sector banks have already made their presences felt in all the development regions with remarkable expansion of economic activities. They have played significant role in economic development of the country. They have introduced new technology in the banking system which has mobilized the saving of community and focused their Services on Commerce, Trade & Industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threat to the banks.

The primary objective of this study is to examine the financial performance of the sampled commercial banks: NABIL & NIBL on the basis of liquidity, profitability, stability and market value. This analysis also helps to provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of its shareholders based on the finding of the study.

The study is mainly based on the secondary data publicly available in the annual report of respective banks. For the study, the five year data of the banks have been pooled starting from Fiscal Year 2062/2063 to Fiscal Year 2067/2068. The collected data of the banks for the study purpose are thoroughly processed, tabulated for the required format; different measures of the data have been calculated using different statistical tools and financial tools with the best effort.

The entire thesis has been classified into five chapters namely, (I) Introduction (II) Review Of Literature (III) Research Methodology (IV) Data presentation And Analysis, and finally (V) Summary, Conclusion And Recommendations. In the first chapter, background, focuses, objectives, limitations, statement of problems are briefly discussed. In second chapter the relevant literature of the topic, articles, books and journals are studied and reviewed. The unpublished theses relating to the subject matter have been reviewed. In third chapter the statistical and financial tools have been studied for the study. The brief explanation of the tools and the logic for using the tools also has been presented. The methodology, research design to be followed, types of data, data collection process,

method of the data collection process, sample and population are presented. The fourth chapter is about the presentation and the analysis of the data, the major findings of the study are presented on the basis of the analysis carried out in the thesis.

The last chapter is about the summary, conclusion and recommendations to the concerned parties are presented. The conclusion and recommendations are extended from the data analysis and computations of different financial and statistical tools are very useful to the banks especially. Thus to follow the recommendation of this work would be a milestone to improve their weak points in future performance and to strengthen their financial presence in the market.

5.2 Major Findings

5.2.1 Summary Of Ratio Analysis

Ratio analysis is one of the important financial tools to analyse the financial performance. The study mainly focused on the ratio analysis.

➤ Liquidity Position

Liquidity means the ability of a business to pay its short-term liabilities. Liquidity Analysis helps to measure the ability of the banks to pay its immediate liabilities. Inability to pay-off short term liabilities affects the credibility as well as credit rating of any organization.

From the data analysis and the major findings drawn, it can be concluded that none of the selected bank has good liquidity position, as the current ratio of each bank in each fiscal year was comparatively lower than the benchmark of 2:1. However, the current ratio of NIBL was highest comparing to that of NABIL. Even the quick ratios of both the banks are below the standard 1:1 depicting low liquidity position but the Quick Ratio of NABIL is higher than that of NIBL.

Similarly NIBL has the policy of keeping highest Cash Reserve ratio and higher proportion of Total Deposits in Investment than NABIL. Likewise on the basis of Saving Deposits to Total Deposits, NRB balance to Current & Saving Deposit Ratio and NRB Balance to Fixed Deposit Ratio, we can conclude that the liquidity position of NIBL is stronger than that of NABIL. Hence, in aggregate it is worthwhile to say that the liquidity position of NIBL is far much better than that of NABIL.

➤ **Turnover Position**

Efficiency Ratios/Activity ratios are employed to evaluate the efficiency with which the firm manage and utilizes its assets. Efficiency ratios, thus, involve a relationship between sales and assets. A proper balance between sales and assets are generally reflects that assets are managed well.

NIBL followed aggressive policy where as NABIL followed moderate policy in mobilizing its Total Deposits and Total Assets in Loans & Advances but NABIL is more efficient in utilizing the Fixed Deposits in Loans & Advances than NIBL. Investment to Total Deposit Ratio and Performing Assets to Total Assets Ratios shows better position of NABIL. NABIL is more successful in utilizing its depositors' fund in investment and utilize its income generating assets more efficiently than that of NIBL.

➤ **Profitability Position**

Profit is the ultimate output of a company and its existence is not justified if it fails to make sufficient profit. Profit maximization and wealth maximization are primary objectives of any organization. Profitability ratios measure the profitability and overall operational efficiency of the firm. It is the device to indicate the financial performance of any institution. Higher profit ratio shows the higher the efficiency of the bank.

The analysis of profitability of these two sampled banks NABIL & NIBL, with the help of profitability ratios have drawn different conclusions. The Net Profit Margin shows that NABIL enjoyed highest portion of net income out of the total sales in the form of interest than NIBL. However, the increasing trend of net profit margin of NIBL indicated better management of controlling cost and increasing interest income. Similarly the Return on Net Worth / Shareholders Equity showed that NABIL remained more successful in efficiently generating net profit with proper mobilization of its total equity capital. Likewise the Return on Total Assets proved efficient utilization of the available resources and Return in Total Deposits Ratio proved good mobilization of deposits by NABIL. However the capacity of utilizing the total assets to generate interest income is higher of NIBL than of NABIL. Similarly the interest income generated by NIBL is higher than the interest paid by it in comparison to NABIL.

➤ **Capital Structure Position**

The Capital Structure or Leverage Ratios measure the long term stability and structure of the firm. These ratios are used to indicate the extent to which a firm has financed its assets with borrowed funds. In other words, Leverage ratio is capital structure ratio which indicates the proportionate relationship between debt and equity.

Debt-Equity Ratio of NIBL is higher than that of NABIL which shows that the capital structure of NIBL is more risky than that of NABIL since higher portion of its Total Capital was financed through Debt.

Similarly Debt-Assets Ratio proves the stronger position of NABIL than that of NIBL. NABIL followed aggressive policy of financing total assets through outside fund.

➤ **Capital Adequacy Position**

Capital Adequacy Ratio measures whether a firm has maintained sufficient capital or not. In other words, it helps to decide whether the existing capital is adequate or there is need of some reforms. This ratio is tested to ensure the safety & stability of firm in long run. Over capitalization and under capitalization both have adverse effect on profitability of the firm.

Both the banks have maintained the standard of Capital Adequacy Ratio as prescribed by NRB which is 10%. However the higher ratio of NABIL indicates its superiority over NIBL in handling any possible risk in future.

➤ **Assets Quality Position**

Assets quality ratios intend to measure the quality of assets owned by the banks. As per Loan Loss Coverage Ratio, we can witness that both banks held comparatively same portion of risky assets. Moreover both banks have been forced to retain greater portion of its income idle as cushion against loans of inferior quality.

Similarly as per Loan Loss Provision to Total Income Ratio & Loan Loss Provision to Total Deposits ratio, we can conclude that NIBL separated more portions of Total Income & Total Deposits as Provision against Bad Loans.

➤ **Other Indicators**

Besides the above-analyzed ratios, some indicators have been tested to have the boarder knowledge of financial performance of the banks. For this, EPS, P/E ratio and MVPS to BVPS have been analyzed.

The EPS represents the amount earned on behalf of each outstanding share of common stock. The EPS of NABIL was much higher than that of NIBL indicating its more profitability position.

Similarly higher Dividend per share of NABIL proved its success to allure the potential shareholders towards it by distributing highest amount of dividend per share than NIBL.

Likewise higher Dividend Yield Ratio of NABIL showed more satisfaction of shareholders towards NABIL than NIBL and higher Price Earning Ratio showed equally higher satisfaction of the Investors of NABIL towards its performance.

Also the higher MVPS to BVPS indicated comparatively stronger management & organization in NABIL than NIBL.

➤ **Summary of Income & Expenditure Analysis**

Operating Income & Expenditure Analysis measures the income as well as expenditure patterns of a firm. This ratio presents the income & expenditure of different nature.

The income analysis indicated that Interest Income and Commission & Discount contributed major portion of the total income of NIBL than that of NABIL while NABIL is more successful in earning income through foreign exchange than NABIL. Likewise the income from sales of collaterals, revaluations, rent, etc was higher of NABIL than that of NIBL.

The expenditure analysis showed that Interest Expenses covered major portion of the expense of NIBL while Staff expenses covered major part of the total expenses of NABIL while lower General Expenses of NABIL indicated that it was more successful in decreasing its General Expenses and efficient in performing its operation. Similarly, Bonus Expenses of NABIL was higher than that of NIBL as it earned more profit and distributed more bonuses to its employees.

➤ **Summary of Bankruptcy Test**

Bankruptcy score is one of the power and important financial tools to test the condition of any organization whether they can run smoothly or will go bankrupt. Altman's Multivariate Model has been used to test the bankruptcy of sampled banks. As per Altman's First Model, NABIL shows poor condition in some years while NIBL shows poor condition in all sampled years but as per Altman's Second Model, both the sampled banks do not seem to be on the way to bankruptcy.

5.3 Conclusions

Based on the findings from Financial Ratios, following conclusions have been drawn:

- The Liquidity Analysis reveals that none of the selected bank has good liquidity position, as the current ratio of each bank in each fiscal year was comparatively lower than the benchmark of 2:1. Even the quick ratios of both the banks were below the standard 1:1. However the liquidity position of NIBL was far much better than that of NABIL.
- Efficiency Ratio Analysis reveals overall good position of NABIL than that of NIBL. NABIL is more successful in utilizing its depositors' fund in investment and utilize its income generating assets more efficiently than NIBL. NIBL followed aggressive policy in mobilizing its Total Deposits in Loan & Advances while NABIL followed aggressive policy in mobilizing its Fixed Deposits in Loan & Advances.
- Profitability Analysis indicates that NABIL enjoyed higher profit, proper utilization of available resources & equity capital which resulted in the better profitability and overall operational efficiency of NABIL in comparison to NIBL.
- Capital Structure / Leverage Ratio Analysis indicates the risky capital structure of NIBL since higher portion of its Total Capital was financed through debt while NABIL followed aggressive policy of financing total assets through outside fund.
- Capital Adequacy Analysis shows that both the banks maintained the standard set by NRB i.e 10%.
- Assets Quality Analysis reveals that both the banks have been forced to retain greater portion of its income as cushion against loans of inferior quality though NIBL maintained more provision against Bad Loans than NABIL.

- EPS, DPS, Dividend Yield Ratio & MVPS to BVPS indicated comparatively stronger management & organization in NABIL than NIBL.
- Interest Income and Commission & Discount contributed as major source of Income for NIBL while Foreign Exchange Income covered major portion of total income of NABIL besides income from other sources.
- Interest Expenses & General Expenses were major expenses for NIBL while Staff Expenses & Bonus Expenses were major expenses for NABIL.
- The Bankruptcy analysis from Altman's Second Model showed better situation of the sampled banks than the analysis from First Model.

5.4 Recommendations

On the basis of analysis concluded in previous chapters, following recommendations & suggestions have been drawn which could be possibly helpful for sampled banks to improve their future performance:

- Both the banks need to maintain the prescribed standard of liquidity since it may create problems to meet short-term obligations on demand. Hence both the banks are recommended to maintain adequate net working capital.
- NIBL has maintained remarkably higher NRB Balance to Total Deposits ratio than the standard prescribed by NRB while NABIL has fluctuating trend regarding the standard. Hence NABIL is recommended to maintain the standard as prescribed by NRB while NIBL is recommended to lower the ratio and invest the surplus fund in other current assets such as loan & advances, bills purchased, money at call etc since the fund tied with NRB cannot yield good return.
- The banks have employed considerably greater portion of debt in their capital. Hence they must be aware of the risk factors that may arise in future & should adopt suitable measures to minimize such risks.
- Both the banks have retained greater portion of their Total Income as cushion against riskier loans but NIBL has maintained higher provisions against Bad Loans. Hence both the banks, especially NIBL has to take necessary steps to minimize Bad Loans in future.

- NIBL has to focus more on stronger management & organization structure so as to improve its profitability, satisfy its shareholders and attract more potential investors in future.
- NABIL is recommended to set different interest rates as well as focus on different banking services to its customers so as to increase its Interest Income and Commission & Discount while NIBL is recommended to focus on foreign exchange income so as to generate more revenue.
- Since General Expenses & Interest Expenses cover major portion of expenses of NIBL, it is recommended to take necessary steps to reduce these expenses while NABIL has to focus towards reducing the extra expenses incurred for Staff.
- The true bankruptcy situation of the sampled banks might be different than the bankruptcy score from the Altman's Multivariate Model since the results derived from Altman's First Model contradicts with the results derived from Second Model.

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Appendix-A

Appendix 1

Calculation of Total Current Assets of NABIL Bank Ltd.

S.No	Current Assets	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Cash Balance	237,818,512	270,406,987	511,426,584	674,395,434	635,986,600	744,592,259
2	Balance with Nepal Rastra Bank	318,358,771	1,113,415,436	1,829,470,769	2,648,596,348	549,454,618	1,473,986,407
3	Balance with Banks/Financial Institutions	74,061,305	16,003,428	330,243,702	49,520,689	214,656,586	217,970,918
4	Money at Call and Short Notice	1,734,901,943	563,532,632	1,952,360,700	552,888,297	3,118,144,000	2,452,511,778
5	Investment	6,178,533,108	8,945,310,567	9,939,771,428	10,826,379,001	13,600,916,613	13,081,205,527
	Total Quick Assets	8,543,673,639	10,908,669,050	14,563,273,183	14,751,779,769	18,119,158,417	17,970,266,889
6	Loans, Advances and Bills Purchased	12,922,543,153	15,545,778,730	21,365,053,318	27,589,933,041	32,268,873,283	38,034,097,554
7	Other Assets	544,668,139	512,050,004	606,393,650	864,695,708	910,213,600	1,201,984,291
	Total	22,010,884,931	26,966,497,784	36,534,720,151	43,206,408,518	51,298,245,300	57,206,348,734

Source: Five Year Annual Report of NABIL Bank Ltd.

Assumption: Other Assets are treated as Current Assets

Calculation of Total Current Assets of Nepal Investment Bank Ltd.

S.No	Current Assets	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Cash Balance	562,560,620	763,984,320	1,464,482,719	1,833,462,494	1,525,441,872	1,718,665,705
2	Balance with Nepal Rastra Bank	1,526,066,660	1,381,351,556	1,820,006,035	4,411,133,083	3,237,217,030	4,009,459,910
3	Balance with Banks/Financial Institutions	247,894,116	296,178,324	470,452,814	1,673,408,313	2,053,230,931	2,412,245,017
4	Money at Call and Short Notice	70,000,000	362,970,000	0	0	0	150,000,000
5	Investment	5,602,868,649	6,505,679,987	6,874,023,625	7,399,811,700	8,635,530,125	7,423,106,525
	Total Quick Assets	7,761,495,929	9,310,164,187	10,628,965,193	15,317,815,590	15,451,419,958	15,713,477,157
6	Loans, Advances and Bills Purchased	12,776,208,037	17,286,427,389	26,996,652,258	36,241,206,558	40,318,308,062	41,095,514,519
7	Other Assets	201,089,825	233,671,849	276,846,874	390,653,496	399,438,143	439,387,654
	Total	20,738,793,791	26,830,263,425	37,902,464,325	51,949,675,644	56,169,166,163	57,248,379,330

Source: Five Year Annual Report of Nepal Investment Bank Ltd.

Assumption: Other Assets are treated as Current Assets

Appendix 2

Calculation of Total Current Liabilities of NABIL Bank Ltd.

S.No	Current Liabilities	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Borrowings	173,201,710	882,572,500	1,360,000,000	1,681,305,000	74,900,000	1,650,599,178
2	Deposits	19,347,399,440	23,342,285,327	31,915,047,467	37,348,255,840	46,340,700,628	49,608,376,346
3	Bills Payable	92,536,853	83,514,820	238,421,890	463,138,615	425,443,908	415,767,753
4	Proposed Dividend	435,084,062	509,417,925	437,373,004	338,011,450	434,737,200	608,930,820
5	Income Tax Liabilities	34,604,855	-	38,776,869	80,232,454	24,904,405	44,104,071
6	Other Liabilities	372,149,741	378,552,721	465,940,930	526,213,508	644,813,627	859,405,624
	Total	20,454,976,661	25,196,343,293	34,455,560,160	40,437,156,867	47,945,499,768	53,187,183,792

Source: Five Year Annual Report of NABIL Bank Ltd.

Assumption: Other Liabilities are treated as Current Liabilities

Appendix 2

Calculation of Total Current Liabilities of Nepal Investment Bank Ltd.

S.No	Current Liabilities	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Borrowings	0	0	0	38,800,000	37,314,826	280,764,000
2	Deposits Liabilities	18,927,305,974	24,488,855,696	34,451,726,191	46,698,100,065	50,094,725,497	50,138,122,242
3	Bills Payable	18,820,120	32,401,462	78,838,643	82,338,018	38,143,836	8,250,415
4	Proposed & Dividend Payable	121,626,997	43,650,251	93,468,245	485,453,507	602,274,425	602,274,425
5	Income Tax Liabilities	9,318,522	295,150	24,082,669	38,296,736	37,195,255	0
6	Other Liabilities	287,626,214	347,518,664	488,404,288	709,975,092	860,366,551	1,117,656,722
	Total	19,364,697,827	24,912,721,223	35,136,520,036	48,052,963,418	51,670,020,390	52,147,067,804

Source: Five Year Annual Report of Nepal Investment Bank Ltd.

Assumption: Other Liabilities are treated as Current Liabilities

Appendix 3

Calculation of Cash & Bank Balance of NABIL Bank Ltd.

S.No	Cash & Bank Balance	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Cash Balance	237,818,512	270,406,987	511,426,584	674,395,434	635,986,600	744,592,259
2	Balance with Nepal Rastra Bank	318,358,771	1,113,415,436	1,829,470,769	2,648,596,348	549,454,618	1,473,986,407
3	Balance with Banks/Financial Institutions	74,061,305	16,003,428	330,243,702	49,520,689	214,656,586	217,970,918
4	Money at Call & Short Notice	1,734,901,943	563,532,632	1,952,360,700	552,888,297	3,118,144,000	2,452,511,778
	Total	2,365,140,531	1,963,358,483	4,623,501,755	3,925,400,768	4,518,241,804	4,889,061,362

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 3

Calculation of Cash & Bank Balance of Nepal Investment Bank Ltd.

S.No	Cash & Bank Balance	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Cash Balance	562,560,620	763,984,320	1,464,482,719	1,833,462,494	1,525,441,872	1,718,665,705
2	Balance with Nepal Rastra Bank	1,526,066,660	1,381,351,556	1,820,006,035	4,411,133,083	3,237,217,030	4,009,459,910
3	Balance with Banks/Financial Institutions	247,894,116	296,178,324	470,452,814	1,673,408,313	2,053,230,931	2,412,245,017
4	Money at Call and Short Notice	70,000,000	362,970,000	0	0	0	150,000,000
	Total	2,406,521,396	2,804,484,200	3,754,941,568	7,918,003,890	6,815,889,833	8,290,370,632

Source: Five Year Annual Report of Nepal Investment Bank Ltd.

Appendix 4

Calculation of Total Assets of NABIL Bank Ltd.

S.No	Total Assets	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Cash Balance	237,818,512	270,406,987	511,426,584	674,395,434	635,986,600	744,592,259
2	Balance with Nepal Rastra Bank	318,358,771	1,113,415,436	1,829,470,769	2,648,596,348	549,454,618	1,473,986,407
3	Balance with Banks/Financial Institutions	74,061,305	16,003,428	330,243,702	49,520,689	214,656,586	217,970,918
4	Money at Call and Short Notice	1,734,901,943	563,532,632	1,952,360,700	552,888,297	3,118,144,000	2,452,511,778
5	Investment	6,178,533,108	8,945,310,567	9,939,771,428	10,826,379,001	13,600,916,613	13,081,205,527
6	Loans, Advances and Bills Purchased	12,922,543,153	15,545,778,730	21,365,053,318	27,589,933,041	32,268,873,283	38,034,097,554
7	Fixed Assets	319,086,147	286,895,224	598,038,998	660,988,986	781,480,397	935,088,667
8	Non Banking Assets	0	0	0	0	0	0
9	Other Assets	544,668,139	512,050,004	606,393,650	864,695,708	910,213,600	1,201,984,291
	Total	22,329,971,078	27,253,393,008	37,132,759,149	43,867,397,504	52,079,725,697	58,141,437,401

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 4

Calculation of Total Assets of Nepal Investment Bank Ltd.

S.No	Total Assets	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Cash Balance	562,560,620	763,984,320	1,464,482,719	1,833,462,494	1,525,441,872	1,718,665,705
2	Balance with Nepal Rastra Bank	1,526,066,660	1,381,351,556	1,820,006,035	4,411,133,083	3,237,217,030	4,009,459,910
3	Balance with Banks/Financial Institutions	247,894,116	296,178,324	470,452,814	1,673,408,313	2,053,230,931	2,412,245,017
4	Money at Call and Short Notice	70,000,000	362,970,000	0	0	0	150,000,000
5	Investment	5,602,868,649	6,505,679,987	6,874,023,625	7,399,811,700	8,635,530,125	7,423,106,525
6	Loans, Advances and Bills Purchased	12,776,208,037	17,286,427,389	26,996,652,258	36,241,206,558	40,318,308,062	41,095,514,519
7	Fixed Assets	343,449,635	759,456,336	970,091,759	1,060,752,482	1,136,247,319	1,108,448,171
8	Non Banking Assets	0	1,125,000	750,000	375,000	0	0
9	Other Assets	201,089,825	233,671,849	276,846,874	390,653,496	399,438,143	439,387,654
	Total	21,330,137,542	27,590,844,761	38,873,306,084	53,010,803,126	57,305,413,482	58,356,827,501

Source: Five Year Annual Report of Nepal Investment Bank Ltd.

Appendix 5

Calculation of Total Investment of NABIL Bank Ltd.

S.No	Total Assets	Fiscal Year					
		2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
1	Nepal Government Treasury Bills	1,222,468,660	4,085,835,004	3,788,386,842	1,838,819,440	5,865,884,661	6,489,954,971
2	Nepal Government Other Securities	1,078,994,678	722,513,499	858,496,294	1,867,283,222	2,075,671,779	2,255,275,527
3	Foreign Bonds	0	0	0	272,428,764	186,999,085	178,059,588
4	Local Licensed Institutions	65,704,000	12,500,000	0	77,900,000	0	305,352,000
5	Foreign Banks	3,706,940,518	3,846,194,711	4,993,890,816	6,732,829,457	5,391,118,185	3,661,739,877
6	Organized Institutions' Shares	27,563,000	57,853,000	80,551,900	82,501,900	159,857,000	192,489,000
7	Organized Institutions' Bonds & Debentures	76,629,082	229,104,542	242,684,400	0	0	0
8	Other Investments:						
	NCM Mutual Fund	1,257,000	1,257,000	1,257,000	1,257,000	1,257,000	1,257,000
	SWIFT Investment	1,101,170	1,050,916	1,294,956	1,785,753	1,581,114	1,640,373
	Total Investment	6,180,658,108	8,956,308,672	9,966,562,208	10,874,805,536	13,682,368,824	13,085,768,336
	Provision	2,125,000	10,998,105	26,790,780	48,426,535	11,452,210	4,562,809
	Net Investment	6,178,533,108	8,945,310,567	9,939,771,428	10,826,379,001	13,670,916,614	13,081,205,527

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 5

Calculation of Total Investment of Nepal Investment Bank Ltd.

S.No	Total Assets	Fiscal Year					
		2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
1	Nepal Government Treasury Bills	2,522,300,000	3,256,400,000	3,155,000,000	2,531,300,000	3,911,850,000	3,564,600,000
2	Nepal Government Savings Bond	0	0	0	0	290,000,000	730,000,000
3	Nepal Government Other Securities	0	0	0	0	0	0
4	Nepal Rastra Bank Bonds	0	0	0	0	0	0
5	Foreign Securities	0	0	0	0	0	0
6	Local Licensed Institutions	0	0	0	0	370,000,000	361,590,000
7	Foreign Banks	3,043,118,268	3,194,387,763	3,664,478,125	4,807,541,200	4,000,334,625	2,695,954,925
8	Corporate Shares	17,738,000	35,253,000	59,945,500	64,270,500	66,645,500	72,911,600
9	Corporate Bonds & Debentures	0	0	0	0	0	0
10	Other Investments:	19,712,381	19,639,224	0	0	0	0
	Total Investment	5,602,868,649	6,505,679,987	6,879,423,625	7,403,111,700	8,638,830,125	7,425,056,525
	Provision	0	0	5,400,000	3,300,000	3,300,000	1,950,000
	Net Investment	5,602,868,649	6,505,679,987	6,874,023,625	7,399,811,700	8,635,530,125	7,427,006,525

Source: Five Year Annual Report of Nepal Investment Bank Ltd.

Appendix 6

Calculation of Loans, Advances and Bills Purchase of NABIL Bank Ltd.

S.No	Particulars	Fiscal Year					
		2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
1	Loans, Advances and Bills Purchased	13,278,782,259	15,903,023,765	21,759,460,334	27,999,012,071	33,030,968,688	38,905,487,889
	Risky Assets	13,278,782,259	15,903,023,765	21,759,460,334	27,999,012,071	33,030,968,688	38,905,487,889
Less	Loan Loss Provision	356,239,106	357,245,035	394,407,016	409,079,030	762,095,405	871,390,335
	Loan, Advances and Bills Purchased (Net)	12,922,543,153	15,545,778,730	21,365,053,318	27,589,933,041	32,268,873,283	38,034,097,554

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 6

Calculation of Loans, Advances and Bills Purchase of Nepal Investment Bank Ltd.

S.No	Particulars	Fiscal Year					
		2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
1	Loans, Advances and Bills Purchased	13,178,151,824	17,769,099,903	27,529,304,736	36,827,157,409	40,948,440,033	41,887,693,911
	Risky Assets	13,178,151,824	17,769,099,903	27,529,304,736	36,827,157,409	40,948,440,033	41,887,693,911
Less	Loan Loss Provision	401,943,787	482,672,514	532,652,478	585,950,852	630,131,971	792,179,392
	Loan, Advances and Bills Purchased (Net)	12,776,208,037	17,286,427,389	26,996,652,258	36,241,206,557	40,318,308,062	41,095,514,519

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 7

Calculation of Performing Assets of NABIL Bank Ltd.

S.No	Total Assets	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Money at Call and Short Notice	1,734,901,943	563,532,632	1,952,360,700	552,888,297	3,118,144,000	2,452,511,778
2	Investment	6,178,533,108	8,945,310,567	9,939,771,428	10,826,379,001	13,600,916,613	13,081,205,527
3	Loans, Advances and Bills Purchased	12,922,543,153	15,545,778,730	21,365,053,318	27,589,933,041	32,268,873,283	38,034,097,554
	Total	20,835,978,204	25,054,621,929	33,257,185,446	38,969,200,339	48,987,933,896	53,567,814,859

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 7

Calculation of Performing Assets of Nepal Investment Bank Ltd.

S.No	Total Assets	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Money at Call and Short Notice	70,000,000	362,970,000	0	0	0	150,000,000
2	Investment	5,602,868,649	6,505,679,987	6,874,023,625	7,399,811,700	8,635,530,125	7,423,106,525
3	Loans, Advances and Bills Purchased	12,776,208,037	17,286,427,389	26,996,652,258	36,241,206,558	40,318,308,062	41,095,514,519
	Total	18,449,076,686	24,155,077,376	33,870,675,883	43,641,018,258	48,953,838,187	48,668,621,044

Source: Five Year Annual Report of Nepal Investment Bank Ltd.

Appendix 8

Calculation of Total Assets of NABIL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Cash Balance	237,818,512	270,406,987	511,426,584	674,395,434	635,986,600	744,592,259
2	Balance with Nepal Rastra Bank	318,358,771	1,113,415,436	1,829,470,769	2,648,596,348	549,454,618	1,473,986,407
3	Balance with Banks/Financial Institutions	74,061,305	16,003,428	330,243,702	49,520,689	214,656,586	217,970,918
4	Money at Call and Short Notice	1,734,901,943	563,532,632	1,952,360,700	552,888,297	3,118,144,000	2,452,511,778
5	Investment	6,178,533,108	8,945,310,567	9,939,771,428	10,826,379,001	13,600,916,613	13,081,205,527
6	Loans, Advances and Bills Purchased	12,922,543,153	15,545,778,730	21,365,053,318	27,589,933,041	32,268,873,283	38,034,097,554
7	Fixed Assets	319,086,147	286,895,224	598,038,998	660,988,986	781,480,397	935,088,667
8	Non Banking Assets	0	0	0	0	0	0
9	Other Assets	544,668,139	512,050,004	606,393,650	864,695,708	910,213,600	1,201,984,291
	Total Assets	22,329,971,078	27,253,393,008	37,132,759,149	43,867,397,504	52,079,725,697	58,141,437,401

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 8

Calculation of Total Assets of Nepal Investment Bank Ltd. Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Cash Balance	562,560,620	763,984,320	1,464,482,719	1,833,462,494	1,525,441,872	1,718,665,705
2	Balance with Nepal Rastra Bank	1,526,066,660	1,381,351,556	1,820,006,035	4,411,133,083	3,237,217,030	4,009,459,910
3	Balance with Banks/Financial Institutions	247,894,116	296,178,324	470,452,814	1,673,408,313	2,053,230,931	2,412,245,017
4	Money at Call and Short Notice	70,000,000	362,970,000	0	0	0	150,000,000
5	Investment	5,602,868,649	6,505,679,987	6,874,023,625	7,399,811,700	8,635,530,125	7,423,106,525
6	Loans, Advances and Bills Purchased	12,776,208,037	17,286,427,389	26,996,652,258	36,241,206,558	40,318,308,062	41,095,514,519
7	Fixed Assets	343,449,635	759,456,336	970,091,759	1,060,752,482	1,136,247,319	1,108,448,171
8	Non Banking Assets	0	1,125,000	750,000	375,000	0	0
9	Other Assets	201,089,825	233,671,849	276,846,874	390,653,496	399,438,143	439,387,654
	Total Assets	21,330,137,542	27,590,844,761	38,873,306,084	53,010,803,126	57,305,413,482	58,356,827,501

Source: Five Year Annual Report of Nepal Investment Bank Ltd. Bank Ltd.

Appendix 9

Calculation of Total Liabilities of NABIL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Share Capital	491,654,400	491,654,400	689,216,000	1,448,620,500	2,028,773,600	2,029,769,400
2	Reserves and Surplus	1,383,340,017	1,565,395,315	1,747,982,989	1,681,620,137	1,805,980,925	2,536,747,621
3	Debentures & Bonds	0	0	240,000,000	300,000,000	300,000,000	300,000,000
4	Borrowings	173,201,710	882,572,500	1,360,000,000	1,681,305,000	74,900,000	1,650,599,178
5	Deposits	19,347,399,440	23,342,285,327	31,915,047,467	37,348,255,840	46,410,700,628	49,696,112,934
6	Bills Payable	92,536,853	83,514,820	238,421,890	463,138,615	425,443,908	415,767,753
7	Proposed Dividend	435,084,062	509,417,925	437,373,004	338,011,450	434,737,200	608,930,820
8	Income Tax Liabilities	34,604,855	0	38,776,869	80,232,454	24,904,405	44,104,071
9	Other Liabilities	372,149,741	378,552,721	465,940,930	526,213,508	644,796,677	859,405,624
	Total Liabilities	22,329,971,078	27,253,393,008	37,132,759,149	43,867,397,504	52,150,237,343	58,141,437,401

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 9

Calculation of Total Liabilities of Nepal Investment Bank Ltd. Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Share Capital	590,586,000	801,352,600	1,203,915,400	2,407,068,900	2,409,097,700	3,011,372,125
2	Reserves and Surplus	824,853,715	1,076,770,938	1,482,870,648	1,500,770,808	2,176,295,392	2,148,387,572
3	Debentures & Bonds	550,000,000	800,000,000	1,050,000,000	1,050,000,000	1,050,000,000	1,050,000,000
4	Borrowings	0	0	0	38,800,000	37,314,826	280,764,000
5	Deposits	18,927,305,974	24,488,855,696	34,451,726,191	46,698,100,065	50,094,725,497	50,138,122,242
6	Bills Payable	18,820,120	32,401,462	78,838,643	82,338,018	38,143,836	8,250,415
7	Proposed Dividend	121,626,997	43,650,251	93,468,245	485,453,507	602,274,425	602,274,425
8	Income Tax Liabilities	9,318,522	295,150	24,082,669	38,296,736	37,195,255	0
9	Other Liabilities	287,626,214	347,518,664	488,404,288	709,975,092	860,366,551	1,117,656,722
	Total Liabilities	21,330,137,542	27,590,844,761	38,873,306,084	53,010,803,126	57,305,413,482	58,356,827,501

Source: Five Year Annual Report of Nepal Investment Bank Ltd. Bank Ltd.

Appendix 10

Calculation of Total Deposits of NABIL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Interest Free Deposits						
	Current Deposits	2,910,589,772	3,395,239,772	5,284,368,064	5,480,533,468	7,904,619,852	5,456,894,633
	Margin Deposits	322,899,810	312,060,101	361,782,186	463,015,109	629,857,093	581,913,590
	Other Deposits	42,896,336	50,807,875	81,404,000	35,320,250	86,421,605	417,910,840
	Total Interest Free Deposits	3,276,385,918	3,758,107,748	5,727,554,250	5,978,868,827	8,620,898,550	6,456,719,063
2	Interest Bearing Deposits						
	Saving Deposits	8,770,759,429	10,187,354,402	12,159,966,430	14,620,407,308	13,783,585,962	14,288,520,136
	Fixed Deposits	3,449,094,149	5,435,189,720	8,464,086,113	8,310,708,297	14,711,158,487	16,840,831,154
	Call Deposits	3,851,159,944	3,961,633,457	5,563,440,674	8,438,271,408	9,295,057,629	12,110,042,581
	Certificate of Deposit	0	0	0	0	0	0
	Total Interest Bearing Deposits	16,071,013,522	19,584,177,579	26,187,493,217	31,369,387,013	37,789,802,078	43,239,393,871
	Total Deposits	19,347,399,440	23,342,285,327	31,915,047,467	37,348,255,840	46,410,700,628	49,696,112,934

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 10

Calculation of Total Deposits of Nepal Investment Bank Ltd. Bank Ltd.

S.No	Particulars	Fiscal Year					2067/698
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Interest Free Deposits						
	Current Deposits	1,705,668,495	2,175,029,657	3,138,669,428	3,756,570,350	4,025,820,180	4,042,693,205
	Margin Deposits	278,475,822	371,662,100	607,062,707	727,990,479	779,474,631	658,802,903
	Other Deposits	0	0	0	0	0	0
	Total Interest Free Deposits	1,984,144,317	2,546,691,757	3,745,732,135	4,484,560,829	4,805,294,811	4,701,496,108
2	Interest Bearing Deposits						
	Saving Deposits	8,081,980,502	10,742,331,625	13,688,766,549	17,066,252,467	14,324,255,897	13,490,307,280
	Fixed Deposits	5,412,969,595	7,516,686,866	7,944,232,558	11,633,380,218	16,825,148,284	18,378,300,034
	Call Deposits	3,448,211,560	3,683,145,448	9,072,994,949	13,513,906,551	14,140,026,504	13,568,018,819
	Certificate of Deposit	0	0	0	0	0	0
	Total Interest Bearing Deposits	16,943,161,657	21,942,163,939	30,705,994,056	42,213,539,236	45,289,430,685	45,436,626,133
	Total Deposits	18,927,305,974	24,488,855,696	34,451,726,191	46,698,100,065	50,094,725,496	50,138,122,241

Source: Five Year Annual Report of Nepal Investment Bank Ltd. Bank Ltd.

Appendix 11

Calculation of Interest Paid by NABIL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
	Interest on Fixed Deposits	118,349,889	199,008,172	286,245,774	460,035,293	833,543,448	1,581,554,131
	Interest on Savings Deposits	139,749,884	202,360,936	240,048,184	298,455,772	526,604,922	596,104,342
	Interest on Call Deposits	87,866,995	131,760,586	161,870,541	303,182,118	499,397,626	734,040,041
1	Total Interest on Deposits	345,966,768	533,129,694	688,164,499	1,061,673,183	1,859,545,996	2,911,698,514
	Interest on Debentures & Bonds	0	0	104,212	25,366,951	25,569,863	25,500,000
	Interest on Loan from Nepal Rastra Bank	1,622,910	4,397,338	25,550,634	34,187,887	55,188,570	7,388,681
	Interest on Inter Bank/Financial Institutions B	9,571,626	18,183,077	44,616,867	32,052,031	19,803,473	10,843,551
2	Total Interest on Borrowings	11,194,536	22,580,415	70,271,713	91,606,869	100,561,906	43,732,232
	Total Interest Expenses	357,161,304	555,710,109	758,436,212	1,153,280,052	1,960,107,902	2,955,430,746

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 11

Calculation of Interest Paid by Nepal Investment Bank Ltd. Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
	Interest on Fixed Deposits	178,304,647	275,506,932	402,825,021	436,489,351	1,248,185,647	1,907,159,238
	Interest on Savings Deposits	169,172,822	218,633,807	285,919,261	380,818,232	450,806,780	549,947,989
	Interest on Call Deposits	115,179,541	150,893,826	227,628,454	779,364,798	703,474,251	1,054,513,864
1	Total Interest on Deposits	462,657,010	645,034,565	916,372,736	1,596,672,381	2,402,466,678	3,511,621,091
	Interest on Debentures & Bonds	23,578,503	38,543,997	53,703,668	73,230,918	73,313,452	58,971,576
	Interest on Loan from Nepal Rastra Bank	0	0	0	0	0	0
	Interest on Inter Bank/Financial Institutions	4,689,315	1,951,702	22,081,994	17,069,831	78,067,367	49,744,030
2	Total Interest on Borrowings	28,267,818	40,495,699	75,785,662	90,300,749	151,380,819	108,715,606
3	Other Interest	22,133	0	0	0	0	0
	Total Interest Expenses	490,946,961	685,530,264	992,158,398	1,686,973,130	2,553,847,497	3,620,336,697

Source: Five Year Annual Report of Nepal Investment Bank Ltd. Bank Ltd.

Appendix 12

Calculation of Interest Received by NABIL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Interest on Loans, Advances and Overdraft	986,231,566	1,167,255,366	1,496,243,925	2,182,646,650	3,368,727,546	4,479,060,057
2	Interest on Investment	147,861,828	152,005,445	214,177,944	290,360,349	397,084,682	565,079,088
3	Interest on Agency Functions	3,299,933	4,844,709	3,549,683	900,164	60,792	68,862
4	Interest on Money at Call and Short Notice	39,482,145	62,940,438	35,414,812	16,659,695	40,774,139	48,472,932
5	Other Interest	133,123,028	200,712,756	229,310,363	307,919,338	241,078,498	161,349,519
	Total Interest Income Received	1,309,998,500	1,587,758,714	1,978,696,727	2,798,486,196	4,047,725,657	5,254,030,458

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 12

Calculation of Interest Received by Nepal Investment Bank Ltd. Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Interest on Loans, Advances and Overdraft	964,689,365	1,302,121,998	1,907,261,454	2,906,054,774	4,303,311,186	5,435,842,729
2	Interest on Investment	82,420,193	78,493,544	99,991,095	140,697,625	169,619,945	258,386,887
3	Interest on Agency Functions	7,858,831	10,126,583	8,892,605	6,826,224	429,399	574,063
4	Interest on Money at Call and Short Notice	106,421,948	183,067,186	161,035,500	175,142,952	120,237,282	40,425,256
5	Other Interest	11,351,856	11,178,043	17,095,068	39,219,567	59,923,526	68,211,239
	Total Interest Income Received	1,172,742,193	1,584,987,354	2,194,275,722	3,267,941,142	4,653,521,338	5,803,440,174

Source: Five Year Annual Report of Nepal Investment Bank Ltd. Bank Ltd.

Appendix 13

Calculation of Net Worth of NABIL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Total Assets	22,329,971,078	27,253,393,008	37,132,759,149	43,867,397,504	52,079,725,697	58,141,437,401
	Debentures & Bonds	0	0	240,000,000	300,000,000	300,000,000	300,000,000
	Borrowings	173,201,710	882,572,500	1,360,000,000	1,681,305,000	74,900,000	1,650,599,178
	Deposits	19,347,399,440	23,342,285,327	31,915,047,467	37,348,255,840	46,340,700,628	49,696,112,934
	Bills Payable	92,536,853	83,514,820	238,421,890	463,138,615	425,443,908	415,767,753
	Proposed Dividend	435,084,062	509,417,925	437,373,004	338,011,450	434,737,200	608,930,820
	Income Tax Liabilities	34,604,855	0	38,776,869	80,232,454	24,904,405	44,104,071
	Other Liabilities	372,149,741	378,552,721	465,940,930	526,213,508	644,813,627	859,405,624
2	Total Liabilities	20,454,976,661	25,196,343,293	34,695,560,160	40,737,156,867	48,245,499,768	53,574,920,380
	Net Worth (Assets - Liabilities)	1,874,994,417	2,057,049,715	2,437,198,989	3,130,240,637	3,834,225,929	4,566,517,021
3	Share Capital	491,654,400	491,654,400	689,216,000	1,448,620,500	2,028,773,600	2,029,769,400
4	Reserves and Surplus	1,383,340,017	1,565,395,315	1,747,982,989	1,681,620,137	1,805,452,329	2,536,747,621
	Shareholders' Equity	1,874,994,417	2,057,049,715	2,437,198,989	3,130,240,637	3,834,225,929	4,566,517,021
	No of Common Share	4,916,544	4,916,544	6,892,160	9,657,470	14,491,240	20,297,694
	Net Worth Per Share	381	418	354	324	265	225

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 13

Calculation of Net Worth of Nepal Investment Bank Ltd. Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Total Assets	21,330,137,542	27,590,844,761	38,873,306,084	53,010,803,126	57,305,413,482	58,356,827,501
	Debentures & Bonds	550,000,000	800,000,000	1,050,000,000	1,050,000,000	1,050,000,000	1,050,000,000
	Borrowings	0	0	0	38,800,000	37,314,826	280,764,000
	Deposits	18,927,305,974	24,488,855,696	34,451,726,191	46,698,100,065	50,094,725,497	50,138,122,242
	Bills Payable	18,820,120	32,401,462	78,838,643	82,338,018	38,143,836	8,250,415
	Proposed Dividend	121,626,997	43,650,251	93,468,245	485,453,507	602,274,425	602,274,425
	Income Tax Liabilities	9,318,522	295,150	24,082,669	38,296,736	37,195,255	0
	Other Liabilities	287,626,214	347,518,664	488,404,288	709,975,092	860,366,551	1,117,656,722
2	Total Liabilities	19,914,697,827	25,712,721,223	36,186,520,036	49,102,963,418	52,720,020,390	53,197,067,804
	Net Worth (Assets - Liabilities)	1,415,439,715	1,878,123,538	2,686,786,048	3,907,839,708	4,585,393,092	5,159,759,697
3	Share Capital	590,586,000	801,352,600	1,203,915,400	2,407,068,900	2,409,097,700	3,011,372,125
4	Reserves and Surplus	824,853,715	1,076,770,938	1,482,870,648	1,500,770,808	2,176,295,392	2,148,387,572
	Shareholders' Equity	1,415,439,715	1,878,123,538	2,686,786,048	3,907,839,708	4,585,393,092	5,159,759,697
	No of Common Share	5,905,860	8,013,526	12,039,154	24,070,689	24,090,977	24,090,977
	Net Worth Per Share	240	234	223	162	190	214

Source: Five Year Annual Report of Nepal Investment Bank Ltd. Bank Ltd.

Appendix 14

Calculation of Short-Term Deposits of NABIL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
	Total Deposits	19,347,399,440	23,342,285,327	31,915,047,467	37,348,255,840	46,410,700,628	49,696,112,934
	Less Fixed Deposits	3,449,094,149	5,435,189,720	8,464,086,113	8,310,708,297	14,711,158,487	16,840,831,154
	Short-Term Deposits	15,898,305,291	17,907,095,607	23,450,961,354	29,037,547,543	31,699,542,141	32,855,281,780

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 14

Calculation of Short-Term Deposits of Nepal Investment Bank Ltd. Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
	Total Deposits	18,927,305,974	24,488,855,696	34,451,726,191	46,698,100,065	50,094,725,496	50,138,122,242
	Less Fixed Deposits	5,412,969,595	7,516,686,866	7,944,232,558	11,633,380,218	16,825,148,284	18,378,300,034
	Short-Term Deposits	13,514,336,379	16,972,168,830	26,507,493,633	35,064,719,847	33,269,577,212	31,759,822,208

Source: Five Year Annual Report of Nepal Investment Bank Ltd. Bank Ltd.

Appendix 15

Profit & Loss A/C of NABIL Bank Ltd.

S.No	Total Assets	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Interest Income	1,309,998,500	1,587,758,714	1,978,696,727	2,798,486,196	4,047,725,656	5,254,030,458
2	Interest Expenses	357,161,304	555,710,109	758,436,212	1,153,280,052	1,960,107,902	2,955,430,746
	Net Interest Income	952,837,196	1,032,048,605	1,220,260,515	1,645,206,144	2,087,617,754	2,298,599,712
3	Commission & Discount	138,293,913	150,608,550	156,234,754	179,693,027	215,481,543	290,855,057
4	Other Operating Income	82,897,862	87,574,553	97,444,578	144,164,143	169,548,006	180,570,347
5	Exchange Income	185,483,662	209,926,167	196,487,415	251,919,712	291,440,756	276,102,798
	Total Operating Income	1,359,512,633	1,480,157,875	1,670,427,262	2,220,983,026	2,764,088,059	3,046,127,914
6	Staff Expense	219,780,853	240,161,275	262,907,576	339,897,913	366,940,054	454,041,892
7	Other Operating Expense	182,696,413	188,183,330	220,750,570	265,158,033	334,186,212	401,425,357
8	Exchange Loss	0	0	0	0	0	0
	Operating Profit before Provision for Possib	957,035,367	1,051,813,270	1,186,769,116	1,615,927,080	2,062,961,793	2,190,660,665
9	Provision for Possible Losses	3,769,541	14,206,365	64,055,186	45,722,434	355,829,115	109,470,414
	Operating Profit	953,265,826	1,037,606,905	1,122,713,930	1,570,204,646	1,707,132,678	2,081,190,251
10	Non Operating Income / (Expense)	735,324	5,280,641	24,083,737	2,190,102	6,454,724	6,981,078
11	Provision for Possible Losses Write Back	7,729,444	10,926,317	11,100,529	10,617,867	39,791,809	7,101,374
	Profit from Regular Activities	961,730,594	1,053,813,863	1,157,898,196	1,583,012,615	1,753,379,211	2,095,272,703
12	Income/(Expense) from Extra-ordinary Activit	26,073,578	40,736,694	39,990,808	43,521,866	34,321,843	3,148,475
	Profit from All Activities	987,804,172	1,094,550,557	1,197,889,004	1,626,534,481	1,787,701,054	2,098,421,178
13	Provision for Staff bonus	89,800,379	99,504,596	108,899,000	147,866,771	162,518,278	190,943,019
14	Provision for Income Tax	262,741,444	321,086,263	342,521,610	447,614,612	486,083,379	569,732,674
	Current Tax	262,562,561	314,526,570	342,468,738	470,701,921	472,823,385	568,508,522
	Prior Period Tax	178,883	6,559,693	52,872	918,745	831,939	212,364
	Deferred Tax	0	0	0	-24,006,054	12,428,055	1,011,788
	Net Profit / (Loss)	635,262,349	673,959,698	746,468,394	1,031,053,098	1,139,099,397	1,337,745,485

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 15

Profit & Loss A/C of Nepal Investment Bank Ltd. Bank Ltd.

S.No	Total Assets	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Interest Income	1,172,742,193	1,584,987,354	2,194,275,722	3,267,941,142	4,653,521,338	5,803,440,174
2	Interest Expenses	490,946,961	685,530,264	992,158,398	1,686,973,130	2,553,847,497	3,620,336,697
	Net Interest Income	681,795,232	899,457,090	1,202,117,324	1,580,968,012	2,099,673,841	2,183,103,477
3	Commission & Discount	115,942,016	163,899,110	215,292,193	262,791,664	242,886,274	269,429,160
4	Other Operating Income	35,902,340	47,318,720	66,376,659	87,574,794	168,312,660	152,984,768
5	Exchange Income	125,747,407	135,355,345	165,838,748	185,327,111	224,056,830	228,076,344
	Total Operating Income	959,386,995	1,246,030,265	1,649,624,924	2,116,661,581	2,734,929,605	2,833,593,749
6	Staff Expense	120,663,710	145,370,601	187,149,985	225,721,490	279,851,360	326,543,424
7	Other Operating Expense	190,605,132	243,430,632	313,153,795	413,883,755	433,596,280	456,056,633
8	Exchange Loss	0	0	0	0	0	0
	Operating Profit before Provision for Possib	648,118,153	857,229,032	1,149,321,144	1,477,056,336	2,021,481,965	2,050,993,692
9	Provision for Possible Losses	103,807,589	129,718,921	135,989,237	166,201,383	93,056,584	267,331,490
	Operating Profit	544,310,564	727,510,111	1,013,331,907	1,310,854,953	1,928,425,381	1,783,662,202
10	Non Operating Income / (Expense)	390,742	1,426,134	7,047,735	2,953,012	10,606,049	8,396,361
11	Provision for Possible Losses Write Back	10,704,164	66,776,784	101,576,771	114,653,009	50,000,462	106,634,071
	Profit from Regular Activities	555,405,470	795,713,029	1,121,956,413	1,428,460,974	1,989,031,892	1,898,692,634
12	Income/(Expense) from Extra-ordinary Activit	0	0	0	0	0	52,860,618
	Profit from All Activities	555,405,470	795,713,029	1,121,956,413	1,428,460,974	1,989,031,892	1,845,832,016
13	Provision for Staff bonus	50,491,407	72,337,548	101,996,038	129,860,089	180,821,081	167,802,911
14	Provision for Income Tax	154,377,650	221,976,628	319,346,179	397,981,814	542,261,223	501,388,075
	Current Tax	-154,377,650	-221,976,628	-321,287,519	-389,580,266	-532,898,521	-500,359,900
	Prior Period Tax	0	0	0	7,477,673	0	0
	Deferred Tax	0	0	-1,941,340	-15,879,221	-9,362,702	-1,028,175
	Net Profit / (Loss)	350,536,413	501,398,853	700,614,196	900,619,071	1,265,949,588	1,176,641,030

Source: Five Year Annual Report of Nepal Investment Bank Ltd. Bank Ltd.

Appendix 16

Calculation of Current & Savings Deposits of NABIL Bank Ltd.

S.No	Total Assets	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Current Deposits	2,910,589,772	3,395,239,772	5,284,368,064	5,480,533,468	7,904,619,852	5,456,894,633
2	Saving Deposits	8,770,759,429	10,187,354,402	12,159,966,430	14,620,407,308	13,783,585,962	14,288,520,136
	Total Current & Savings Deposits	11,681,349,201	13,582,594,174	17,444,334,494	20,100,940,776	21,688,205,814	19,745,414,769

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 16

Calculation of Current & Savings Deposits of Nepal Investment Bank Ltd. Bank Ltd.

S.No	Total Assets	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Current Deposits	1,705,668,495	2,175,029,657	3,138,669,428	3,756,570,350	4,025,820,180	4,042,693,205
2	Saving Deposits	8,081,980,502	10,742,331,625	13,688,766,549	17,066,252,467	14,324,255,897	13,490,307,280
	Total Current & Savings Deposits	9,787,648,997	12,917,361,282	16,827,435,977	20,822,822,817	18,350,076,077	17,533,000,485

Source: Five Year Annual Report of Nepal Investment Bank Ltd. Bank Ltd.

Appendix 17

Calculation of Working Capital of NABIL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Current Assets	22,010,884,931	26,966,497,784	36,534,720,151	43,206,408,518	51,298,245,300	57,206,348,734
2	Current Liabilities	20,454,976,661	25,196,343,293	34,455,560,160	40,437,156,867	47,945,499,768	53,187,183,792
	Net Working Capital (1-2)	1,555,908,270	1,770,154,491	2,079,159,991	2,769,251,651	3,352,745,532	4,019,164,942

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 17

Calculation of Working Capital of Nepal Investment Bank Ltd. Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Current Assets	20,537,703,966	26,596,591,576	37,625,617,451	51,559,022,148	55,769,728,020	57,248,379,330
2	Current Liabilities	19,077,071,613	24,565,202,559	34,648,115,748	47,342,988,326	50,809,653,839	52,147,067,804
	Net Working Capital (1-2)	1,460,632,353	2,031,389,017	2,977,501,703	4,216,033,822	4,960,074,181	5,101,311,526

Source: Five Year Annual Report of Nepal Investment Bank Ltd. Bank Ltd.

Appendix 18

Calculation of Total Expenses of NABIL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Interest Expenses	357,161,304	555,710,109	758,436,212	1,153,280,052	1,960,107,902	2,946,691,281
2	Staff Expenses	219,780,853	240,161,275	262,907,576	339,897,913	366,940,054	455,616,099
3	Other Operating Expenses	182,696,413	188,183,330	220,750,570	265,158,033	334,186,212	403,992,554
	Total Expenses	759,638,570	984,054,714	1,242,094,358	1,758,335,998	2,661,234,168	3,806,299,934

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 18

Calculation of Total Interest Expenses of NIBL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Interest Expenses	490,946,961	685,530,264	992,158,398	1,686,973,130	2,553,847,497	3,620,336,697
2	Staff Expenses	120,663,710	145,370,601	187,149,985	225,721,490	279,851,360	326,543,424
3	Other Operating Expenses	190,605,132	243,430,632	313,153,795	413,883,755	433,596,280	456,056,633
	Total Interest Expenses	802,215,803	1,074,331,497	1,492,462,178	2,326,578,375	3,267,295,137	4,402,936,754

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 19

Profit & Loss A/C of NABIL Bank Ltd.

S.No	Total Assets	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Interest Income	1,309,998,500	1,587,758,714	1,978,696,727	2,798,486,196	4,047,725,656	5,254,030,458
2	Commission & Discount	138,293,913	150,608,550	156,234,754	179,693,027	215,481,543	290,855,057
3	Other Operating Income	82,897,862	87,574,553	97,444,578	144,164,143	169,548,006	180,570,347
4	Non Operating Income / (Expense)	735,324	5,280,641	24,083,737	2,190,102	6,454,724	6,981,078
5	Exchange Income	185,483,662	209,926,167	196,487,415	251,919,712	291,440,756	276,102,798
6	Provision for Possible Losses Write Back	7,729,444	10,926,317	11,100,529	10,617,867	39,791,809	7,101,374
7	Income/(Expense) from Extra-ordinary Activit	26,073,578	40,736,694	39,990,808	43,521,866	34,321,843	3,148,475
	Total Income	1,751,212,283	2,092,811,636	2,504,038,548	3,430,592,913	4,804,764,337	6,018,789,587
8	Interest Expenses	357,161,304	555,710,109	758,436,212	1,153,280,052	1,960,107,902	2,955,430,746
9	Staff Expense	219,780,853	240,161,275	262,907,576	339,897,913	366,940,054	454,041,892
10	Other Operating Expense	182,696,413	188,183,330	220,750,570	265,158,033	334,186,212	401,425,357
11	Provision for Staff bonus	89,800,379	99,504,596	108,899,000	147,866,771	162,518,278	190,943,019
12	Exchange Loss	0	0	0	0	0	0
	Total Expenses	849,438,949	1,083,559,310	1,350,993,358	1,906,202,769	2,823,752,446	4,001,841,014
	Net Profit Before Tax and Provision	901,773,334	1,009,252,326	1,153,045,190	1,524,390,144	1,981,011,891	2,016,948,573
13	Provision for Possible Losses	3,769,541	14,206,365	64,055,186	45,722,434	355,829,115	109,470,414
14	Provision for Income Tax	262,741,444	321,086,263	342,521,610	447,614,612	486,083,379	569,732,674
	Net Profit After Tax	635,262,349	673,959,698	746,468,394	1,031,053,098	1,139,099,397	1,337,745,485
15	Income Tax	262,741,444	321,086,263	342,521,610	447,614,612	486,083,379	569,732,674
	Profit Before Tax	898,003,793	995,045,961	1,088,990,004	1,478,667,710	1,625,182,776	1,907,478,159
16	Interest Paid	357,161,304	555,710,109	758,436,212	1,153,280,052	1,960,107,902	2,955,430,746
	Earning Before Interest and Tax	1,255,165,097	1,550,756,070	1,847,426,216	2,631,947,762	3,585,290,678	4,862,908,905

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 19

Profit & Loss A/C of Nepal Investment Bank Ltd. Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Interest Income	1,172,742,193	1,584,987,354	2,194,275,722	3,267,941,142	4,653,521,338	5,803,440,174
2	Commission & Discount	115,942,016	163,899,110	215,292,193	262,791,664	242,886,274	269,429,160
3	Other Operating Income	35,902,340	47,318,720	66,376,659	87,574,794	168,312,660	152,984,768
4	Non Operating Income / (Expense)	390,742	1,426,134	7,047,735	2,953,012	10,606,049	8,396,361
5	Exchange Income	125,747,407	135,355,345	165,838,748	185,327,111	224,056,830	228,076,344
6	Provision for Possible Losses Write Back	10,704,164	66,776,784	101,576,771	114,653,009	50,000,462	106,634,071
7	Income/(Expense) from Extra-ordinary Activit	0	0	0	0	0	52,860,618
	Total Income	1,461,428,862	1,999,763,447	2,750,407,828	3,921,240,732	5,349,383,613	6,621,821,496
8	Interest Expenses	490,946,961	685,530,264	992,158,398	1,686,973,130	2,553,847,497	3,620,336,697
9	Staff Expense	120,663,710	145,370,601	187,149,985	225,721,490	279,851,360	326,543,424
10	Other Operating Expense	190,605,132	243,430,632	313,153,795	413,883,755	433,596,280	456,056,633
11	Provision for Staff bonus	50,491,407	72,337,548	101,996,038	129,860,089	180,821,081	167,802,911
12	Exchange Loss	0	0	0	0	0	0
	Total Expenses	852,707,210	1,146,669,045	1,594,458,216	2,456,438,464	3,448,116,218	4,570,739,665
	Net Profit Before Tax and Provision	608,721,652	853,094,402	1,155,949,612	1,464,802,268	1,901,267,395	2,051,081,831
13	Provision for Possible Losses	103,807,589	129,718,921	135,989,237	166,201,383	93,056,584	267,331,490
14	Provision for Income Tax	154,377,650	221,976,628	319,346,179	397,981,814	542,261,223	501,388,075
	Net Profit After Tax	350,536,413	501,398,853	700,614,196	900,619,071	1,265,949,588	1,282,362,266
15	Income Tax	154,377,650	221,976,628	319,346,179	397,981,814	542,261,223	501,388,075
	Profit Before Tax	504,914,063	723,375,481	1,019,960,375	1,298,600,885	1,808,210,811	1,783,750,341
16	Interest Paid	490,946,961	685,530,264	992,158,398	1,686,973,130	2,553,847,497	3,620,336,697
	Earning Before Interest and Tax	995,861,024	1,408,905,745	2,012,118,773	2,985,574,015	4,362,058,308	5,404,087,038

Source: Five Year Annual Report of Nepal Investment Bank Ltd. Bank Ltd.

Appendix 20

Total Market Value of Shares of NABIL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
	Market Value Per Share	2,240	5,050	5,275	4,899	2,384	1,252
	Total Shares	4,916,544	4,916,544	6,892,160	9,657,470	14,491,240	20,297,694
	Total Market Value of Shares	11,013,058,560.00	24,828,547,200.00	36,356,144,000.00	47,311,945,530.00	34,547,116,160.00	25,412,712,888.00

Source: Five Year Annual Report of NABIL Bank Ltd.

Appendix 20

Total Market Value of Shares of NIBL Bank Ltd.

S.No	Particulars	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
	Market Value Per Share	1,260	1,729	2,450	1,388	705	515
	Total Shares	5,905,860	8,013,526	12,039,154	24,070,689	24,090,977	24,090,977
	Total Market Value of Shares	7,441,383,600.00	13,855,386,454.00	29,495,927,300.00	33,410,116,332.00	16,984,138,785.00	12,406,853,155.00

Appendix 21

Calculation of Total Book Value of Debt of NABIL Bank Ltd.

S.No	Current Liabilities	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Debentures & Bonds	0	0	240,000,000	300,000,000	300,000,000	300,000,000
2	Borrowings	173,201,710	882,572,500	1,360,000,000	1,681,305,000	74,900,000	1,650,599,178
3	Deposits	19,347,399,440	23,342,285,327	31,915,047,467	37,348,255,840	46,340,700,628	49,608,376,346
4	Bills Payable	92,536,853	83,514,820	238,421,890	463,138,615	425,443,908	415,767,753
5	Proposed Dividend	435,084,062	509,417,925	437,373,004	338,011,450	434,737,200	608,930,820
6	Income Tax Liabilities	34,604,855	-	38,776,869	80,232,454	24,904,405	44,104,071
7	Other Liabilities	372,149,741	378,552,721	465,940,930	526,213,508	644,813,627	859,405,624
	Total	20,454,976,661	25,196,343,293	34,695,560,160	40,737,156,867	48,245,499,768	53,487,183,792

Source: Five Year Annual Report of NABIL Bank Ltd.

Assumption: Other Liabilities are treated as Current Liabilities

Appendix 21

Calculation of Total Book Value of Debt of Nepal Investment Bank Ltd.

S.No	Current Liabilities	Fiscal Year					2067/68
		2062/63	2063/64	2064/65	2065/66	2066/67	
1	Debentures & Bonds	550,000,000	800,000,000	1,050,000,000	1,050,000,000	1,050,000,000	1,050,000,000
2	Borrowings	0	0	0	38,800,000	37,314,826	280,764,000
3	Deposits Liabilities	18,927,305,974	24,488,855,696	34,451,726,191	46,698,100,065	50,094,725,497	50,138,122,242
4	Bills Payable	18,820,120	32,401,462	78,838,643	82,338,018	38,143,836	8,250,415
5	Proposed & Dividend Payable	121,626,997	43,650,251	93,468,245	485,453,507	602,274,425	602,274,425
6	Income Tax Liabilities	9,318,522	295,150	24,082,669	38,296,736	37,195,255	0
7	Other Liabilities	287,626,214	347,518,664	488,404,288	709,975,092	860,366,551	1,117,656,722
	Total	19,914,697,827	25,712,721,223	36,186,520,036	49,102,963,418	52,720,020,390	53,197,067,804

Source: Five Year Annual Report of Nepal Investment Bank Ltd.

Assumption: Other Liabilities are treated as Current Liabilities

Appendix- B

Growth of Financial Institutions in Nepal

Types of Financial Institutions	Mid - July											
	1980	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011
Commercial Banks	2	3	5	10	13	17	18	20	25	26	27	31
Development Banks	2	2	2	3	7	26	28	38	58	63	79	87
Finance Companies				21	45	60	70	74	78	77	79	79
Micro-finance Development Banks				4	7	11	11	12	12	15	18	21
Saving & Credit Cooperatives Limited (Banking Activities)				6	19	20	19	17	16	16	15	16
NGOs (Financial Intermediaries)					7	47	47	47	46	45	45	38
Total	4	5	7	44	98	181	193	208	235	242	263	272