CHAPTER – I

INTRODUCTION

1.1 General Background

Every organization depends on number of factors, so they should give prime concern to those factors. Therefore one of the major determinants for effective running of a business entity is its financial operation system. Optimum utilization of the organization's financial resources, leads the organization to the ultimate target fulfillment so it is very important to analyze the accounting and financial statements to know the financial position of the organization. Financial statements are prepared for the purpose of presenting a periodical review or report on the progress by the management and deal with the states of the investment in the business and result achieved during the period under reviews. The statement which shows results achieved during the period is known as profit and loss account

Bank in general means an institution that deals with money. Concept of banking had developed from the ancient history as with the effort of ancient history with the effort of ancient goldsmith who practiced storing people's gold and valuables "bank" was originated from French word "Banque". Banks play vital role for domestic resource mobilization and economic development of a country. Origin of traditional banking is traced bank to the Babylonians and Athenians period but the first modern banks are the bank of Venice (1171), are the bank of Geneva (1320) and the bank of Amstordam (1609).

The commercial banks are those banks which pool together the saving of the community and arrange for their productive use. Commercial banks supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand or on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing. The first commercial bank was "Bank of England" (1694), Central bank of Britain. The commercial bank has its own role and contribution on the economic development and it is a source for economic development and it maintains economic confidence of various segments and extends credit to people.

Economic development in Nepal, in real sense, started only after Rana regime. In the late period of Rana regime, some positive attempts were made. As a result, "Udyog parishad" got its existence in 1935 AD Biratnagar Jute Mill in 1936 AD and Raghupati Jute Mill in 1946 AD. Just before the break of the Second World

War a twenty year plan was announced and National planning committee was set up in 1949 AD. But plan never came to the notice of people and this idea disappeared with the dissolution of national planning committee. In early 1950s Nepal began the process of economic and social development in spite of the lack of modern institutions and infrastructures. Budgeting system was introduced in 1952 AD (2008 BS). In the same year, a separate ministry for planning and development was established for uplifting the nation. It is forty four years since the first five year plan was executed. Up to now, nine successive plans have already been implemented and tenth plan is running. A cursory look at these plans shows that the major focus has been laid on agro-sector, industrial sector and in the field of infrastructural development.

Economic stabilization program, adopted in 2042BS with the assistance of IMF can be taken as the beginning of economic liberalization in Nepal. Structural adjustment program brought in 2044BS with the structural adjustment facility from IMF can be considered as the continuation of same policy. After the restoration of multiparty system the first elected government (2047 BS) encouraged the process of globalization. In order to accelerate the process of economic liberalization and globalization, the government enforced the 'Foreign Investment and Technology Transfer Act, 2049 and foreign investment and one window policy, 2049. As per the arrangement in policies, license should be taken from the related department for technology transfer. Technology can be transferred in case of cottage industries with the fixed asset constituting up to the twenty million rupees.

Likewise, the government implied 'Industrial Enterprises Act, 2049', and formulated new 'Industrial Policy, 2049' and 'Commercial Policy, 2049'. The government enforced the 'Privatization Act, 2050' including its regulation and guidelines. The government developed various criteria for promoting private sector organizations. They include management contract, partial privatization, and lease contract asset selling and selling of share. In case, the public enterprises are to be privatized, the government has the policy of selling 5% of share to the employees of enterprise 25% to the general public and management shares to the competent party or individuals.

Those policies have certainly contributed in the initial stage of globalization in the country. Their effectiveness can be measured in near future in terms of economy generating issues and enhancing overall GNP and GDP of the country. Since last decade, there has been a considerable growth in service sector activities in Nepal including a sharp increase in banking insurance, transportation, airlines, finance companies, co-operatives societies, hydro power centers etc.

1.2 Development of Banking System in Nepal

The concept of financial institutions in Nepal dates back more than sixty years. In 1994 BS first commercial bank, Nepal Bank Limited was established under the 'Banking Act, 1993'. The government provided 61% equity of the bank and the promoters shared the rest. Nepal Rastra Bank, the central bank emerged in 2013 BS under 'Rastra Bank Act, 2012 BS'. Since then, it has been providing policies and guideline to the financial sectors in on hands and on the other hand, it is monitoring and controlling them. After realizing the need of adequate banking services for the integrated and speedy development of industrial sector, Rastriya Banijya Bank came into existence in 2022 BS with 100% government equity. After the established of Agricultural Development Bank in 2024 BS, growth of banking institutions remained almost stagnant till 2040 BS. No new banks opened in this period though some branches of previously established bank were extended. Liberalization policy of government formulated in 2038 BS allowed private sectors to open joint venture banks in foreign collaboration. Nepal Arab Bank Limited becomes the first commercial bank to register under new arrangement. The bank started its operation since 2041 BS. It is an associate of Dubai Bank Limited, UAE and Nepalese promoters. Nepal Indosuez Bank Limited and Nepal Grind Lays Bank Limited were other joint venture banks established afterwards.

After restoration of multiparty democracy in the country, the government formulated new policies along with amendment of existing policies so as to accelerate the process of economic liberalization and globalization. As a consequence, other six JVBs came in existence. Nepal Bank of Ceylon Limited has been the youngest one till now. There were 26 commercial banks in the country as on mid Jun, 2004. The number of commercial banks branches (including Agricultural development banks branches performing commercial banking activities) reached 425. These banks attempted to introduce foreign management skills, technical know-how and foreign capital. This situation created and environment of healthy competition among the existing financial institutions. The following table shows the commercial banks and their head office.

Table No. 1.1 List of licensed Commercial Banks

S.N	Name of Commercial Banks
1	Nepal Bank Limited
2	Rastriya Banijya Bank
3	NABIL Bank Limited
4	Nepal Investment Bank Limited
5	Standard Chartered Bank Limited
6	Himalayan Bank Limited
7	Nepal SBI Bank Limited
8	Nepal Bangladesh Bank Limited
9	Everest Bank Limited
10	Bank of Kathmandu Limited
11	Nepal Credit and Commerce Bank Limited
12	Lumbini Bank Limited
13	Kumari Bank Limited
14	Nepal Industrial and Commercial Bank Limited
15	Laxmi Bank Limited
16	Machhapuchhre Bank Limited
17	Siddhartha Bank Limited
18	Global Bank Limited
19	Citizen Bank Limited
20	Prime Bank Limited
21	Sunrise Bank Limited
22	NMB Bank Limited
23	Bank of Asia Limited
24	Agricultural Development Bank
25	Development Credit Bank Limited
26	Kist Bank Limited
27	Janata Bank Limited
28	Mega Bank Limited

Source: www.nrb.org.np

The present study focuses on the financial efficiency analysis of Nepal Investment Bank limited. For this purpose, the study evaluates the position of the bank with respect to liquidity, leverage, capital adequacy, turnover and profitability and tests the relationship between various variables.

1.3 Profile of Nepal Investment Bank Limited (NIBL)

There are many commercial banks in Nepal's financial market. Nepal Investment Bank is previously known as Nepal Indosuez Bank Limited. Nepal Investment Bank Ltd, the second joint venture bank in Nepal was established in 1986. It was established in the collaboration with Banques Indosuez paris with 50%

shareholding and Nepalese financial institution. The overall management used to be handled by foreign counterpart.

The bank has 40 branches. And bank's target is to open up to 50 branches all over the country. The bank witnessed encouraging recognition from the market of the new name and management. Bank has been able to enhance its services to its customers by providing them extended banking hours and keeping the bank open for 365 days. The products of the bank, namely vehicle financing, Ezee saving scheme and Locker services, received favourable responses from the market. Bank has been awarded "Bank of the Year 2003", " Bank of the year 2005" "Bank of The Year 2008" by the London based Financial Times Group's The banker, Making it the first all Nepali managed bank ever to received the award. The bank was selected for these honors because it meets the stringent criteria set by the banker. The award is based on the growth and performance in terms of capital, assets, and return on equity and management quality.

It was judged as the best bank in Nepal by The Banker's editorial team which consists of high profile senior business and banking figures. The bank has implemented its own financial switch system which provided online transaction from different delivery channels such as ATM, POS terminals. The bank set another milestone in introducing updated technology by launching and international "VISA ELECTRON DEBIT CARD" the first of its kind in Nepal, which will provide convenient banking to customers. The card will also give easy access to cash at the bank's ATMs as well as at other bank's ATMs and payments at merchants establishments having POS terminals.

The first non-government bank to launch loan against gold and silver. It has so far issued over 220000 cards making it the leader in the industry with in a span of over one and half year. The bank recently launched the 'premier Banking cell' that caters to its high net worth clients and renders consultancy services in taxation, legal, insurance and travel and tours, NIBL has also started a concept of '15 minute banking for the convenience of its customers. Besides these the effort to introduce updated technology and to deliver to customers the best services, will in near future, introduce and international Credit Card (VISA) for which all preliminary arrangement, namely searing of membership, approval etc. have already achieved. Bank expects to launch the credit cards with in fiscal year and an application has also been forwarded to Master card for acquiring and issuing business. The bank is planning to lunch E-banking and mobile banking and planning to become the member of International "master card'.

As at July 2004, the member of staff increased to 766 out of which 327 are female staffs, staff having completed more than 10 years of service are 71 the bank

continuous to provide job related training, both in house and externally to improve the skills and knowledge of staff. At present, there is no foreign investment in it. All the shares are owned by the Nepalese shareholders.

50% of the capital is held by group of companies

15% of the capital is held by Rastriya Banijya Bank

15% of the capital is held by Rastriya Beema Sanastha

20% by general public

1.4 Statement of the Problem

The main challenge to the commercial banks at present is the competition. The commercial banks of Nepal can be classified into two groups' domestic commercial banks and joint venture foreign banks. Domestic commercial banks are facing maximum competition compared to the joint venture foreign banks due to their nature of work and social responsibility. Increase opportunities in the banking market stemming from privatization and liberalization greater integration with the global economy and dismantling of credit ceiling will be accompanied by an increase in cost of funds and a new volatility in the cost and nature of the funds base. It is the low cost producer that will be able to meet the challenge and capitalize opportunities. N short, liability management shall play a key role in absorbing the risk and opportunities. This will represent a significant departure of asset management where the major concentration and emphasis is made by our traditional banks.

Creating liabilities products will go in hand with creativity towards meeting customer needs on the asset side of the balance sheet, because managing cost in itself will be a key determinant have successfully a bank can respond to market needs.

The research is carried out in order to look into the weakness and inefficiencies of Nepal Investment Bank Limited with the help of the financial efficiency analysis of this bank. With the background the present study will attempt to make assessment on the problems and recommend solution regarding the above mentioned ground as follows:

1. How sound is the operational result in relation to their profitability?
2. To what extent Nepal Investment Bank Ltd has been able to shift the monetary resources from the saver to users?
3. Is return provided by NIBL bearing risk level satisfied?

4. Can NIBL meet its short term obligation?
5. What is the position of bank in terms of liquidity, profitability, leverage and activities ratio?
6. To identify the problems and prospect associate with NIBL?

1.5 Objectives of the Study

The main objective of the study is to examine, analyze and interpret the financial efficiency of Nepal Investment Bank Limited with the help of ratio analysis and other necessary portfolios. The specific objectives of the study are as follows:

1. To analyze the financial performance of NIBL in terms DPS, EPS, MPS, R/E etc.
2. To examine, how the NIBL has been meeting its short-term obligation.
3. To analyze the risk and return of NIBL.
4. To know the profitability of NIBL.
5. To provide suggestions and recommendations for improving the financial efficiency of NIBL.

1.6 Significance of the Study

Regarding the economic structure of the country the bank does not have sufficient investment opportunities. The continuous changes which are taking place in the economic and financial milieu of the country, creates the threat to the commercial banks. In this context, the financial analysis would analyze strength, weakness, opportunities and threats of the commercial banks.

The result of the research will be helpful for commercial banks for sampled one to formulate strategies to solve the problems of the following sectors:

1. Ensuring that the banks attract quality management and service.
2. Building their capacity for creating products in different areas of operation.
3. Protecting and building up their deposit base.
4. Enhancing their ability for providing services as per customer needs.
5. Strengthening their ability to manage credit in a sound way as well as maintaining compatibility to the privatization, joint venture, industrial policies of the country.

1.7 Limitations of the Study:

The study has been conducted as partial fulfillment of the requirement of the "Master's Degree of Business Studies." Therefore, the study has following limitations:

1. Time, budget and resources are the major limitation for a student.
2. Out of 28 commercial banks, the study is limited only in the financial performance of Nepal Investment Bank Limited. The analysis period of research covers only last 7 years form fiscal year 2002/03 to 2008/09
3. Research is based on the data of NIBL.
4. Due to availability of limited information, this study will not cover every parts of the financial performance aspects.

1.8 Chapter Plan

The present study 'Financial Efficiency of Nepal Investment Bank Limited' has been organized into five chapters. A brief textual outline of each of the five chapters is depicted below.

Chapter I: INTRODUCTION

This Chapter is introductory in nature and includes General Background, Development of Banking System in Nepal, Profile of NIBL, Statement of the problem, Objective of the Study, significance of the Study, Limitation of the Study, and Chapter Plan.

Chapter II: REVIEW OF LITERATURE

This chapter reviews the existing literatures. It incorporates Conceptual Review, Review of Legalization related to Commercial Banks, Bank and Financial Institution Ordinance Review of Thesis, and Research Gap.

Chapter III: RESARCH METHODOLOGY

This chapter introduces the research methodology used. Following topics are integrated of the chapter; Introduction, Research Design, Sources of Data, Methods of Analysis

Chapter IV: DATA PRESENTATION AND ANALYSIS

This is the main part of the research. On the chapter data have been systematically presented, analyzed and interpreted as follows: Financial Analysis: Liquidity ratio, stability ratio, Assets Management Ratio, Profitably Ratio, Risk Ratio, Ownership Ratio, Growth Ratio, Other Indicator, Statistical Analysis: Trend Analysis and Projection and Major Findings.

Chapter V: SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the final chapter of the research. On the chapter Summary, Conclusion and some useful recommendations for future improvement offered.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Review of Financial Efficiency Analysis

Management should be particularly interested in knowing the financial strength of the firm to make their best use and to be able to spout out the financial weakness of the firm to take suitable corrective actions. The firm's future plans should be made in view of the firm's financial strength and weakness. Thus, financial efficiency analysis is the starting point for making plans, before using any sophisticated forecasting and planning procedures. Financial efficiency analysis can be used to analysis a firm's past performance and assess its present financial strength. The analysis of financial efficiency is done to obtain a better insight into a firm's position and performance. Analysis of financial statement is a process of evaluating the relationship between the component parts of the financial statement to obtain better understanding of a firm's position and performance. The tools and techniques of financial analysis are done by using various tools and techniques and major of them are:

a. Ratio analysis

b. Statement of changes in financial position and

c. Cash flow statement

The ratio analysis involves comparison for a useful interpretation of the financial statement. A single ratio in itself does not indicate favorable or unfavorable condition. It should be compared with some standard .Standard of comparison may consists of

    a. Ratios calculated from the past financial statement of the same firm

    b. Ratios developed using the proforma or projected, financial statement of the same firm.

    c. Ratios of the most progressive and successful firms, at the same point in time.

    d. Ratios of the industry to which the firm belongs.

To evaluate the performances of an organization by creating the ratios from the figures of different accounts consisting in Balance sheet and Income statement is known as financial performance analysis.

2.1.1 Review of Books

"The profit earned by the firm is the main financial performance indicator of business enterprises. Profit result mainly from successful business management, cost control, credit extension, risk management and general efficiency of operation." **(Altmann;1951:21-22).**

"Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by the single set of statement and a study of the trend of these factors as shown in a series of statement." **(Myer;1961:4)**

"Ratio analysis is used to compare a firm's financial performance and status to that of other firms or to itself over time." Ratio helps to analysis the financial statements may be termed as ratio analysis. When this definition of ratio is explained with reference to the items shows in financial statements, then it is called accounting ratio. It is a mathematical relationship between two related items expressed in quantitative form. The ratio is the measurement of quantitative relationship between two or more items of financial statement connected with each others. **(Gitman;1988:275)**

Erich has described financial analysis as "Financial analysis is both an analytic and judgmental process that helps to answer the questions that have been properly posed to and therefore, it is a mean to an end. We can stress enough that financial analysis is an aid that allows those responsible for results to make sound decisions" (**Erich ;1990:2)**

"Financial statements provide information about a firm's position as well as its operations over same period. However, the real value of financial statement uses in the fact that they can be used to predict the firm's financial position in the future and to determine expected earnings and dividends. From an investor's stand point predicting the future is what financial statement is all about, while management stand points financial statement is useful to anticipate future conditions and for planning actions that will influence the future course of events."(**Besley and Brigham;1992:93)**

"Financial analysis is a process of identifying the financial strength and weakness of the firm by properly establishing relationship between item of balance sheet and the profit and loss account." **(Pandey;1993:109)**

"Analyzing financial performance is a process of evaluating financial statement obtain a better understanding of a firm's position and performance" **(Calf and Titard;1997:175)**

"The ratio analysis is defined as the systematic use of ratio to interpret the financial performance so that the strength and weakness of firm as well as its historical performance and current financial condition can be determined "(**Khan and Jain; 1999:80)**

"Financial ratios are the tools to analyze the financial conditions and performance. We calculate ratios because in this way we get a comparison that may prove more useful than the raw numerous by themselves." (**Van Horne and Achowicz; 2001:148**)

"Financial analysis is to analyze the achieved statements to see if the results meet the objectives of the firm, to identify problems, if any, in the past or present and /or likely to be in the future, and to provide recommendations to solve the problems" **(Pradhan; 2001: 120)**

So, Ratio analysis is very helpful in financial forecasting and planning. The ratio calculation of past years works as guide for the future and it is also helpful for effective control of the business .Comparison of actual ratios. The ideas ratios are composed through the help of ratio analysis. Those ratios can be used for comparison of a particular firm's progress and performance. The ratio helps in communication and enhances the Value of financial statement. Ratio analysis helps management in evolving future 'Market strategies'.

2.1.2 Review of Articles
In the Empirical study, employed financial ratios to predict corporate bankruptcy through multiple discriminate analysis .Out of the twenty two financial ratios examined. Altman selected the five that did the best combine job in predicting bankruptcy. There ratios were working capital to assets, retained earnings to total assets, earning before interest and taxes to total assets, market value of equity to total assets, market value of equity to book value of total debt and sale to total asset. Using this ratio. Altman found the discriminate model to be an accurate predicator of bankruptcy. **(Altman; 1968:669)**

The article entitled "Capital adequacy of Bank – The Nepalese Context" has suggested the banks that deal in highly risky transactions to maintain strong capital base. He concludes that the capital base should neither be too much leading to inefficient allocation of scarce resources nor so weak so as to expose to extreme risk. The study accepts that the operations of banks and the degree of risk associated with are subject to changes country wish, bank wish and time period wish.

Therefore, the study suggested preparing standard capital adequacy ratios for each individual bank keeping in mind the various reasons factors. **(Shrestha; 1990:24-27)**

In the research entitled "Financial Management practices in Nepal" Radhe S. Pradhan has studied about the major feature of financial management practices in Nepal. To address this issue, distributing a multiple questionnaire, which contained questions on various aspects of financial management practices in Nepal, carried out a survey of 78 enterprises.

The most important finance function appeared to be working management among the several finance functions but the least important one appeared to be maintaining good relations which stockholders. Most of enterprises do not borrow only from one bank but they do switch between banks to whichever offers best interest rates. Most enterprise find that banks are flexible in interest rates and covenants He found that among the bank loans, bank of loans of less than one year are more popular in public sector where as bank loans of 1-5 years are most popular in private sector. In periods of tight money, the majority of private sector enterprise fell that bank will treat all firms equally while public sector does not feel so. Similarly, he concluded that the majority of enterprises in trade sector find that banks, interest is just right while the majority in non-trade sector find that the same is one higher side. **(Pradhan; 1994:10-13)**

W.H. Beaver examined the ability of financial ratios to predict the future. The research showed five ratios, which could discriminate between failed and non failed firms. The ratios are : cash flow to total debt, total debt to total asset, net income to total asset, working capital to total asset and current ratio. It reveals that failed firms had low return on asset and mere debt. The stock was very low and they had less cash but more receivables as well as low current ratios. **(Beaver;1996:77-111)**

The main objective of the study by Dambolena and Khoury on "Ratio stability and corporate failure" was to find the stability of all financial ratios over time as well as

the level of there rations as explanatory variables in the derivation of a discriminate function.

The data were collected from 68 firms half of them failed and half of them did not fail. The following ratios were used in the analysis of the study:-

a. Profitability ratios
b. Liquidity ratios
c. Activity and turnover ratios
d. Indebtedness ratios

The major findings of this study were as follows:-

a. The ratios of net profit to sales, net profit to total assets, funded debt to net working capital, total debt to net working capital, fixed assets to net worth have revealed to be relevant in predicting corporate failure.
b. Standard deviation of ratios over times appeared to be the strongest measure of ratio stability.

The article entitled "Commercial banks comparative performance evaluation", Monohar k. shrestha concludes that Joint ventures banks are new, operationally more competent, having superior comprisals with local banks. The joint ventures banks performance is better because of their sophisticated technology, skill modern banking method and government's branching policy is rural areas and financing pees. Local banks are efficient in rural sector. Despite having number of deficiencies, local banks have to face growing constraints of socio-economies political system on one hand spectrum and that of issues and challenges of Joint ventures banks commanding, significant banking business of other spectrum. (**Shrestha; 2047 B.S.:54**)

Narayan Prashad Poudel had published an article titled "Financial statement Analysis " in 2053 in Nepal Rastra Bank Samachar. Balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the bank, the major characteristics of bank's balance sheet and profit and loss account should be understood. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and assets in the form of loans. Fixed assets account forms a small portion of total assets.

Financial Innovations, which are generally contingent in nature, are considered as off balance sheet items. The users of the financial statement of a bank need reliable, relevant and comparable information, which helps them in evaluating the financial

position and performance of the bank and which is useful to them in making economic decisions.

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

〕 Financial performance (Profitability)
〕 Financial adaptability (liquidity)
〕 Financial position of the bank (Solvency)

Accordance with Mr. Poudel, there is different factors, to be considered while analyzing the financial statement of banks is to assess liquidity position and the capital adequacy. In the line of the norms set by Bank for international settlements (BIS), Capital adequacy of a bank is assessed on the basis of risk weighted assets. It indicated a bank's financial strength and solvency. Banks facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with which a bank's assets can be converted into cash and other current obligations. It is also important in view of survival and growth of a bank. **(Poudel; 2053 B.S.:63)**

2.2 Review of Legislation Related to Commercial Banks

"A commercial bank is one which exchange money, deposits money, accepts deposits, grants loans and performs is commercial banking function and which isn't a bank meant for cooperative agriculture, industry or for specific purpose". **(Commercial bank Act 2031)**

"In absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing services the people and for the betterment of the country, this law is hereby promulgated for the establishment of the bank and its operation" **(Nepal bank Act 1994)**

Bank is an establishment which makes to individuals such advances of money as may be required and safely made to and to which individual entrust money when not required by them for use. A commercial bank is an institution which accepts deposits and distribution of the liquid capital, which is the life blood of commercial and industrial activities and upon the prudence of their administration depends the economic well being of the nation.

Company Act 2021(Amended to company Act 2053)

Commercial bank including JVBs in Nepal can be established only as a company with limited liability under the company Act 2021 on the recommendation of Nepal Rastra bank. The provision mentioned in the Act strictly regulates the commercial banks in all the aspects, starting from the incorporation to the winding up of the bank.

Commercial Bank Act 2031(Amended to Commercial Act 2049)

The precision required under this act for the establishment of the commercial banks are mentioned below:-

1. A bank shall be established under the company Act with the recommendation of the Rastra Bank. For obtaining such recommendation, an application shall be filled, along with the particulars by the Rastra Bank. Only in case the Rastra Bank so, recommends shall such bank be registered according to the company Act for working under this Act.
2. The NRB may prescribe necessary conditions while recommending the establishment of a bank under sub-section(1) and it shall be the duty of the concerned bank to fulfill the conditions so prescribed.
3. The bank shall be an autonomous corporate body with the perpetual succession. It may sue or be sued in its own name.
4. The bank may determine the location of its head office with the approval of the Rastra bank
5. Any bank may open or shift the location of or close branches deposits or other offices with the approval of the NRB.
6. Subject to this Act and other current Nepal law, the bank may acquire, use and sell movable and immovable property.

Establishment of Branches of Joint Venture Foreign Banks.

1. In case any foreign commercial bank desires to open a branch, representative office or liaison such branch under the company Act with approval of NRB and provision of the Act shall apply to such foreign bank
2. The NRB shall obtain the consent of His Majesty's Government before granting approval under sub section 1
3. While granting approval under sub-section (1),the NRB may prescribe condition according to the need, and the foreign bank shall comply with the conditions thus prescribed by the NRB (**The commercial Bank Act 2031**)

Regulatory Policy

Nepal adopted the policy of 'economic liberalization' and permitted Nepalese promoters in the early 1980s to operate commercial banks in joint venture with foreign commercial banks. The policy to government is to bring opportunity to the people to encourage for saving by acquiring share, placing money in form of deposits, to mobilize and invest the collected saving in the field of trade, agriculture, commerce, industry, tourism, hydro-electricity and other general utility projects which helps to create employment and investment opportunities for people and go generate revenue in the form of corporate tax from them.

The first responsibility of banking sector is to mobilize financial resources essential for economic and social development. The banking sector needs to invest accumulated resources for the return and on the other hand to protect the asset of the depositors. Bad debts are mounting and the capital is eroding due to lack of effective regulation. Therefore, government has formulated various acts, prudential rules and regulations and directories to ensure that the NRB exercise its regulatory role to best protect the interest of the depositors at large. The related acts and policies have been reviewed under the chapter review of literature.

NRB as the central bank is empowered with the responsibility of regulating and supervising the commercial banks in order to protect his interest of public and to motivate them the development goal of the country.

The whole financial system of the country is strictly regulated by the central bank act. Commercial banks act and different regulatory directives in order to direct and control the operations of all the commercial bank operating in Nepal. However, all commercial banks have seen allowed to quote their own rates of interest for deposits, advances, commissions and other banking charges.

The main objective of Nepal Rastra Bank is the established of a sound financial system to maintain the stability of the banking. It ensures that the banks are operating in a sound condition, so that the interest of the depositors and the general public are protected. Central bank is able to evaluate the position of any particular bank through the periodic on-site and offsite inspection. Central Bank can judge the true financial position of the banks through different rating system like CAMEL, with stands for:

C   = Capital Adequacy

A   = Asset Quality

M   = Management Quality

E   = Earnings

L   = Liquidity

NRB is in a better position to regulate and supervise commercial banks in an efficient manner.

2.3 Bank and Financial Institution Ordinance 2004

Bank and financial institution ordinance come into effect to bring the uniformity on bank and financial institution sector. The main features of this ordinance as follows:-

1. **Form of umbrella act:-** The objective of this act is to improve the banking and financial system uniformly. This is only act to use the common concept over the bank and financial institution, so this ordinance is called umbrella act.
2. **Business specialization:-** This ordinance may prescribe the one business expert on commercial, financial, managerial, monetary, banking, economic, accounting sector with at least five years working experience on firm's board of director. Every year NRB updates the list of business experts.
3. **Provision related to establishment:-** The bank and financial institution shall be established as public limited company and for obtaining such recommendation; an application shall be filled, along with particular (amount)
4. **Classification of Bank and financial institution**:- Bank and financial institution ordinance 2004 terminate commercial bank act 2031, Agriculture Development bank act 2024.Financial company Act 2042, Development Bank act 2052 and Nepal Industrial development corporation act 2046 and Nepal Rastra bank classifies the license holder institution into A, B, C and D with minimum required paid up capital:

5. **Provision for minimum paid up capital:-** After publishing notice by NRB or according to the Bank and financial institution ordinance 2004, section 31 classifies bank and financial institution with the minimum paid up capital into the following groups :-

Group A	**Minimum paid up capital**
National level	Rs.. 100 crore
Regional level	Rs.. 25 crore
(Outside Kathmandu valley)	
Group B	
National level	Rs.. 32 crore

District level (Outside kathmandu valley)	
4 to 10 Districts	Rs.. 5 crore
1 to 3 Districts	Rs. 2 crore

Group C

National level	
(Including leasing)	Rs. 15 crore
(Excluding leasing)	Rs. 5 crore

District level (Outside kathmandu valley)	
One district	Rs. 2 crore
One district (Mid-western, far western)	Rs. 1 crore

Group D (Micro financing only)

National level	Rs. 10 crore
Regional level (with in kathmandu valley)	Rs. 2 crore

District level (Outside kathmandu valley)	
4 to 10 districts	Rs. 2 crore
1 to 3 districts	Rs. 1 crore

6. **Limitation of transaction**: - The ordinance 2004 prescribes the working areas of license holder institution after classifying them according to the minimum paid up capital.

7. **Change the license of institution:-** If the institution does not fulfill minimum capital fund, continuous loss up to 5 years, inadequate capital fund prescribed by NRB.NRB can change the group of institution.

8. **Provision of efficient management**:- The ordinance 2004 prescribes the chief executive officer's qualification. For the license certificate holder of Group A, officer shall be passed post graduation and for group B, C. and D. Officer shall be passed graduation with 5 years working experience in related field.

9. **Re-Provision for license:-** The bank or financial institution which has been working before the effect of ordinance 2004.Those bank or financial institution shall get license certificate with in 2 years from the effect date of ordinance.

10. **Provision for foreign bank and institution to open the office:** After completing the necessary process, foreign bank and institution can open the office with the approval of the Rastra bank.

11. **Ineligible to be a member of board of director:** Nepal Rastra Bank's Governor, Deputy Governor, high level office can't become member within 1 year after retirement.
12. **Registration process:-** To obtain the license certificate , the bank and institution should pay the certain registration fee.
13. **Transparency on establishment**
14. **Bank and financial institution can purchase own shares**
15. **Management expenses**
16. **Imagination of efficient, improved regulation**
 (**Bank and Financial Institution Ordinance 2004**)

2.4 Review of Thesis and Research

Bindeshwar Mahato (1997) in his thesis," A comparative study of the financial performance of Nepal Arab Bank LTD and Nepal Indosuez bank ltd" reveals the following points:-

) The study reveals that both the banks (NABIL AND NIBL) maintain adequate liquidity position to meet the short term or even instant obligations. But the primary and secondary reserve position of NABIL is better than that of NIBL.
) NIBL is following conservative and safer deposits and selective leading policy than NABIL. But the capital adequacy requirements are obtained by both banks.
) NIBL is utilizing less deposits for the income generating purpose but utilizing more low cost bearing deposits efficiently than NABIL
) NABIL is performing well in term of return on capital, cash dividend per share, earning per share, price earning per share, multiple market value per share etc. than NIBL.

The study concluded that NABIL is more oriented toward discharging responsibility towards its shareholders than NIBL (Nepal Indosuez bank ltd).

Kamal Raj Pathak (1999) in his Master's thesis entitled "Capital Structure and Profitability: A comparative case study between Nepal Indosuez bank limited and Nepal Grindlays Bank Limitled" with the following objectives:-

) To study the debt servicing capacity of Nepal Indosuez bank limited and Nepal Grindlays bank limited
) To analyze the relationship between capital structure & profitability

The researcher concluded the following points:-

) Average increase in shareholders' equity is more than average increase in fixed deposits of both banks

) Increase in debt equity ratio tends to increase return on equity significantly incase of NIBL.

) NIBL is able to earn from its deposits investing it into the most earning assets i.e. loans& advances

) Both the banks are able to maintain capital adequacy ratio.

) Nepal Grindlays bank is efficient in using long term funds

) Both the banks are able to utilize its shareholders' equity in the most efficient manner

) Dividend payout ratio, price earning ratio and book value per share of both the banks seem to be favorable. NIBL is stronger in case of DPR and PE ratio where book value per share of Nepal Grindlays bank ltd is considerably higher

) Both the banks have extremely used debt capital in its financial structure.

) NIBL has higher capital adequacy ratio than the required ratio.

T.N. Dhakal (2001) in his Master's thesis entitled," A comparative study on financial performance of Nepal SBI Bank ltd and Nepal Indosuez bank Ltd."

The basic objectives of this study are:

) To study the position of Nepal SBI bank ltd and Nepal Indosuez bank ltd under five years period

) To examine relative financial performance through the appropriate research tools.

The study reveals that," Liquidity position of Nepal Indosuez bank Ltd is comparatively better than that of SBI Bank. It has adopted aggressive lending investment and borrowing policy generate profit than SBI " In his research he has used only five years secondary data of the two JVBs by using descriptive research design. The study was based on the investment practices and its impact on practice among the bankers. He has suggested stabilizing the cash and bank balance to total deposit ratio of the both bank after proper diagnosis of the root to the cause.He ignores the proper investment policy from the view point of customer but he is looking on the ground of the bank's side.

Shiva Raj Laudari (2001) in his Master's thesis entitled " A study on investment policy of Nepal Indosuez bank ltd in comparison to Nepal SBI bank lit " The basic objectives of the this study are:

⟩ To examine the liquidity, asset management and profitability position and investment policy of Nepal SBI bank ltd in comparison to NIBL.
⟩ To analyze relationship between deposits and loan & advance, deposit and investment, net profit and outside assets of Nepal Indosuez bank ltd in comparison to Nepal SBI bank ltd.
⟩ To study the growth ratios of Loan & advances and Investment to total deposit and net profit of Nepal SBI bank ltd in comparison to NIBL.
   The study was based on the secondary data.

The research findings of the study are given below: -

⟩ Current ratios of the bank's is moderate
⟩ Nepal Indosuez bank ltd has maintained both current ratio and cash reserve ratio better than Nepal SBI bank ltd and Nepal Indosuez bank ltd has decreased investment on government securities as well as its cash and bank balance, investment on government securities and loan & advances in comparison to current assets are lower than that of Nepal SBI bank ltd.
⟩ Nepal indosuez bank ltd has a better performance in return on total assets and loan & advances and interest earning.
⟩ Nepal SBI bank ltd had more growth ratios of total deposit, loan & advances, total investment and net profit than NIBL during the five years study period.
⟩ The trend value of loan and advances to total deposit ratio and total investment to total deposit ratio of NIBL were in decreasing trend.

Sanjaya Dhakal (2001) in his thesis," A comparative study on the financial performance of Nepal Indosueq Bank ltd (NIBL) and Nepal Arab Bank Ltd (NABIL)" The basic objectives of this study are to analyze the comparative study on the financial performance of Nepal Indosuez bank ltd (NIBL) and Nepal Arab bank ltd (NABIL) i.e. ratio analysis of stability ratio, Liquidity ratios, credit ratios, turnover ratios, profitability ratio, structural ratios and others indicators. After calculating the above ratio, the research revealed the following major findings:-

⟩ The study reveals that NIBL has higher shareholders reserves to share capital ratio and net worth to total assets ratio than NABIL. But NABIL has higher current assets to net worth ratio and total deposits to net worth than NIBL.
In terms of liquidity ratios: The liquidity position of the NIBL is higher than NABIL. So, liquidity position of NIBL is sound and high level compared to

NABIL but NABIL has higher saving deposit to total deposit ratio and Investment on Government securities to current assets ratio than NIBL.

⟩ NABIL has better credit position than NIBL in terms of short term investment (i.e. investment on government securities to total deposit ratio and total investment to total deposit ratio than NIBL)

⟩ Profitability position of NABIL is comparatively better than NIBL .So NIBL is recommended to utilize its resources more effectively for generating more profit margins and both banks are suggested to reduce operating expenses, especially in case of NIBL.NIBL was suggested to set a more convenient minimum balance to open an account.

Surendra Shrestha (2002) in his Master's thesis "A comparative study on Investment policy of Nepal Indosuez bank ltd and Everest bank ltd" with the following objectives:

⟩ To compare investment policy of concerned banks and discuss the fund mobilization of the NIBL & EBL.

⟩ To find out empirical relationship between total investment, deposit and loan and advances and net profit & outside assets and compare them

⟩ To analyze the deposit utilization trend and its for next 5 years.

⟩ To evaluate comparatively the profitability & risk position, liquidity, asset management efficiency of NIBL and EBL.

This study is based on secondary data collected from banks. The following tools are used to compare these two Joint ventures banks.

Financial tools	Statistical tools
Liquidity ratio	Coefficient of correlation analysis
Asset management ratio	Trend analysis
Profitability ratio	Test of hypothesis
Risk ratio	Standard deviation
Growth ratio	Coefficient of variation

He concluded that liquidity position of both banks has no much difference. Consequently, the liquidity position of NIBL is comparatively not better than EBL. NIBL has made enough loans and advances but it has made the negligible amount on investment in government securities. From the analysis of assets management ratios of these two banks, the researcher found that NIBL is comparatively successful in its on balance sheet operation. In case of off balance sheet operation,

NIBL is advance than EBL and the profitability position of NIBL is better than EBL.

Similarly, the researcher found that, there is comparatively lower risk in NIBL than EBL regarding various aspects of banking functions. From the analysis of growth ratios, it was concluded that NIBL has not been more successful to increase in sources of funds i.e. deposit and mobilization of it i.e. loan and advance and total investment. The researcher concluded that there is no significant relationship between deposit and loan & advance, deposit & total investment and total outside assets and net profit in case of NIBL but in case of EBL all the correlation are significant.

The researcher concluded that, NIBL's trend value of total deposit and loan and advances are increasing but the trend value of total investment and net profit are decreasing where, in case of EBL all the trend values are increasing.

Subi Joshi (2003) in her Master's thesis,"Financial analysis of Nepal investment bank ltd" with specific objectives are as follows :-

- To examine the overall financial position of NIBL.
- To examine liquidity ratio, profitability ratio and ownership ratios of the bank.
- To study the income and expenditure statements of the bank.
- To analyze the bankruptcy scare of the bank for the period of five fiscal years from 1997/98 to 2001/02

She recommends;

The bank should venture new grounds in the financial sector such as investment banking and e-banking

- The bank should hold stars such as foreign exchange to preserve market share
- The bank should try to increase non interest bearing deposits for increasing profit margin by investing the same as loans and advances .For this it has to focus in INGO and new project.
- Bank should focus more on non risky lending such as mortgages, housing loans and personnel loans and focus on business such as credit cards, wealth management, global markets and cash management as those are all high return businesses. If possible diversity wealth management business to include a range of retail foreign exchange products.

She concluded that Bank carefully examine safety of principal as well as sources of Repayment, capital structure, requirement and creditworthiness of a borrower for

providing credit and suggest to credit manager to evaluate credit risk by considering well known five C's of credit –viz character, capacity, capital, collateral and conditions.

Tanka Kumar Raya (2003) in his master's thesis entitled "Investment policy & analysis of commercial banks in Nepal : A comparative study of Standard chartered bank ltd with Nepal Investment bank ltd & Nepal Bangladesh bank ltd " with the following objectives:

∫ To examine and evaluate the Investment policy of Standard chartered bank ltd and compare the same with NIBL and NBBL of Nepal to achieve these prime objectives.

∫ To discuss fund mobilization and investment policy of SC BL in respect to its fee based off balance sheet transaction and fund based on balance sheet transaction with NIBL and NBBL

∫ To conduct hypothesis test to find whether there is significant difference between the various important ratios of SCBL with the ratio of NIBL and NBBL respectively.

∫ To evaluate the liquidity, efficiency and profitability and risk position.

∫ To provide packages of workable suggestions and possible guide improve investment policy of SCBL and the other compare banks based on the findings of the analysis for the improvement of financial performance of SCBL in future. For the purposes of study, only secondary data is used in this study to gather the required information regarding existing position of commercial banks.

The research revealed the following major findings: -

∫ The liquidity position of SCBL is comparatively better than NIBL and NBBL. SCBL has good deposit collection, it has made enough investment on government securities but it has maintained low investment policy on loan and advances.

∫ SCBL is comparatively average successful in its on balance sheet operation, but off balance sheet operation activities in compared to NIBL and NBBL has maintained the strong position.

∫ The profitability ratio of SCBL is comparatively higher position than that of NIBL and NBBL.

∫ SCBL has lower risk in comparison to other banks and it's regarding various aspects of the banking function.

∫ The SCBL's investment policy is better than that of other banks.

Shrijana Shrestha (2004) in her Master's research entitled," Nepal Rastra bank Guidelines of Investment policy of commercial Bank in Nepal (A case study of Nepal Investment bank ltd) with the following objectives:

) To analyze the liquidity of NIBL
) To highlight the NRB directives regarding investment policy (loan & advances and investment)
) To make the trend value analysis of deposit utilization and its projection for next five years.
) To find out whether guidelines are actually implemented.

She found that bank is in good position to meet the daily cash requirement as bank has maintained the average cash and bank balance in respect to total deposit. NIBL has not efficiently utilized its equity capital .Hence return on equity capital is not satisfactory. The bank seems to be having lack of sound Investment policy for the mobilization of its equity capital..

She concluded that the performance of NIBL regarding deposit collection, granting loan and advances and investment are in increasing trend and is quite satisfactory, but net profit is fluctuating. To have better result of net profit, commercial banks must invest its fund in productive and profitable project. She suggest to survive in this competition market and to earn profit, banks need to keep optimum relation between deposit and credit policy. According to her Deposit collections procedure and its mobilization should go hand to hand.

However, NIBL is successful in increasing its sources of funds and its investment and mobilization but unable to earn profit in respect to its source and its mobilization.

Lalima Maskey (2004) in her entitled "A comparative study of lending performance of NABIL, standard chartered bank ltd and NIBL." The main objectives of the study are to analyze the lending performance of these banks. The study uses the financial tools ratio analysis viz asset management ratios and profitability ratios are calculated to find out the lending strength of the commercial banks. The financial statements of five years (1998/1999 to 2002/2003) were selected for the study purpose. The study found that, the analysis of lending strength in relative terms of NIBL is best in utilizing its fund, total assets to extend of as much as its liability permits. It has been properly mobilizing its assets properly in loan and advances. It has been more efficient in utilizing its fund efficiently than NABIL and SCBNL.

The activity ratio shows that SCBNL has better performance more than NABIL and NIBL. The lowest loan loss Provision ratio is the indicative of better performance of SCBNL than the other two banks in judging the borrower. NIBL has high performing loans followed by SCBNL and NABIL in both past two years.

NIBL has the highest mean ratio of interest from loan and advances which shows a large contribution of interest income to the total income. NIBL has best performance in successfully utilizing its deposit in loan and advances and also following increasing trend in loan and advance to total deposit. NIBL has performed exceptionally well in increasing the growth ratio of deposit, loan and advances, investment and profit.

2.5 Research Gap

Profit is one of the basic indicators of sound financial performance. The sound business management, credit risk management, cost control and general efficiency of operation directly affect the profitability of the bank because it is essential for a bank for its survival, growth and maintain capital adequacy through profit retention

So, financial statements provide information about a firm's position as well as its operations over same period. Financial performance analysis of bank is done on the basis of the directives and circulars of Nepal Rastra bank as well as the financial statement & policy of the commercial bank. The directives of NRB change over the time commercial banks should follow these directives and circulars because NRB makes necessary amendments in prevailing directives and circulars and communicates to commercial banks. Similarly, These directives must have direct or indirect impact while making decision. Those rules and regulation are discuss which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, loan loss provision, capital adequacy ratio, interest spread productive sector investment.

This study covers the more recent financial data, NRB circulars and guidelines than the previously conducted studies. Hence, this study fulfills the prevailing research gap about the in depth analysis of financial performance of the bank, which plays the vital role among investors, managements, creditors as well as regulating authorities.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

The objective of this study is to analyze the financial efficiency of Nepal Investment Bank Limited to fulfill the above objective; the study adopted the following research methodology. In the previous chapter, background of NIBL, has been highlighted, review of financial performance analysis, review of books and journals, review of thesis, review of legislation related to commercial banks, review of bank and financial institution ordinance 2004 have been discussed. This has assisted me to make choice of research mythology.

Research method refers to the methods/way that is used for conduction of research or performing research operation. Research methodology may be defined as "A systematic process that is adopted by the researcher in studying a problem with certain objective in view". In other words, research methods are those methods, which are used by the researcher during the course of studying his/her research problem. Research methodology is a way to solve the research problem systematically. The research methodology is wider than that of research methods. Research methodology high lights about how the research problem has been defined, what data have been collected, what particular method has been adopted and why hypothesis has been formulated etc.

Research methodology depends on the various aspects of the research project. The size of the project, the objective of the study, importance of the project, time frame of the project, impact of the project in the aspects of the human life etc. are the variables that determine the research methodology of the particular projects.

3.2 Research Design

Research design is the plan of attack. What approach to the problem will be taken? What methods will be used? What strategies will be most effective? So, the research makes a plan of his/her study before undertaking the research work. This will enable to save time and resources. Such a plan of study or blue print for study is called a research design. A research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. The research design may be a specific presentation of the various steps in the research process, these steps are

1. Selection of a research problem
2. Presentation of the problem
3. Formulation of hypothesis
4. Conceptual clarity, methodology
5. Survey of literature and documentation and bibliography
6. Data collection
7. Testing of the hypothesis, interpretation, presentation
8. Report writing

So, in this research, analytical research design has been used to complete the study.

3.3 Sources of Data

The study is mainly base upon the secondary data; data collected by the researcher or through agent for the first time from related field and possessing original character are known as primary source (data). On the other hand, data collected by some one else, used already and are made available to others in the form of published statistics are known as secondary data. The data relating to this financial efficiency are collected from concerned banks.

The supplementary information and data are obtained from banking and financial statistics of Nepal Rastra Bank, NRB's economic report, unpublished official records of concerned banks, journal, booklets, Nepal Stock Exchange, Security Exchange Board and Nepal Rastra Bank. The information related to the financial efficiency of these concerned banks are collected by raising questions with the top level employees. Some of the operation has been incorporated as in the study.

3.4 Methods of Analysis

The main purpose of analyzing the data is to change it from unprocessed form to understandable presentation. There are different kinds of tests i.e. financial, statistical and accounting tools is used according to the data available to achieve the objectives of the study.

The analysis of data is made according to the pattern of data available. In this research only financial analysis, statistical tools and mathematical tool i.e. simple averages, percentage, trend analysis and bar diagram are applied because of limited time and resource. Financial efficiency of NIBL is done on the basis of analytical as well as descriptive approaches of research.

3.4.1 Ratio Analysis

A passive used tool of financial analysis is ratio analysis. The term ratio refers to the quantitative or numerical relationship between two items/variables. A ratio if calculated by dividing one item of the relationship with the other. A ratio is an arithmetical relationship between two figures. Ratio is the relationship between two gigues. Ratio is the proportion of two related variables. Variables could be independent or dependent.

A. Analysis of Liquidity Position

The term solvency refers to ability of meeting liabilities. Liquidity ratio measures the ability of the firm to meet its current obligation. In fact, liquidity is a prerequisite for the very survival of a firm. The short terms creditors of the firm are interest in the short term solvency or liquidity of a firm. But liquidity i9mplies, from the view point of utilization of the funds of the firm that funds are idle or they earn very little. A very high degree of liquidity is bad as idle assets earn nothing. Due to lack of sufficient liquidity, the company will be failure to meet its obligation, it creates bad credit image, loss of creditor's confidence, or even in lawsuits resulting in the closure of the company. Solvency ratio may be studied in two parts

1. Short term solvency ratio
2. Long term solvency ratio

Short term solvency refers to ability of meeting current liabilities in time out of current assets. Hence short term solvency ratios are based on current assets and current liabilities.

I. Current Ratio

This is the ratio between current assets and current liabilities with this ratio one can find out the sufficiency of current assets to meet current liabilities. Current liabilities generally mean liabilities to be settled with in a year or less. The calculation of current ratio is done

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liability}}$$

Current assets include: cash, bank balance, money at call and those assets which can be converted into cash within a year such as investment in government securities, receivables, overdrafts, loans, advances, purchased, discounted and miscellaneous current assets

Current liability include: deposits and other short term loan, bills payable, staff bonus, dividend payables and miscellaneous current liabilities.

The current ratio measures the ability of the firm to meet its current liabilities current assets get converted in to cash in the operational cycle of the firm and provide the funds need to pay the current liabilities.

Apparently, higher the current ratio, greater short term solvency. Generally 2:1 is said to be ideal current ratio but actually what should be the ideal ratio for a concern depends upon nature of its activities.

Interpretation

Current Ratio	Remark
1	Current assets are just sufficient to meet current liabilities
Less than 1	The entity under consideration is not solvent in the short run. It cannot pay its short-term liabilities with its assets, which can be realized in cash within a short period. The entity has to increase its current assets.
Greater than 1	The entity has a favorable level of current assets compared to current liabilities. It is short term solvent entity. However, very high current ratio indicates that the entity's funds are unnecessary blocked on the current assets.

II. Cash and Bank Balance to Current Assets

It shows the relationship between cash and bank to current assets. Cash and Bank balance are the most liquid current assets. Higher ratio indicates the bank's sound ability to meet its demand for daily cash requirement to customer's deposits. The formula is:

$$\text{Cash and bank balance to current assets} = \frac{\text{Cash and bank balance}}{\text{Current assets}}$$

III. Investment on Governments' Securities to Current Assets.

It shows the relationship between investments on government securities to current assets. The government securities are the safest palace to create investment but not more liquid than cash and bank balance. This ratio shows the portion of commercial banks current assets which are invested on different types of government securities. This is calculated by using following formula;

Investment on governments' securities to current assets =

$$\frac{\text{Investment on government securities}}{\text{Current assets}}$$

IV. Loan and Advance to Current Assets

It shows the relationship between loan and advance to current assets. The bank must maintain its loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances. The formula is:

Loan and advance to current assets = $\dfrac{\text{Loan and advance}}{\text{Current assets}}$

V. Fixed Deposit to Total Deposit

This ratio shows the relationship of fixed deposit to total deposit. Fixed deposit is high interest bearing deposit and it has a fixed maturity period. The greater the proportion of fixed deposits, the lesser will be the proportion of current or shot term deposits in the total deposits, which indicates higher short term liquidity position of a bank.

The formula is

Fixed deposit to total deposit = $\dfrac{\text{Fixed deposit}}{\text{Total deposit}}$

VI. Saving Deposit to Total Deposit

This ratio is calculated in order to find out the proportion of total deposit which is short term and interest bearing. It is calculated by dividing the amount of saving deposit by the total deposit. The formula is:

Saving deposit to total deposit = $\dfrac{\text{Saving deposit}}{\text{Total deposit}}$

VII. Short Term Loan to Total Deposit

It shows the portion of short term loan to total deposit it can be expressed as:

Short term loan to total deposit = $\dfrac{\text{Short term loan}}{\text{Total deposit}}$

VIII. Cash and Bank Balance to Total Deposit

This is the relationship between the cash and bank balance with total deposit. This ratio is the percentage or portion of total deposit which is maintained as cash and bank balance by the banks. It is called cash reserve ratio. It is ability of bank to meet their daily requirements. The total deposits includes current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits and cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held in foreign banks.

This ratio is calculated by dividing cash and bank balance by the amount of total deposits. This can be stated as:

$$\text{Cash and bank balance to total deposit} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

B. Stability Ratio

Stability ratio consists of share capital shareholder reserve, net worth, total assets, current assets and total deposit in the corporate establishment. It includes different types of ratio which are as follows:

I. Shareholders Reserve to Share Capital

This ratio indicates the relationship between share capital and shareholders reserve, it indicates the sustainability of the bank. Shareholders reserves include various reserves and share capital includes the paid up equity of the owners including the preference share. The formula is:

$$\text{Shareholders reserve to share capital} = \frac{\text{Shareholders reserve}}{\text{Share capital}}$$

II. Net worth to Total Assets

It shows the relationship of net worth to its total assets. It defines the proportion to its total assets employed on its net worth. The formula is

$$\text{Net worth to total assets} = \frac{\text{Net worth}}{\text{Total assets}}$$

III. Current Assets to Net Worth

It show the relationship of current assets of the bank to net worth, which is calculated by using following formula

$$\text{Current assts to net worth} = \frac{\text{Current assets}}{\text{Net worth}}$$

IV. Total Deposit to Net Worth

Total deposit includes saving, fixed and current call to short deposit and other deposit. Total deposits to net worth ratio shows the relative portion of total deposit in relation to net worth. The formula is:

$$\text{Total deposit to net worth} = \frac{\text{Total deposit}}{\text{Net worth}}$$

C. Asset Management Ratio (Activity Ratio)

Asset management ratio measures the efficiency of the bank to manage its asset in profitable and satisfactory manner. This ratio shows the speed with which assets are being converted or turnover so it is called turnover ratio.

I. Loan and Advance to Total Deposit Ratio

This ratio shows the capacity of bank which can mobilize the deposits (the outsider fund) on loan and advance in order to make profit maximization. Higher ratio implies the better utilization of total deposit. The formula is

$$\text{Loan advance to total deposit ratio} = \frac{\text{Loan and advance}}{\text{Total deposit}}$$

II. Loan and Advance to Fixed Deposit

This ratio measures how many times the amount is used on loans and advances in comparison to fixed deposits. Loan and advances are the major sources of investment to generate income for the commercial banks and fixed deposits are high interest bearing obligation. The formula is

$$\text{Loan and advances to fixed deposit ratio} = \frac{\text{Loan and advance}}{\text{Fixed deposit}}$$

III. Loan and Advances to Saving Deposit

Fixed deposits are the high interest bearing obligation then saving deposits are the second high interest bearing obligation. This ratio measures the extent to which the bank is successful to mobilize the saving deposit on loans and advance for the purpose of profit maximization. The formula is:

$$\text{Loan and advance to saving deposit} = \frac{\text{Loan and advance}}{\text{Saving deposit}}$$

IV. Total off Balance Sheet Operation to Loan and Advance Ratio

Off balance sheet activities is a fee based activities. This fee based activities are affected by mode of operation, management strategy, banking network with foreign banks. Total off balance sheet operation consists of letter of credit (L/C), Letter of guarantee, document negotiated under reserve (DNUR), capital commitments, commitments of foreign currency purchase contracts claimed at bank by accepted and other such transaction. The formula is:

$$\text{Total off balance sheet operation to loan and advance ratio} = \frac{\text{Total off balance sheet operation}}{\text{Loan and advance}}$$

V. Loan Loss Ratio

Loan Loss Provision to Total Loans and Advance Ratio

The ratio of loan loss provision to total loans and advances shows the quality of assets in form of loan I bank holding. NRB has directed all the commercial banks to classify its loans and advances into category and make provision according to these loans classified. The NRB directives direct to make the provision of 1%, 25%, 50% and 100% for good loans, sub standards loans, doubtful loans and bad loan respectively. This ratio indicates how efficiency it manages its loan and advances and make effort for loan recovery. This ratio shows the possibility of loan default of a bank. The more of the loan loss provision, suggests two definite things more of total loan and advance or more of bad loan. The formula is

$$\text{Loan loss provision to total loans and advance ratio} = \frac{\text{Loan loss provision}}{\text{Total loan and advance}}$$

Non Performing Loan

Non performing loan consists of loans and advances except good loans. The NRB directives has classified the loan and advances as pass, substandard, doubtful and loss and provision should be make 1%, 25%, 50% and 100% respectively. The loan under the category of pass loan is also called as performing loan and the sub standard, doubtful and loss loans are called non performing loan. Loan loss provision for non performing loan is defined as specific loan loss provision. Non performing loans are in fact very crucial problems of banks. They need extra efforts for collection of repayment.

Loan Loss Provision for None Performing Loans

According the NRB directives, Loan loss provision is made against all types of loan. According to the NRB directives 1% provision is to be provided for all goods loans and 25%, 50% and 100% for sub standards, doubtful and bad loan respectively.

Non Performing Loans to Total Loan and Advance

The new directive regarding loan classification and provisioning was issued on 2001, was effective from the fiscal year 2001/002. According to that new directive of NRB, non performing loans are categorized in to substandard, doubtful and bad loans. This ratio shows the relationship between non performing loans with total loan and advance. If the non performing loans increase, it will decrease the profit.

Loan Loss Provision to Non Performing Loan

The loan loss provision to loans and advances shows the quality of assets which the bank is holding. Loan loss provision in fact is the cushion against future contingency created by the default of the borrowers. The lower ratio indicates the good quality of assets in the total volume of loans and advances.

D. Analysis of Profitability Position

A firm should earn profits to survive and grow over a long period of time. Profit is essential. In fact, sufficient profits must be earned to sustain the operations of the any firm or business to be able to obtain funds from investors for expansion and

growth and to contribute towards the social overheads for the welfare of the society. The profitability of the company should be evaluated in terms of the firm's investment in assets and in terms of capital contributed by creditors and owners. So profitability ratio is calculated in relation to sales and investment.

Generally profitability ratios are calculated either in relation to sales or in relation to investment. So, here we calculate profitability ratios in relation to investment and assets

I. Interest Paid to Working Fund

This ratio describes the percentage of total interest expenses and its interest on fixed deposit, call deposit, saving deposits and interest on borrowing with respect total working fund. A high ratio indicates high interest expenses on total working fund and vice versa. The formula is:

$$\text{Interest paid to working fund} = \frac{\text{Interest paid}}{\text{Working funds}}$$

II. Net Profit to Working Fund

It shows the relationship between net profits to working fund. It is the capacity to earn the profit by utilizing available resource. Net profit includes the portion of income left to the internal equities after all costs and different types of changes, expenses should be deducted. The formula is:

$$\text{Net profit to working fund} = \frac{\text{Net profit}}{\text{Working funds}}$$

III. Net Profit to Total Deposit

This ratio describes the percentage of profit earned by using total deposit. This ratio shows the efficiency towards its deposit mobilization. Higher ratio indicates proper utilization of total deposit and lower ratio indicates the proper utilization of total deposit. The formula is:

$$\text{Net profit to total deposit} = \frac{\text{Net profit}}{\text{Total deposit}}$$

IV. Operating Profit to Net Worth

It is appropriate for the comparative study to compute the operating profit to net worth. It shows the portion of operating profit in net worth. In this study, operating profit represents operating income minus operating cost. The formula is:

$$\text{Operating profit to net worth} = \frac{\text{Operating profit}}{\text{Net worth}}$$

V. Return on Loan and Advance Ratio

Return on loan and advance ratio measures the earning capacity of the commercial banks on its deposits mobilized on loan and advances. Loan and advances includes loan cash credit, overdraft bills purchased and discounted. A high ratio indicates a high success to mobilize fund as loan and advances and vice versa. The formula is;

$$\text{Return on loan and advance ratio} = \frac{\text{Net profit}}{\text{Loan and advance}}$$

VI. Return on Equity (ROE)

It is also called net profit to net worth ratio. Net worth means different between total assets and total liabilities. It finds the efficiency of bank to use the funds of owners. Net worth includes paid up capital, reserve funds and other reserves, profit and loss account and bonus share. The formula is:

$$\text{Return on equity (ROE)} = \frac{\text{Net profit}}{\text{Total equity capital}}$$

VII. Cost of Services to Working Funds

Cost of services represents interest paid on borrowing on draft, salary allowances and provident fund and working fund is equal to the sum of current assets, net fixed assets and other assets. This ratio shows the portion of cost of services in working fund. The formula is

$$\text{Cost of services to working funds} = \frac{\text{Cost of services}}{\text{Working fund}}$$

E. Risk Ratio

The bank and its investment in particular are exposed to different degree of risk exists because of the inability of the decision maker to make perfect forecasts. An investment is not risky, if we can specify a unique sequence of cash flow for it. The possibility of risk makes banks investment a challenging task. A bank has to take risk ratio measures the level of risk.

I. Credit Risk Ratio

In the area of credit appraisal, the ratio technique is very important and used for measuring past performance and for projecting future trend. When parties approach bank for credit limits, bankers must be satisfied about the financial health of the borrowers. The banker uses ratio technique for following objectives.

⟩ To judge the operating efficiency of the borrowers
⟩ To judge the financial health
⟩ To ensure safety and securities of the advance
⟩ The risk behind making investment or granting loan or providing is measured by credit risk ratio. In fact, credit risk ratio shows the proportion of non performing assets in total loan and advances of a bank. It can be expressed as

$$\text{Credit risk ratio} = \frac{\text{Total loan and advance}}{\text{Total assets}}$$

II. Investment on Government Securities to Total Deposit

Investment on government securities includes treasury bills and development bonds etc. This ratio shows the utilization of firm's deposits in government securities. It can be expressed as;

$$\text{Investment on government securities to total deposit} = \frac{\text{Investment on government securities}}{\text{Total deposit}}$$

III. Total Investment to Total Deposit

A commercial bank utilizes its total deposit by investing its fund in different securities issued by government and other finances and non financial securities. So, this ratio indicates the utilization of bank's deposit in government securities and bonds, debentures and shares of other firms and banks. It can be expressed as:

$$\text{Total investment to total deposit} = \frac{\text{Total investment}}{\text{Total deposit}}$$

F. Ownership Ratio

Common shareholders are known a owner of firm. Common shareholders are entitled to the residual profit. The rate of common dividend is not fixed because the earning may be distributed to them or retained in the bank or firm. So, the net profits after taxes represent owners' return. Ownership ratio is very important for shareholder's to know the financial performance of the bank or firm in a given period of time.

I. Earning Per Share (EPS)

The profitability of a firm from the point of view of the ordinary shareholders is the earning per share (EPS) except rate of return. It measures the profit available to the equity shareholders on per share basis, i.e. the amount that they can get on each share held. It measures the earning available to an equity shareholder on a per share basis. The EPS represents the amount earned on behalf each outstanding share of common stock. It can be expressed as:

$$\text{Earning per share (EPS)} = \frac{\text{Net profit after taxes – preference dividend}}{\text{Number of equity share outstanding}}$$

II. Dividend Per Share

The amount of earning distributed and paid as cash dividend is considered as dividend per share. Higher the DPS shows the efficiency of management and vice versa. The ratio is calculated as

$$\text{Dividend per share (DPS)} = \frac{\text{Dividend per share (Proposed dividends)}}{\text{Number of equity share}}$$

III. Dividend Payout Ratio

The ratio measures the relationship between the earning belonging to the ordinary shareholder and dividend paid to them. This ratio indicates the portion of earning that has actually been distributed in the form of dividend out of total earning available for shareholders.

G. Growth Ratio

Growth analysis of the banks involves analysis of growth in deposits, loans, investments and net profit. Growth analysis is certain how much growth in deposit liability in supported by growth in assets. The analysis also shows assets portfolio which has significant increment corresponding to the increment in deposit liability.

I. Growth Ratio of Total Loan and Advance

Loan and advances is the major function of the commercial banking. The growth of these loans and advances determines the bank performance. The formula is;

Yearly change of total loan and advance in %

$$= \frac{\text{Current year's total loan and advance} - \text{previous year's total loan and advance}}{\text{Previous year's total loan and advance}} \times 100$$

II. Growth Ratio to Total Investment

Investment is also integral part of banking. It determines the proper utilization of its fund. The formula is

Yearly change of total investment in %

$$= \frac{\text{Current year's total investment} - \text{previous year's total investment}}{\text{Previous year's total investment}} \times 100$$

III. Growth Ratio to Total Deposit

Deposits are the main source of capital for commercial banks. Bank utilizes these funds in loan and advance as investment. The formula is:

Yearly change of total deposit in %

$$= \frac{\text{Current year's total deposit} - \text{previous year's total deposit}}{\text{Previous year's total deposit}} \times 100$$

IV. Growth Ratio of Net Profit

The growth of net profit reveals the overall performance of the banks, the formula is

Yearly change of net profit in %

$$= \frac{\text{Current year's net profit} - \text{previous year's net profit}}{\text{Previous year's net profit}} \times 100$$

H. Other Indicators

Various indicators can be used to know the financial performance analysis of the bank and there are very few indicators which are used to analysis the financial performance of NIBL, which are given below:

I. Spread:

"The spread is defined as interest revenue interest expenses. Spread management emphasizes the difference between the return on assets and cost of liabilities over a time. A high positive spread is generally desirable and is required for all financial institutions" – Fred C. Yeager

It can be expressed as follows:

Spread = Total interest earned – total interest paid

II. Time Series

A series formed from a set of statistical data arranged in accordance with their time of occurrence is said to be a time series. The values of variable may have been changing or fluctuating round a constant value over the change of time period. The time period may be yearly, monthly, weekly, daily, hourly etc. depending upon the nature of phenomena. The data which are variated with respect to time is called time series and the statistical methods used to analyze these time series is called time series analysis. A time series shows the relation between two variables, one being the time. The main importance of time series took place in economics and business. The way from which the maximum information can be drawn from the figures collected is known as the analysis of time series.

III. Least Square Method

This is the most popular and widely used mathematically methods of measuring trend. This is frequently used for future predication. There are various types of curves that may be used to describe the given data. Under this method, a trend line is fitted to the data satisfying the following two conditions.

(Y − Yc) = 0 and (Y − Yc)^2 is least where Y is the actual value and Yc the computed value of Y. As (Y − Yc)^2 is least, hence the name method of least square. The line obtained by this method is known as the line of best fit.

Let, the trend line between the dependent variable Y and the independent variable X (i.e. time) be represented by

Y = a + bX …………………………. i

Then for any given value of independent variable X, estimate value of y denoted by Yc given by above equation is

Yc = a + bX ………………………. ii

a = Y intercept or value of Y when X = 0

b = slope of the trend line or amount of change that comes in Y for a unit change in X. (it is taken from business mathematics and statistics, B.C. Bajracharya 2053)

3.4.2 Statistical Analysis

In this research, various types of statistical tool are used to analysis of financial efficiency of NIBL. Among them, coefficient of correlation and trend analysis of important variables have been used.

A. Coefficient of Correlation Analysis

Correlation is statistical device designed to measure the degree of association between two or more variables. Two variables are said to have "correlation", when they are so related that the change in the value of one variable is accompanied by the change in the value of the other. The measure of correlation called the "correlation coefficient" summarizes in one figure, the degree and direction of movement. Correlation analysis only helps in determining the extent to which the two variables are correlated but it does not tell us about cause and effect relationship.

One may, for the example, be interested in studying the correlation between capital and deposit, height and weight of children, income and expenditure etc.

To measure the degree of association between such variables, one more summary statistics is needed and is know as correlation coefficient. It is generally denoted by 'r'. It is independent of original units of data. In this research, Karl Person's correlation coefficient is used to measure a degree of association between two

variables only to the extent to which it is linear Person's coefficient of correlation is used to measure the degree of relation between following variables.

   a. Coefficient of correlation between total deposit and net profit
   b. Coefficient of correlation between deposit an total income
   c. Coefficient of correlation between deposit and loan
   d. Coefficient of correlation between net worth and total assets
   e. Coefficient of correlation between current assets and current liabilities

The formula is

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

Where,

r = the coefficient of correlation

  XY = total population of items in two series

  X = Total of X series

  Y = Total of Y series

  X^2 = Total of the square of item in X series

  Y^2 = Total of the square of item in Y series

N = The number of items period

Interpretation of correlation coefficient®

When, r = 1, there is positively perfect correlation between the two variables

When, r = -1, there is negatively perfect correlation between the two variables

When, r = 0, the variables are uncorrelated

Nearer the value of r to +1, closer will be the relationship between two variables and nearer the value of r to 0, lesser will be the relationship.

B. Probable Error of Correlation Coefficient

Probable error of correlation coefficient is an old measure for testing the reliability of an observed correlation coefficient. The probable error of correlation coefficient is shortly denoted by P.E. ®. It 'r' is the correlation coefficient calculated from n pairs of sample observations, then the standard error of this correlation coefficient is given by

$$S.E. = \frac{1 - r^2}{\sqrt{n}}$$

Then the probable error of r is P.E. (r) = 0.6745*S.E. (r)

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

It is used in insignificant. So, perhaps there is no evidence of correlation.

If r < P.E., it is insignificant. So, perhaps there is no evidence of correlation.

If r > 6 P.E., it is significant

In other cases, nothing can be concluded. The probable error of correlation coefficient may be used to determine the limits within which the population correlation coefficient lies. Limits for population correlation coefficient are

R ± P.E.

3.4.3 Factors for Analysis of Risk and Return
The factors which are used for analysis of risk and return are given below:

A. Dividend Per Share (DPS)

Dividend is relevant during the calculation of rate of return, which is a reward to the shareholders for their investment. Bank declares cash dividend and stock dividend. If a bank declares only the cash dividend, there is no problem to take the dividend amount but if a bank declares stock dividend or bonus dividend, it will be difficult to obtain the amount that shareholders have gained. So, in this case, they get extra numbers of share as dividend and simultaneously price of the stock

declines as a result of increased number of stocks. To get a real amount of dividend, the following model can be sued.

Total dividend amount = cash dividend + stock dividend % X next year's MPS

B. Market Price of Stock (MPS)

Here, in this study the closing price is taken as the market price of stock, which has specific time of span of one year and the study has focused in annual basis. To get the real average, volume and price of each transaction in the stock and duration of time of each transaction in the whole year are effectual which is monotonous and impossible too. So, considering the data availability the closing price is used as the market price of stock, which has specific time of one year and the study has focused in annual basis.

Tools for Analysis

The tools that are used for analysis are as follows

1. Holding Period Return (HPR)

Holding period return includes capital gain and dividend gain

HPR or R = capital gain + dividend gain

$$\text{HPR or R} = \frac{P_t - P_{t-1} + D_1}{P_{t-1}}$$

Where,

P_t = Ending price of the stock (price at time t)

P_{t+1} = Beginning price of the stock (Price at time t-1)

D_1 = Dividend received at time t

2. Expected Rate of Return (R_j)

The expected rate of return is the arithmetic mean of the past years returns. It can be calculated by using following formula

$$R_j = P_j \ X \ R_j$$

Where,

$\overline{R}_j$ = Expected rate of return of stock j

P_j = Probability distribution of security j

R_j = Return on stock j

When time series data are given, is can be calculated expected return as;

$$\overline{R}_j = \frac{\Sigma R_j}{N}$$

Where,

N = number of observation

3. Coefficient of Variation: Unitary Risk Measure

The risk that is calculated using standard deviation is the total risk on investment. If we needed to calculate risk per unit of expected return, coefficient of variation can be used. The formula is given below:

$$CV_j = \frac{\sigma_j}{\overline{R}_j}$$

Where,

CV_j = coefficient of variation of stock j

Coefficient of variation is the unitary risk measure. It gives the result regarding the unit of risk to bear for earning 1 unit of return

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter the analysis parts are presented in detail. Raw form of data of NIBL, which were collected from various sources are changed to an understandable presentation using tools in the previous chapter (i.e. Research Methodology). This is heart of the research report in which an organized presentation of results of NIBL and each major division of the problem is presented in a separate chapter. Generally, collected secondary data have been analyzed & presented in table and figures including discussion of the issue or parts of the problem investigated and evidence used in its solution. The main objective of the study is to examine and interpret the financial position of NIBL. The main objective of the study is to examine, analyze and interpret the financial position of the NIBL. The main interpretations are classified into the two headings. Which are given below:

⟩ Financial ratio
⟩ Statistical ratio

4.1 Analysis of Liquidity Position

Liquidity ratios measure the ability of the firm to meet its current obligation. The term solvency refers to ability of meeting liabilities. In fact, liquidity is a prerequisite for the very survival of a firm. The short terms creditors of the firm are interest in the short-term solvency or liquidity of affirm. But liquidity implies, from the viewpoint of utilization of the funds of the firm that funds are idle or they earn very little. A very high degree of liquidity is bad, as idle assets earn nothing .Due to lack of sufficient liquidity, the company will be failure to meet its obligation, it creates bad credit image, loss of creditor's confidence, or even in lawsuits resulting in the closure of the company.

Solvency ratios may be studied in two parts.

i. Short term solvency ratio

ii. Long term solvency ratio

Short term solvency refers to ability of meeting current liabilities in time out of current assets. Hence short term solvency ratios are based on current assets and current liabilities.

4.1.1 Current Ratio

This is the ratio between current assets and current liabilities with this ratio one can find out the sufficiency of current assets to meet current liabilities. Current liabilities generally mean liabilities to be settled with in a year or less. The formula is:-

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liability}}$$

Current assets include cash, bank balance, money at call and those assets which can be converted into cash within a year such as investment in government securities, receivables, overdrafts, loans, advances, purchased ,discounted and miscellaneous current assets.

Current liability include deposits and other short term loan, bills payable, staff bonus, dividend payables and miscellaneous current liabilities.

The current ratio measures the ability of the firm to meet its current liabilities Current assets get converted in to cash in the operational cycle of the firm and provide the funds need to pay the current liabilities.

Apparently, higher the current ratio, greater short term solvency. Generally 2:1 is said to be ideal current ratio but actually what should be the ideal ratio for a concern depends upon nature of its activities.

Table No 1
Current Ratio

Figures in Rs. (million)

Fiscal Year	Current	Current	Ratio in	Yearly
2002/03	7517.89	8359.47	0.90	
2003/04	11144.33	12506.96	0.89	-1.11
2004/05	13967.78	15078.84	0.93	4.49
2005/06	17906.12	19350.83	0.93	0
2006/07	23582.11	24899.12	0.95	2.15
2007/08	34148.19	35123.71	0.97	2.11
2008/09	47081.54	48040.61	0.98	1.03
Mean			0.94	
Standard Deviation			0.03	
CV			3.19	

Source: Annual Report (2002/03 to 2008/09)

The above table shows that during period 2002/03 to 2008/09, the ratio is less than 1. Under this consideration is not solvent in the short run. It shows that it cannot

pay its short-term liabilities with its assets, which can be realized in cash within a short period. The mean is 0.94. The current ratio is highest in the year 2008/09 i.e. 0.98 times and the lower in the year 2003/04 i.e. 0.89.The highest yearly change in percentage or growth rate in the FY 2004/05 is 4.49% and in the year 2003/04, highest yearly decreased by -1.11%. It can be said that the trend of current ratios of NIBL are not satisfactory.

So, mean, SD & CV of ratio are 0.94, 0.03 & 3.19% respectively. And CV i.e. 3.19% shows that the ratios are satisfactory consistent.

Figure-1: Graphical Presentation of Current Ratio
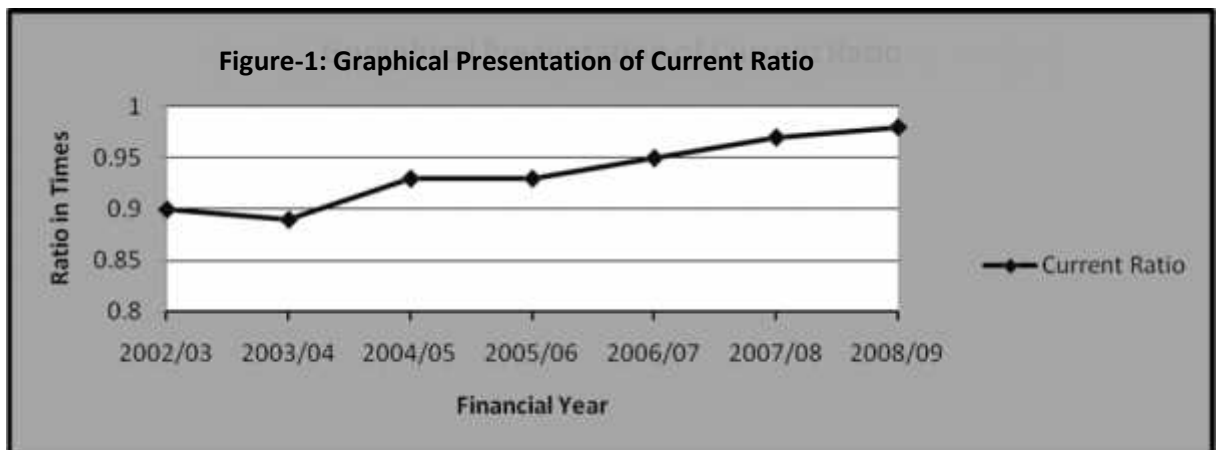
4.1.2 Cash and Bank Balance to Current Assets

It shows the relationship between cash and bank to current assets. Cash and Bank balance are the most liquid current assets. Higher ratio indicates the bank's sound ability to meet its demand for daily cash requirements to customer's deposit the formula is:

Cash and bank balances to current assets = $\dfrac{\text{Cash and bank balance}}{\text{Current assets}}$

Cash and bank balance to current asset ratio shows the position of cash and bank balance in total of current assets. Cash and bank balances include total cash and bank balance. This ratio scrutinizes higher liquidity position than current ratio. Following table shows the data relating to cash and bank balance to current ratio of NIBL: -
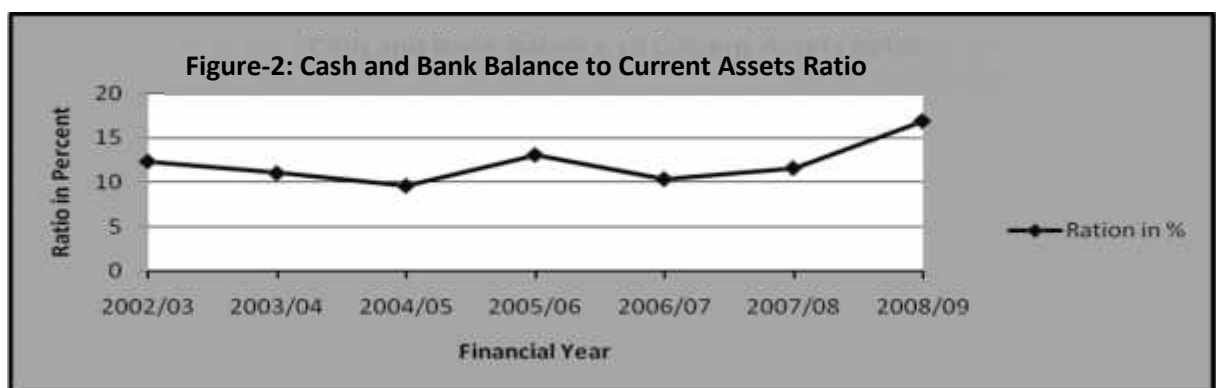
Table No 2

Cash and Bank Balance to Current Assets

Figures in Rs.(million)

Fiscal year	Cash and	Current asset	Ratio %	Yearly
2002/03	926.53	7517.89	12.32	
2003/04	1226.92	11144.33	11.01	-10.63
2004/05	1340.48	13967.78	9.60	-12.8
2005/06	2336.52	17906.12	13.05	35.94
2006/07	2441.51	23582.11	10.35	-20.69
2007/08	3954.94	34148.19	11.58	11.88
2008/09	7918	47081.54	16.82	45.25
Mean			12.10	
Standard Deviation			2.38	
CV			9.67	

Source: Annual Report (2002/03 to 2008/09)

Figure-2: Cash and Bank Balance to Current Assets Ratio

In the above, table no 2, bank has fluctuating trend regarding cash and bank balance to current asset ratio. The mean ratio of cash and bank balance to current assets is 12.10% during the study period 2002/03 to 2008/09. The ratio of cash and bank balance to current assets is highest in the fiscal year 2008/09 i.e. 16.82% and lowest ratio in the fiscal year 2004/05 i.e. 9.60%, which is less than the mean ratio. The highest positive change (growth) is in % in the FY 2008/09 i.e. 45.25%. Similarly the highest negative change is in % in the FY 2006/07 i.e. -20.69, In FY 2003/04, 2003/04, 2005/06 & 2007/08 liquidity position of NIBL is better. The mean of ratio is found to be 12.10% with 9.67% CV between them which signifies that ratio are not satisfactorily consistent over the study period.

4.1.3. Investment on Government Securities to Current Assets

It shows the relationship between investments on government securities to current assets. The government securities are the safest palace to create investment but not more liquid than cash and bank balance. They can be easily sold in the market or they can be converted in to cash in other way. This ratio shows the portion of commercial banks current assets, which is invested, on different types of government securities. The formula is

Investment on Governments securities to current assets =

$$\frac{\text{Investment on Governments securities}}{\text{Current assets}}$$

Following table shows the data relating to investments on government securities to current assets of NIBL: -

Table No 3
**Investment on Government Securities to Current Assets**

Figures in Rs. (million)

Fiscal Year	Investment on	Current	Ratio %	Yearly
2002/03	400	7517.89	5.32	
2003/04	2001.10	11144.33	17.96	237.59
2004/05	1948.5	13967.78	13.95	-22.33
2005/06	2522.3	17906.12	14.09	1.00
2006/07	3256.4	23582.11	13.81	-1.99
2007/08	3155	34148.19	9.24	-33.09
2008/09	2531.3	47081.54	5.38	-41.77
Mean			11.39	
Standard Deviation			4.84	
CV			42.49	

Source: Annual Report (2002/03 to 2008/09)

The above table No 3 shows that NIBL had made higher investment in the Govt. securities to current assets ratio in the FY 2003/04 i.e. 17.96% of the current assets. And the lowest investment is in the year 2008/09, The highest year growth rate is 237.59 times in the year 2003/04. Similarly, in the year 2008/09 it decreased by -41.77%. It shows that investment on govt. securities of the NIBL trend is very much fluctuating.

The mean of ratio is found to be 1139% with the 42.49% CV between them which signifies that the ratios are not consistent and variable over the period of 7 years study.

Figure-3: Investment in Government Securities to Current Assets Ratio
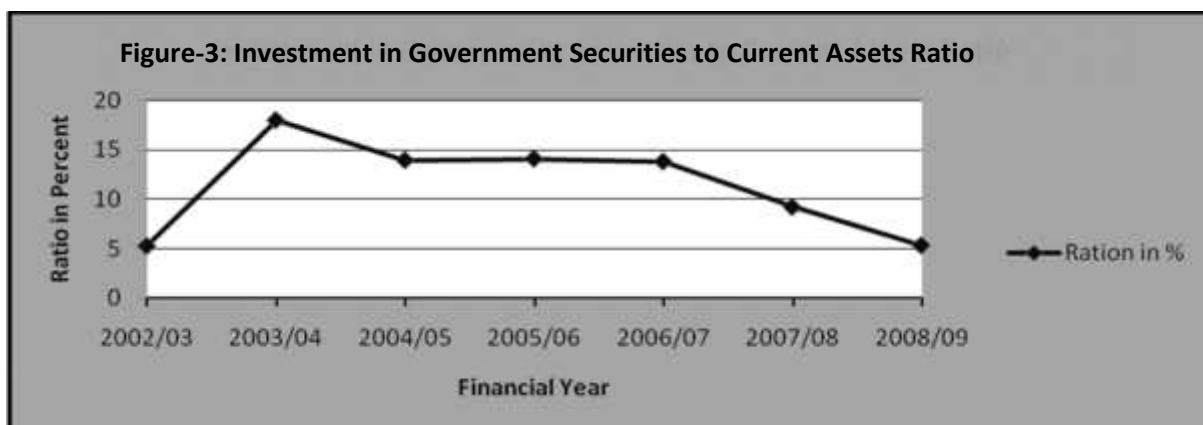
4.1.4. Loan and Advance to Current Assets

Generally, Loan and advances provides short- term loan, advances, overdraft, cash credit, local & foreign bill purchased and discount. It reveals the capacity of bank to what extent it is capable of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. Following table shows the data relating to Loan and advance to current assets of NIBL:-

Table No 4

**Loan and Advance to Current Assets**

Figures in Rs. (million)

Fiscal Year	Loan and Advance	Current Asset	Ratio %	Yearly Change in
2002/03	5772.14	7517.89	76.78	
2003/04	7130.13	11144.33	63.98	-16.67
2004/05	10126.06	13967.78	72.50	13.32
2005/06	12776.21	17906.12	71.35	-1.58
2006/07	17286.42	23582.11	73.30	2.74
2007/08	26996.65	34148.19	79.06	7.85
2008/09	36241.21	47081.54	76.98	-2.63
Mean			73.42	
Standard Deviation			5.00	
CV			6.81	

Source: Annual Report (2002/03 to 2008/09)

The above table shows that mean ratio of loan and advance to current asset is 73.42%. The loan and advance to current assets ratio of NIBL is the highest in the fiscal year 2008/09 i.e. 76.98% and lowest ratio in the fiscal year 2003/04 i.e. 63.98%. There is positive growth ratio during fiscal year 2006/07 to 2007/08 and out of them, highest growth rate is 13.32% during fiscal year 2004/05, but in the fiscal year 2008/09, change in % decreased by -2.63 %. It can be said that NIBL has followed the fluctuating trend in loans and advance to current ratio. From the above table, it can be said that loans and advance to current assets ratio of NIBL are increasing up to fiscal year 2007/08 but in the FY 2008/09 it starts decreasing.

The mean, S.D. & CV of this ratio are 73.42%, 5.00%, & 6.81% respectively. And CV i.e. 6.81% shows that there is a little satisfactorily uniformity in maintaining the ratio over the period.

Figure-4: Loan and Advance to Current Assets Ratio
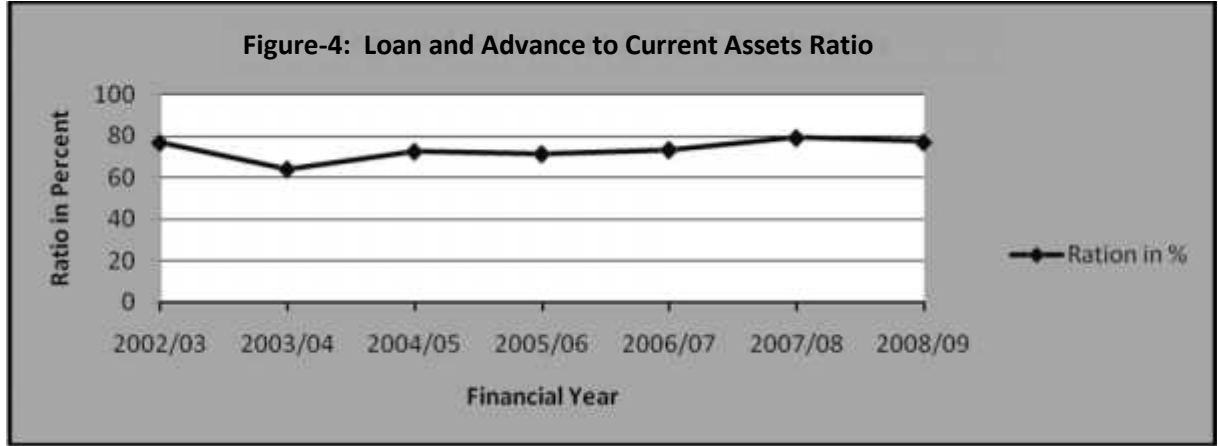
4.1.5. Fixed Deposit to Total Deposit

It is calculated to find out the percentage of fixed deposit with high interest bearing. The ratio is derived from dividing fixed deposits by total deposits. Following table shows the data relating to Loan and advance to current assets of NIBL: -

Table No 5

Fixed Deposit to Total Deposit

Figures in Rs (million)

| Fiscal Year	Fixed Deposit	Total Deposit	Ratio %	Yearly
2002/03	1672.82	7922.77	21.11	
2003/04	2294.68	11524.68	19.91	-5.68
2004/05	3212.27	14254.57	22.54	13.18
2005/06	5412.97	18927.31	28.60	26.91
2006/07	7516.69	24488.86	30.69	7.33
2007/08	7944.23	34451.73	23.06	-24.88
2008/09	11633.38	46698.09	24.91	8.04
Mean			24.4	
Standard Deviation			3.95	
CV			16.19	

Source: Annual Report (2002/03 to 2008/09)

The above table shows that mean ratio of fixed deposits to total deposit ratio is 24.4%. In the fiscal year, 2005/06 and 2006/07, it can be said that it has greater proportion of fixed deposits; the lesser will be the proportion of current or short term deposits in the total deposits, which indicates higher short- term liquidity position of a bank. But on the other years, liquidity position of NIBL is weak

because it has lower fixed deposits, comparing to other short term or current deposits with a bank implying lower liquidity position.

The above table clearly shows that fixed deposit to total deposit ratio is more fluctuating trend. The fixed deposit to total deposit ratio decreased by -24.88% in the year 2007/08 which is the highest decreasing during the 7 years study. And growth in the ratio is 26.91% during a fiscal year 2005/06.

The mean of ratio is found to be 24.4% with the 16.19% CV between them which signifies that the ratios are not consistent over the period of study.

Figure-5: Fixed Deposit to Total Deposit Ratio
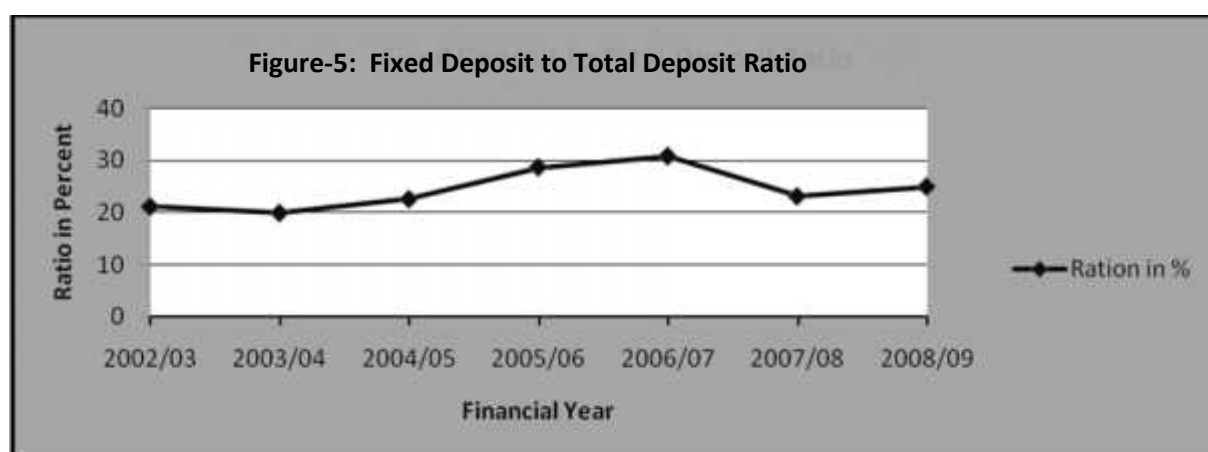
4.1.6. Saving Deposit to Total Deposit

Saving deposits is the short-term liabilities with fixed interest changes. Higher the ratio of saving deposits with respect to total deposits causes lowers liquidity position. Following table shows the data relating to Saving deposit to Total deposit of NIBL: -

**Table No 6**
Saving Deposit to Total Deposit

Figures in Rs.(million)

Fiscal Year	Saving	Total Deposit	Ratio %	Yearly
2002/03	2434.05	7922.77	30.72	
2003/04	4886.10	11524.68	42.40	38.00
2004/05	6703.51	14254.57	47.03	10.92
2005/06	8081.98	18927.31	42.70	-9.20
2006/07	10742.33	24488.86	43.87	2.73
2007/08	13688.77	34451.73	39.73	-9.42
2008/09	17066.25	46698.09	36.55	-8.02
Mean			40.43	
Standard Deviation			5.39	
CV			13.33	

Source: Annual Report (2002/03 to 2008/09)

The above table shows that mean ratio of saving deposits to total deposits is 40.43% It can be said that ratios are fluctuating trend. The highest ratio 47.03% in the FY 2004/05 and the lowest ratio 30.72% in the fiscal year 2002/03, In the above table no 6 the ratios are increasing decreasing trend. The ratio has increased to 42.4% in the FY 2003/04 which means, yearly change in % or growth rate is 38.00%, likewise, in the FY 2004/05 the ratio increased to 47.03% which shows the ratio increased by 10.92% compare to previous. But in the fiscal year 2005/06, yearly change ratio in % decreased by -9.0%. Even though there is increase in ratio in the year 2006/07 by 2.73 % yearly change ratio, but after then the growth rate of ratio is negative with 9.42% & 8.02% in the year 2007/08 and 2008/09 respectively

So, the mean, SD and CV of this ratio are 40.43%, 5.39%, 13.33% respectively. And CV i.e. 13.33% shows that there is not satisfactory consistent the ratio over the 7 years period.

Figure-6: Saving Deposit to Total Deposit Ratio
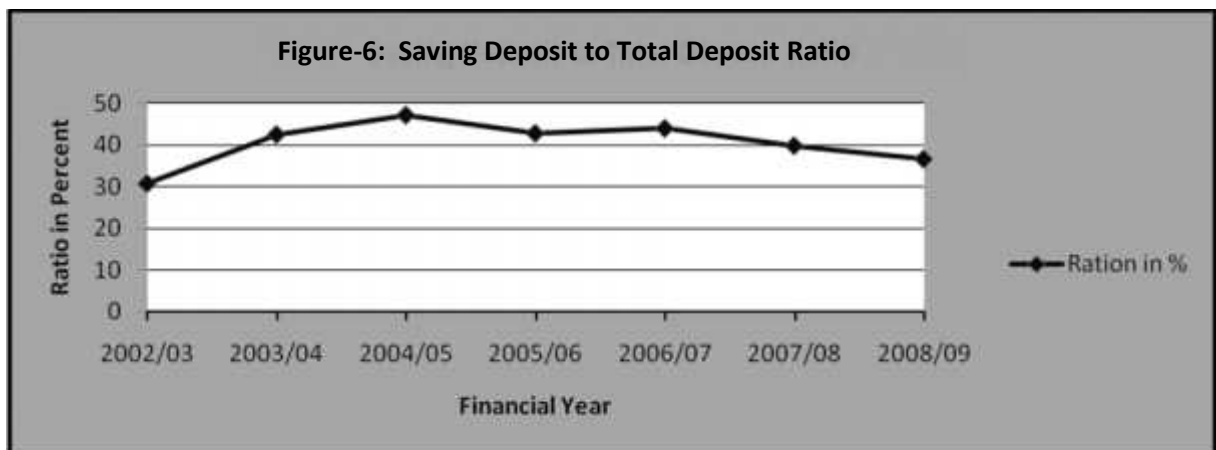
4.1.7. Short Term Loan to Total Deposit

It shows the portion of short term loan to total deposit. It can be expressed as:-

$$\text{Short term loan to total deposit ratio} = \frac{\text{Short term loan}}{\text{Total deposit}}$$

Following table shows the data relating to Short-term loan to total deposit of NIBL:-

Table No 7

**Short term Loan to Total Deposit**

Figures in Rs. (million)

	Short Term	Total Deposit	Ratio %	Yearly
2002/03	6.83	7922.77	0.09	
2003/04	361.5	11524.68	3.14	3538.61
2004/05	350	14254.57	2.46	-21.72
2005/06	555	18927.31	2.93	19.42
2006/07	800	24488.86	3.27	11.41
2007/08	1050	34451.73	3.05	-6.71
2008/09	1088.8	46698.09	2.33	-23.50
Mean			2.47	
Standard Deviation			1.10	
CV			44.53	

 Source: Annual Report (2002/03 to 2008/09)

The above table No 7 shows that very few amount of short term lending. NIBL has decreased highest ratio of 3.27% in the FY 2006/07 and lowest ratio in FY 2002/03 i.e. 0.09%. The yearly change in % or growth ratio has increased up to 3388.89% in 2003/04. But from the FY 2007/08 to 2008/09 starts to decreased by -6.71% to -23.50%. The result of above description shows that NIBL is able to utilize is very few deposit to short term lending through out the study period i.e. from the FY 2002/03 to 2008/09.

The mean of the ratio is found to be 2.47% with CV 44.53% between them, which mean the ratio, are not consistent and variable.

Figure-7: Fixed Deposit to Total Deposit Ratio
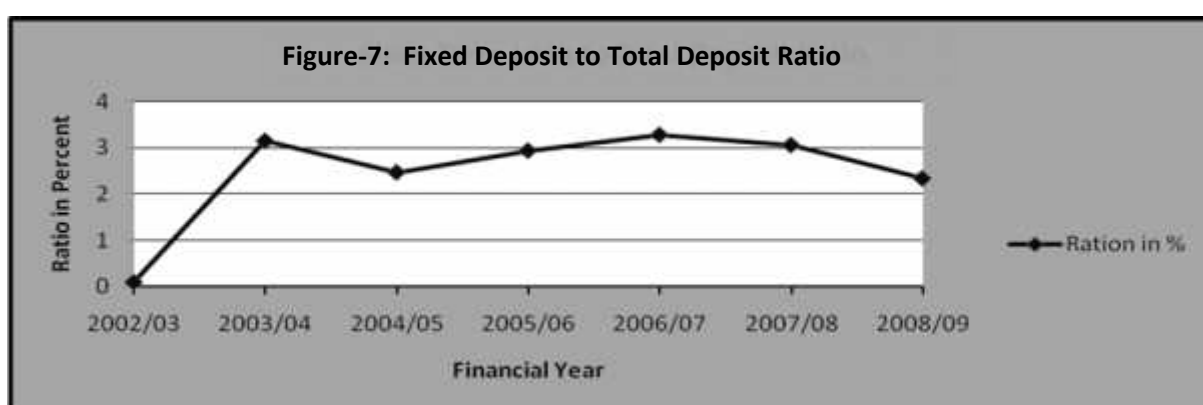
4.1.8. Cash and Bank Balance to Total Deposit

Cash and bank balance is said to be the first defense of every cash transaction for commercial bank. This ratio measures the ability of the bank to meet the unanticipated cash and all types of deposits. Following table shows the data relating to Cash and bank balance to total deposit of NIBL: -

Table No 8
Cash Reserve Ratio

Fiscal Year	Cash and Bank Balance	Total Deposit	Ratio %	Yearly Change in %
2002/03	926.53	7922.77	11.69	
2003/04	1226.92	11524.68	10.65	-8.90
2004/05	1340.48	14254.57	9.40	-11.67
2005/06	2336.52	18927.31	12.34	31.27
2006/07	2441.51	24488.86	9.97	-19.24
2007/08	3954.94	34451.73	11.48	15.14
2008/09	7918	46698.09	16.96	47.70
Mean			11.78	
Standard Deviation			2.50	
CV			21.22	

Source: Annual Report (2002/03 to 2008/09)

The above table exhibits that NIBL's cash Research ratio are in the fluctuating trend i.e. 11.69 % in the fiscal year 2002/03, Likewise 10.65%, 9.40%, 12.34%, 9.97%, 11.48% &16.96% in the year 2003/04 to 2008/09 respectively. The average ratio is 11.78 %. The highest ratio is in the year 2008/09 i.e. 16.96% and lowest ratio in the year 2004/05 i.e. 9.40% which is the less than average ratio. There are negative changes in % of ratio in the fiscal years 2003/04, 2004/05, & 2006/0 i.e. -8.90%,-11.67%, & 19.24% respectively.

Similarly, there are positive change in % of ratio in the FY 2005/06, 2007/08 and 2008/09 i.e. 31.27%, & 15.14%   and 47.70% respectively. In the fiscal year 2008/09, it has highest ratio i.e. 16.96% which indicates that the investment of the fund is high i.e. it was holding more cash in the FY 2008/09 and in the FY 2004/05 (9.40%) it has mobilized more deposits in income generating assets.

The mean of the ratio is found to be 11.78% with CV 21.22 % between them, which means the ratio are not consistent and variable. Graphical presentation of Cash and Bank balance to total deposit is given below:

Figure-8: Cash Reserve Ratio
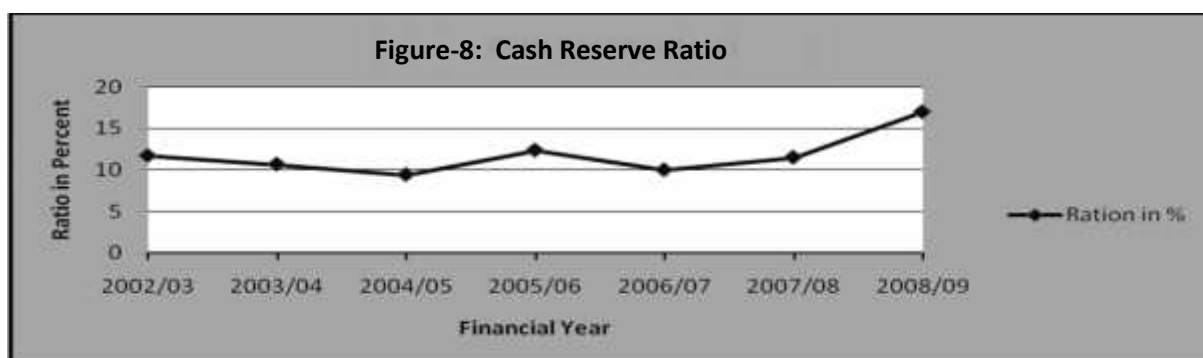
4.2 Stability Ratio

Stability ratio consists of share capital shareholder reserve, net worth, total assets, current assets and total deposit in the corporate establishment. It includes different types of ratio which are as follows:-

4.2.1. Shareholder's Reserve to Share Capital

This ratio indicates the relationship between share capital and shareholders reserve, it indicates the sustainability of the bank. Shareholders reserves include various reserves and share capital includes the paid up equity of the owners including the preference share. The formula is:-

Shareholder's reserve to share capital ratio = $\dfrac{\text{Shareholder's reserve}}{\text{Share capital}}$

Following table shows the data relating to Shareholder reserve to share capital

Table No 9
**Shareholder Reserve to Share Capital**

Figures in Rs (million)

F.Y	Shareholder's Reserve	Share Capital	Ratio %	Yearly Change in %
2002/03	371.6	295.3	125.84	
2003/04	433.75	295.3	146.88	13.72
2004/05	592.42	587.74	100.80	-31.38
2005/06	824.85	590.58	139.67	38.56
2006/07	1076.77	801.35	134.37	-3.79
2007/08	1482.87	1203.91	123.17	-8.33
2008/09	1500.44	2407.06	62.33	-49.39
Mean			119.01	
Standard Deviation			29.00	
CV			24.37	

Source: Annual Report (2002/03 to 2008/09)

The above table shows that ratio of NIBL has an increasing trend from FY 2002/03 i.e. 125.84% to 2003/04 i.e. 146.88% and decreasing trend in FY 2004/05 i.e. 100.80% but again ratio is increasing to 139.67% in FY 2005/06. Then after the FY 2006/07 to 2008/09 it began the decreasing trend by 134.37%, 123.17% and 62.33% respectively. Thus the ratio of NIBL is fluctuating. The higher ratio indicated the sustainable   growth of the bank.

In the FY 2005/06 it increased by 38.56% with the ratio of 139.67% & in FY 2008/09, it decreased by -49.39% has lowest ratio of 62.33%.

The mean, standard deviation and CV of NIBL is 119.01%, 29.00% & 24.37% respectively. And CV i.e. 24.37% shows that there is not satisfactory consistent the ratio over the 7 years period.

Figure-9: Shareholder's Reserve to Share Capital Ratio
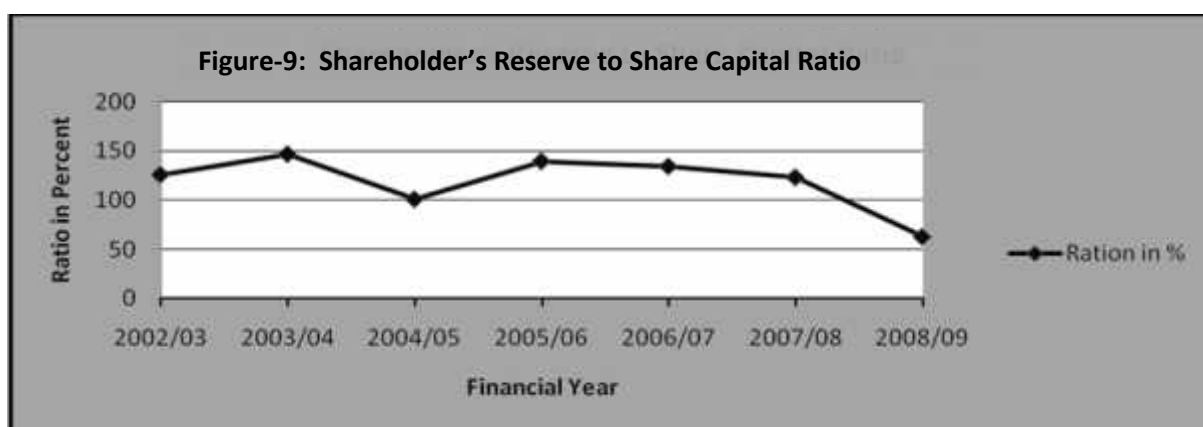
4.2.2. Net worth to Total Assets

It shows the relationship of net worth of the bank to its total assets. It helps to find out how much proportion of assets employed on its net worth. Following table shows the data relating to Net worth to total assets of NIBL

Table No 10
Net worth to Total Assets

Figures in Rs.(million)

Fiscal Year	Net Worth	Total Assets	Ratio %	Yearly Change in %
2002/03	638.54	9014.25	7.08	
2003/04	729.04	13255.5	5.50	-22.36
2004/05	1180.17	16274.06	7.25	31.85
2005/06	1415.4	21330.13	6.64	-8.50
2006/07	1878.12	27590.84	6.81	2.58
2007/08	2686.78	38873.3	6.91	1.54
2008/09	3907.84	53010.80	7.37	6.66
Mean			6.79	
Standard Deviation			0.62	
CV			9.13	

Source: Annual Report (2002/03 to 2008/09)

The above table shows that the average net worth to total assets ratio is 6.79%. It can be said that in the fiscal year 2008/09, NIBL's capital adequacy position is good position because it has highest ratio in percentage but the later stage of the 7 years study period, the ratio is fluctuating trend. So, in terms of capital adequacy, NIBL's performance is more satisfactory in the ending period. From above table, it

can be said average of 6.79% of the total assets of the bank is financed through shareholders equity capital and the remaining from debt capital. The yearly change in % or growth ratio has increased up to 31.85% in the fiscal year 2004/05. The mean, standard deviation and CV of NIBL is 6.79%, 0.62% & 9.13% respectively**.** And CV i.e. 9.13% shows that there is a satisfactory consistent the ratio over the 7 years period.

Figure-10: Net Worth to Total Assets Ratio
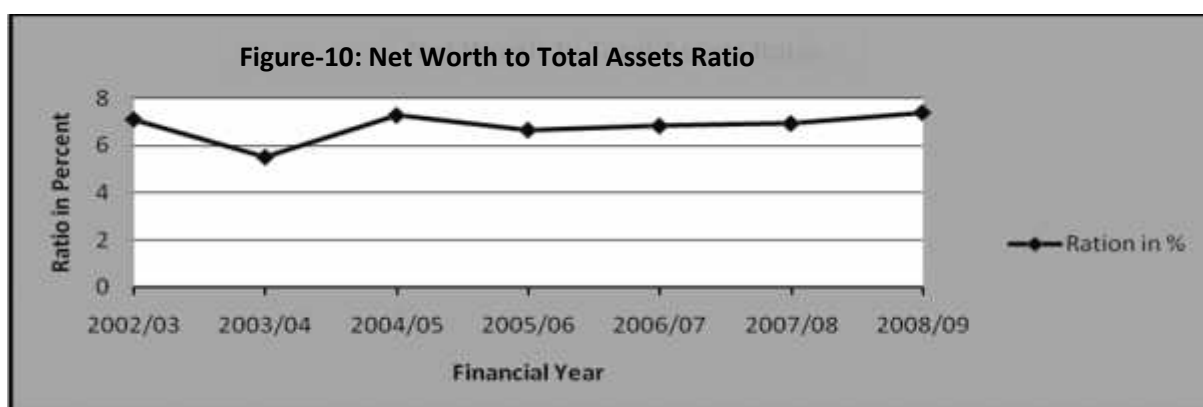
4.2.3. Current Assets to Net Worth

It measures the relationship between current assets and net worth. This ratio derived from dividing current assets to net worth. Following table shows the data relating to Current assets to net worth of NIBL

Table No 11

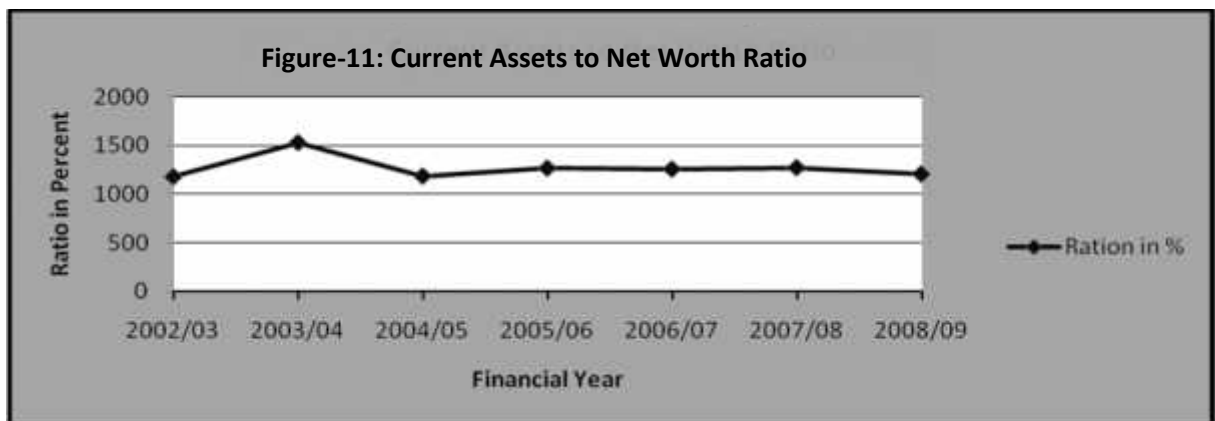**Current Assets to Net Worth**

Figures in Rs. (million)

Fiscal Year	Current assets	Net Worth	Ratio %	Yearly Change in %
2002/03	7517.89	638.54	1177.36	
2003/04	11144.33	729.04	1528.63	29.84
2004/05	13967.78	1180.17	1183.54	-22.58
2005/06	17906.12	1415.4	1265.09	6.89
2006/07	23582.11	1878.12	1255.62	-0.75
2007/08	34148.19	2686.78	1270.97	1.22
2008/09	47081.54	3907.84	1204.80	-5.21
Mean			1269.43	
Standard Deviation			120.71	
CV			9.51	

Source: Annual Report (2002/03 to 2008/09)

The above table shows that the ratio of NIBL has ranged between 1528.63% in FY 2003/04 to 1177.36% in 2002/03. NIBL has a decreasing trend from FY 2006/07

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i.e. 1255.62% to FY 2008/09 i.e. 1204.80% except FY 2007/08 i.e. 1270.97%. It can be said that, ratios of NIBL have a fluctuating trend through out the study period i.e. from FY 2002/03 to 2008/09. The higher current assets reduce the profitability and risk too. If the bank wants to reduce risk, it will have to reduce the proportion of the current assets for creating positive impact on profitability.

Mean, S.D. and CV. of NIBL are 1269.43%, 120.71% & 9.51% respectively. And C. V. i.e. 9.51% shows there is uniformity in maintaining the ratio over the period.

Figure-11: Current Assets to Net Worth Ratio

4.2.4. Total Deposit to Net Worth

Total deposit includes saving, fixed and current call to short deposit and other deposit. Total deposits to net worth ratio shows the relative portion of total deposit in relation to net worth.
The ratio can be calculated as follow: -

$$\text{Total deposit to net worth} = \frac{\text{Total deposit}}{\text{Net worth}}$$

Following table shows the data relating to Total deposit to net worth of NIBL

Table No 12
Total Deposit to Net Worth

Figures in Rs (million)

Fiscal Year	Total Deposit	Net Worth	Ratio %	Yearly Change in %
2002/03	7922.77	638.54	1240.76	
2003/04	11524.68	729.04	1580.80	27.41
2004/05	14254.57	1180.17	1207.84	-23.59
2005/06	18927.31	1415.4	1337.24	10.71
2006/07	24488.86	1878.12	1303.90	-2.49
2007/08	34451.73	2686.78	1282.27	-1.66
2008/09	46698.09	3907.84	1194.98	-6.81
Mean			1306.83	
Standard deviation			131.19	
CV			10.04	

Source: Annual Report (2002/03 to 2008/09)

From the above table the ratio of NIBL has ranged between 1580.80% in FY 2003/04 to 1194.98% in FY 2008/09 and the ratio is increased to 1580.80 % in FY 2003/04 from 1240.76% in 2002/03, but is decreasing trend in FY 2004/05 to 2008/09 except the FY 2005/06. From this calculation it can be said that the ratio of NIBL has a fluctuating trend through out the study period i.e. from 2002/03 to 2008/09. Normally, higher ratio is unfavorable to the bank while it is incurring loses or while the rate of return is less than the interest payable and vice versa. In the FY 2003/04, the ratio increased by 27.45% has maintained ratio of 1580.80% & in FY 2004/05, it decreased by -23.59% which is the lowest negative growth of ratio.

The mean, S.D. and CV are 1306.83%, 131.19% & 10.04%.The CV 10.04% reveals that the ratios are consistent and variables over the 7 years study period

Figure-12: Total Deposit to Net Worth Ratio
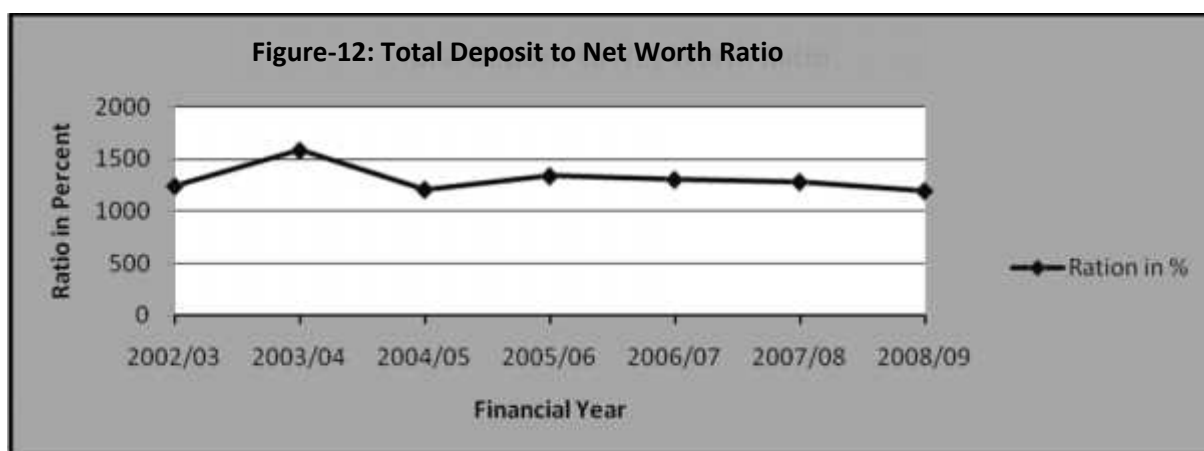
4.3. Assets Management Ratio

Asset management ratio measures the efficiency of the bank to manage its asset in profitable and satisfactory manner. This ratio shows the speed with which assets are being converted or turnover so it is called turnover ratio.

4.3.1. Loan and Advances to Total Deposit

This ratio shows the capacity of bank, which can mobilize the deposits (the outsider fund) on loan and advances in order to make profit maximization. Higher ratio implies the better utilization of total deposit. The formula is

$$\frac{\text{Loan and advances}}{\text{Total deposit}}$$

Following table shows the data relating to Loan and advances to total deposit of NIBL

Table No 13

Loan and Advances to Total Deposit

Figures in Rs (million)

| Fiscal Year	Loan and	Total Deposit	Ratio %	Yearly Change
2002/03	5772.14	7922.77	72.86	
2003/04	7130.13	11524.68	61.87	-15.08
2004/05	10126.06	14254.57	71.04	14.82
2005/06	12776.21	18927.31	67.50	-4.98
2006/07	17286.42	24488.86	70.59	4.57
2007/08	26996.65	34451.73	78.36	11.01
2008/09	36241.21	46698.09	77.61	-0.96
Mean			71.40	
Standard Deviation			5.71	
CV			8.00	

Source: Annual Report (2002/03 to 2008/09)

The above table reveals that the average ratio of loans and advance to total deposit ratio is 71.40%. From the above analysis, it can be said that NIBL is more successful in deposit utilization as main income generating assets, i.e. loan and advances in the FY 2007/08 among the all the study period but lowest ratio 67.50% in FY 2005/06 shows NIBL unable to utilize total deposit on loan and advance than other fiscal year whish is less than average ratio.

The ratios of NIBL have fluctuating trend because the yearly change in % or growth rate has increased up to 14.82% in FY 2004/05 but it the succeeding year change in % decreased to -15.08% and in FY 2007/08 it increased up to11.01% but

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at last, In FY 2008/09 it decreased by -0.96% .So that it can be said that it should improve mobilization of deposit on loans and advances.

The mean of the ratio is found to be 71.40% with CV 8.00% between them, which mean that the ratios are consistent.

Figure-13: Loan and Advance to Total Deposit Ratio
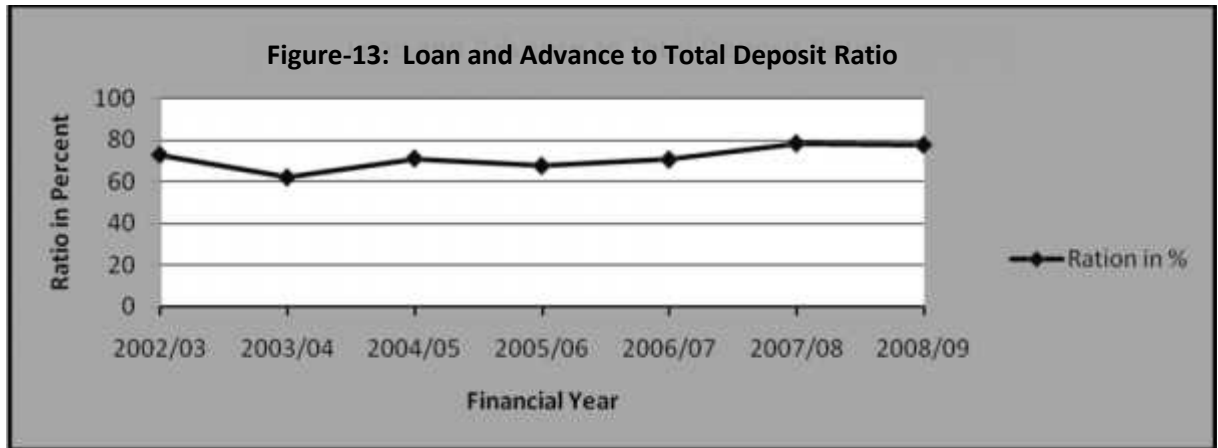
4.3.2. Loan and Advances to Fixed Deposit

This ratio measures how many times the amount is used on loans and advances in comparison to fixed deposits. Loan and advances are the major sources of Investment to generate income for the commercial banks and fixed deposits are high interest bearing obligation. The formula is:-

$$\text{Loan and advance to fixed deposit ratio} = \frac{\text{Loan and Advances}}{\text{Fixed deposit}}$$

Following table shows the data relating to Loan and advance to fixed deposit of NIBL

Table No 14

Loan and Advances to Fixed Deposit

Figures in Rs.(million)

Fiscal Year	Loan and	Fixed Deposit	Ratio %	Yearly Change
2002/03	5772.14	1672.82	345.05	
2003/04	7130.13	2294.68	310.72	-9.95
2004/05	10126.06	3212.27	315.23	1.45
2005/06	12776.21	5412.97	236.03	-25.12
2006/07	17286.42	7516.69	229.97	-2.57
2007/08	26996.65	7944.23	339.83	47.77
2008/09	36241.21	11633.38	311.53	-8.33
Mean			298.34	
Standard Deviation			46.68	
CV			15.65	

Source: Annual Report (2002/03 to 2008/09)

The above table shows that the ratio of loan and advances to fixed deposits ratio of NIBL has ranged from 345.05% in FY 2002/03 to 229.97% in FY 2006/07. Loan and advances to fixed deposit ratio increased by 47.77% in 2007/08 which is the highest during 7 years study period and decreased by -9.95% which is the highest negative growth of ratio in FY 2003/04 Mean, S.D. and CV of the ratios are 298.34%, 46.68% & 15.65% respectively. And CV i.e. 15.65% shows that there is uniformity in maintaining the ratio over period. Here, higher ratio shows higher efficiency of the bank.

Figure-14: Loan and Advance to Fixed Deposit Ratio
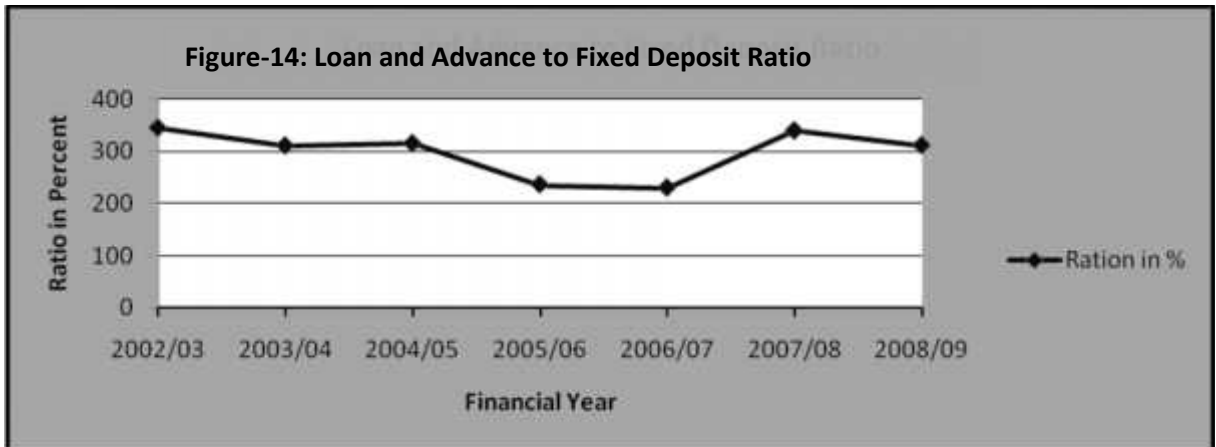
4.3.3. Loan and Advances to Saving Deposit

Fixed deposits are the high interest-bearing obligation then saving deposits are the second high interest-bearing obligation. This ratio measures the extent to which the bank is successful to mobilize the saving deposit on loans and advances for the purpose of profit maximization. Following table shows the data relating to Loan and advances to total deposit of NIBL

Table No 15
**Loan and Advances to Saving Deposit**

Figures in Rs (million)

Fiscal	Loan and	Saving Deposit	Ratio %	Yearly Change in
2002/03	5772.14	2434.05	237.14	
2003/04	7130.13	4886.10	145.93	-38.46
2004/05	10126.06	6703.51	151.06	3.51
2005/06	12776.21	8081.98	158.08	4.65
2006/07	17286.42	10742.33	160.92	1.79
2007/08	26996.65	13688.77	197.22	22.56
2008/09	36241.21	17066.25	212.36	7.68
Mean			180.39	
Standard Deviation			35.24	
CV			19.54	

Source: Annual Report (2002/03 to 2008/09)

The above table no 14 exhibits that the mean % of loan and advance to saving deposit ratio is 180.39% during the study period of 7 years. NIBL has recorded highest ratio is 237.14% in the FY 2002/03 and lowest ratio in FY 2003/04 of 145.93% which is less than average times. The above table shows that loans and advances to saving deposit of the bank varies from maximum of 237.14% to the minimum of 145.93% in the year 2003/04 during the study period of 7 years. The analysis indicates that the contribution of saving deposit in loans and advances is in fluctuating trend. The yearly change in % or growth ratio has increased up to 22.56% in FY 2007/08 and decreased up to -38.46% in the FY 2003/04.

The mean, S.D. and CV are 180.39%, 35.24% & 19.54%.The CV 19.54% reveals that the ratios are not satisfactorily consistent and variables over the 7 years study period.

Figure- 15: Loan and Advance to Saving Deposit Ratio
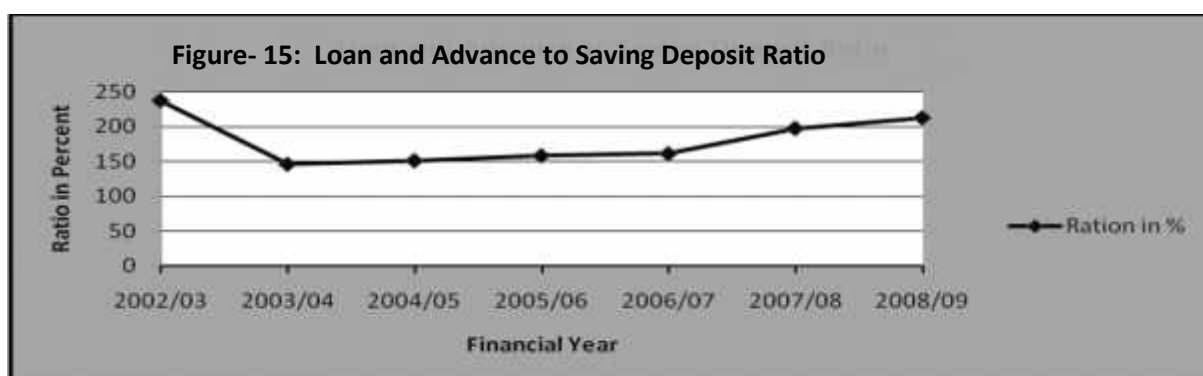
4.3.4. Total off Balance Sheet Operation to Loan and Advances Ratio

Off balance sheet activities is a fee based activities .This fee based activities are affected by mode of operation, management strategy, banking network with foreign banks. Total off balance sheet operation consists of letter of credit (L/C), Letter of guarantee, document negotiated under reserve (DNUR), capital commitments, commitments of foreign currency purchase contracts claimed at bank by accepted and other such transaction. The Ratio is expressed as

Total off balance sheet operation to Loan and advances ratio =

$$\frac{\text{Total off balance sheet operation}}{\text{Loan and advances}}$$

Following table shows the data relating to Total off balance sheet operation to Loan and advances ratio of NIBL

Table No 16

**Total off Balanced Sheet Operation to Loan and Advances Ratio**

Figures in Rs (million)

Fiscal Year	Total off	Loan and	Ratio %	Yearly Change
2002/03	3132.44	5772.14	54.27	
2003/04	3335.44	7130.13	46.78	-13.80
2004/05	3995.68	10126.06	39.46	-15.65
2005/06	6077.43	12776.21	47.57	20.55
2006/07	8365.86	17286.42	48.40	1.74
2007/08	10139.5	26996.65	37.56	-22.39
2008/09	16267.73	36241.21	44.89	19.51
Mean			45.56	
Standard Deviation			5.64	
CV			12.38	

Source: Annual Report (2002/03 to 2008/09)

In the above table 16, the mean ratio of   Total off balance sheet operation to Loan and advance is 45.56 %. The NIBL has highest ratio of 54.27% in the FY 2002/03 and lowest ratio of 37.56 % in the FY 2007/08. In the FY 2003/04 and 2004/05, the ratio decreased to 46.78% and 39.46% respectively but then increased ratio to 47.57%, & 48.40%, in the FY 2005/06 and 2006/07 respectively. Again, in FY 2007/08 ratio decreased to 37.56%, which is lowest but in the last year 2008/09 it is increased to 44.89%.

The yearly changes in the ratio % are decreasing and increasing trend, It can be said that total off balance sheet activities are fluctuating trend on loan and advance from FY 2002/03 to 2008/09. It is shown that it has been improving off balance activities to loan and advances since 2008/09 than previous years.

The mean, S.D. and CV are 45.56%, 5.64% & 12.38% .The CV 12.38% reveals that the ratios are satisfactorily consistent and variables over the 7 years study period. Graphical presentation of Total off balance sheet operation to Loan and advances ratio

Figure-16: Total Off Balance Sheet Operation to Loan and Advance Ratio
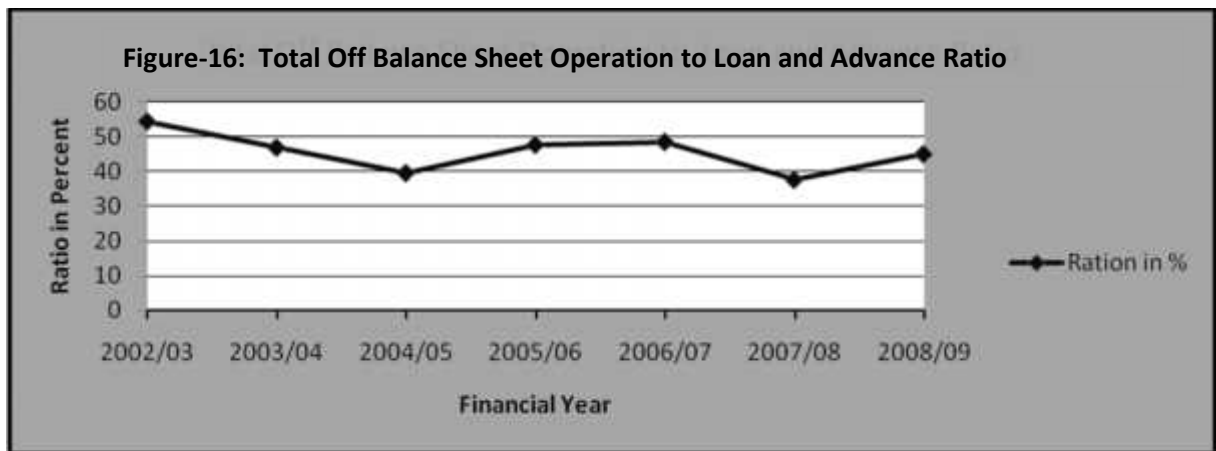
4.3.5. Loan loss ratio

Loan loss provision to total loans and advance ratio

NRB has directed all the commercial banks to classify its loan and advances into category and make provision according to these loans classified. The ratio of loan loss provision to total loan and advance explains the quality of assets that the commercial banks are holding which the assets are in the form of loan. The NRB directives direct to make the provision of 1%, 25%, 50% & 100% for good loans, sub standard loans, doubtful loans and bad loans respectively. NRB has classified the pass and substandard loan as performing loan and doubtful and loss as Non-performing loans. The provision for performing loan is called General loan loss provisions and for non-performing loan is called specific loan loss provision.

Loan loss provision is the cushion against future contingency created by the default of the borrower. If the loan loss provision consists the larger shares in the total provision presented in the P/L a/c, it will decrease the probability of bank. The provision for loan loss reflects the increasing possibility of Non-performing loans in the total volume of loans and advances. The low ratio indicates the good quality

of assets (loans) in the total volume of loans and advances where as high ratio indicates more risky assets (loans having chances of default) in the volume of loans and advances. Following table shows the data relating to Loan loss provision to total loans & Advance ratio of NIBL

Table No 17
## Loan Loss Provision to Total Loans & Advance Ratio

Figures in Rs (million)

Fiscal Year	Loan Loss	Loan and	Ratio %	Yearly
2002/03	149.65	5772.14	2.59	
2003/04	206.30	7130.13	2.89	11.60
2004/05	327.30	10126.06	3.23	11.71
2005/06	401.94	12776.21	3.15	-2.67
2006/07	482.67	17286.42	2.79	-11.25
2007/08	532.65	26996.65	1.97	-29.34
2008/09	585.95	36241.21	1.62	-18.05
Mean			2.61	
Standard Deviation			0.60	
CV			22.99	

Source: Annual Report (2002/03 to 2008/09)

The ratio of loan loss provision to Total loans & advance ratio range from 3.23% in 2004/05 to 1.62% in 2008/09 and its mean ratio is 2.61%. NIBL has increasing ratio in FY 2002/03 to 2004/05 by 2.59%, 2.89% and 3.23% respectively, but then it starts to decrease by -2.67%, -11.25, -29.34 and -18.05 in the FY 2005/06, 2006/07, 2007/08 and 2008/09 respectively, the growth rate ratio are positive as 11.60% and 11.71% in the FY 2002/03 and 2003/04 respectively. which indicates that the increase in volume of sub standard loans and advances.

Therefore Non performing loan has increased in the total assets which is quite risky as it might cause a great failure in future performance of the banks as the loans and advances are crucial part of earning income for a bank because of the poor and ineffective credit policy and poor economy. Lower loan provision represents better performance of bank i.e. 1.62% in FY 2008/09. The recovery of loan loss provision has been improving since fiscal year 2007/08 and little bit satisfaction performance on last 2 FYs.

The mean, S.D. and CV are 2.61%, 0.60%& 22.99% .The CV 22.99% reveals that the ratios are not consistent and variables over the 7 years study period.

Figure-17: Loan Loss Provision to Total Loan and Advance Ratio
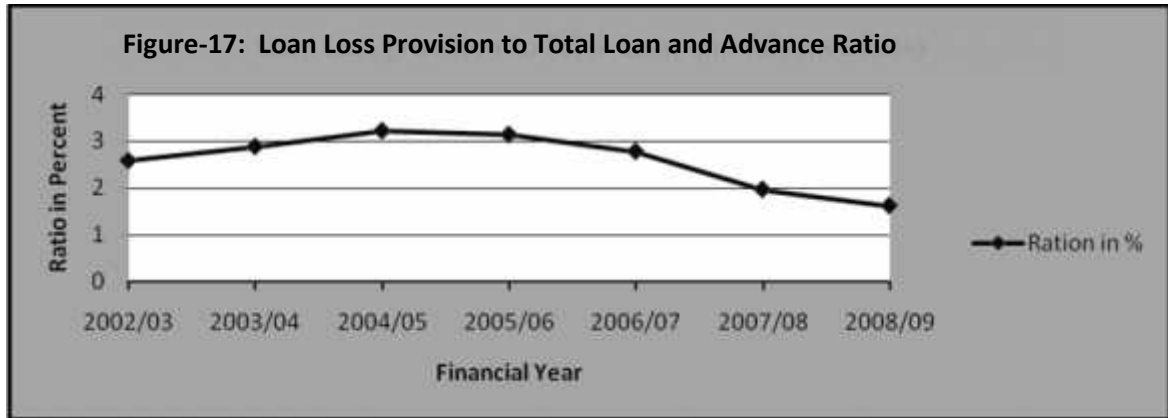
Non-Performing Loan

The NRB directive has classified the loan and advance as pass, substandard, doubtful; loss and provision should be made 1%, 25%, 50% & 100% respectively. The loan under the category of pass loan is also called performing loan and the substandard doubtful and loss loans are called Non-performing loan. Non-performing loan consists of loan and advances except good loans. Non-performing loan needs extra effort for collection of repayment so, it is very crucial problems of banks.

Following table shows the data relating to Non-performing Loan of NIBL

Table No 18
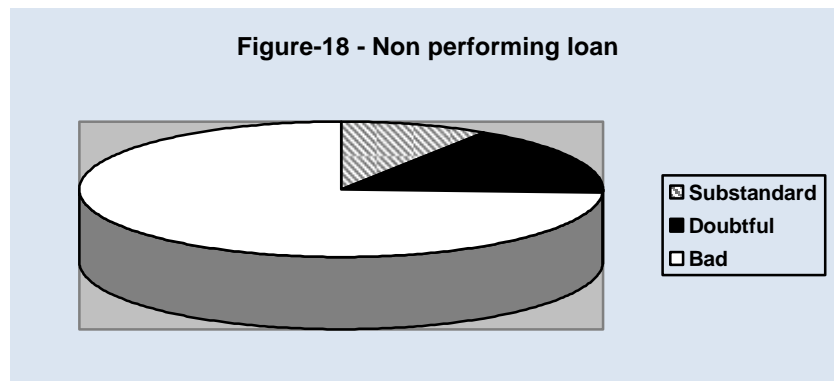
Non-performing Loan

Figures in Rs (million)

	2002/03	2003/04	2004/05	2005/06	Mean	% of Mean
Sub-standard	22.03	10.84	0.82	44.24	19.48	9.15
Doubtful	3.59	63.88	74.94	0.05	35.62	16.73
Bad	91.47	106.72	205.11	227.76	157.77	74.12
Total					212.86	100

Source: Annual Report (2002/03 to 2008/09)

From the above table shows that there has been classification of Non-performing loan into Sub standard, Doubtful & Bad loan. Sub standard loan consists of Rs.22.03m, 10.84m, 74.94m & 0.05 in FY 2002/03, 2003/04, 2004/05 and 2005/06 respectively. The mean value of substandard loan is Rs.19.48. The amount of substandard in FY 2003/04 and 2004/05 are less than mean value Rs.19.48m.

NIBL was unable to collect of repayment of doubtful loan in FY 2003/04, 2004/05 but in FY 2005/05 doubtful loan decreased to Rs.0.05 from Rs 74.94m. So it can say that NIBL collected doubtful loan surprisingly.

Figure-18 - Non performing loan

- Substandard
- Doubtful
- Bad

Loan loss provision for Non performing Loans

According to NRB directive loan loss provision should be made against all types of loans. The NRB directives have classified the loan and advance as pass, substandard, doubtful and loss and provision should be made 1%, 25%, 50% & 100% respectively. The given below shows the loan loss provision for Non-performing loan for 4 years.

Table No 19
Loan Loss Provision for Non-Performing Loan

Figures in Rs (million)

|	2002/03	2003/04	2004/05	2005/06	Mean	% of Mean
Sub-standard	2.49	2.73	0.21	11.06	4.12	2.69
Doubtful	0.46	29.89	37.56	0.25	17.04	11.13
Bad	8.95	104.99	188.28	225.49	131.93	86.18
					153.09	100

Source: Annual Report (2002/03 to 2008/09)

From the above table, it can be seen that loan loss provision for substandard loan is Rs2.49m, Rs2.73m, Rs0.21m & Rs11.06m in FY 2002/03, 2003/04, 2004/05 & 2005/06 respectively. The mean value of substandard loan is Rs4.12m. the highest loan loss provision is Rs.11.06m in FY 2005/06 & lowest loan loss provision in FY 2004/05 which is less than mean value. And, loan loss provision for doubtful loan is 0.46m, Rs29.89m, Rs37.56m, Rs0.25m in FY 2002/03, 2003/04, 2004/05 &2005/06 respectively. The mean value is 17.04m and Rs37.56m is highest amount of doubtful in FY 2004/05 & Rs0.25m is the lowest amount of doubtful loan in FY 2005/06 which is less than mean i.e.Rs17.04m.

Finally, loan loss provision for bad loan is Rs8.95m in FY 2002/03 but it increased to Rs104.99m in 2003/04 and it again increased to Rs188.28m in 2004/05 and Rs225.49m in 2005/06.This shows that loan loss provision of NIBL are in

increasing trend which affects the growth of the bank. Graphical Presentation is as follows

Figure-19: Loan loss provision for Non performing loan
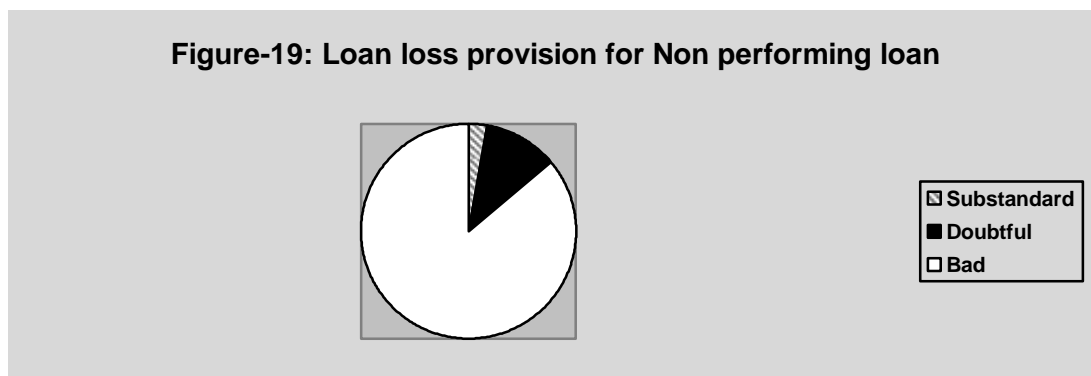
Non-Performing Loans to Total loan and Advance

According NRB directive, non-performing loans consists of substandard, Doubtful loan & Bad loan. An increase in Non-performing loans increases loan loss provision and interest suspense account, which deducts the profit of bank.

Following table shows the data relating to Non-performing Loan to Total loan and Advance   of NIBL

Table No 20

Non-Performing Loans to Total Loan and Advance

|	2002/03	2003/04	2004/05	2005/06	Mean
Sub-standard (%)	0.3817	0.1520	0.0081	0.3463	0.22
Doubtful (%)	0.0622	0.8959	0.7401	0.0004	0.42
Bad (%)	1.5847	1.4967	2.0256	1.7827	1.72
Combined Mean					0.79

Source: Annual Report (2002/03 to 2008/09)

The above table exhibits the combined mean value of non-performing loan to total loans and advances ratio is 2.37%. It means that there is 2.37% of non-performing loans out of the total loans and advances. The ratio of substandard loan is 0.3817% in the year 2002/03 and it is decreasing to 0.1520%, 0.0081%, in FY 2003/04, & 2004/05 respectively. And also starts to increase in FY 2005/06. i.e. 0.3463. The doubtful loan ratio was increasing from 0.0622% in FY 2002/03 to 0.8959% in FY 2003/04 and Rs0.8959 in FY 2004/05. Then in FY 2005/06 it decreased to Rs0.0004 its mean ratio is 0.42.

The bad loan is also decreasing from 1.5847% in 2002/03 to 1.4967% in 2003/04 but the ratio of bad loan is increased to 2.0256 in the FY 2004/05 and also decrease to 1.7827 in 2005/06 The mean ratio of bad loan is 1.72%. The ratio of Non performing loans to total loans and advances of NIBL is decreasing trend form

2000/01 to 2002/03 but in FY 2003/04, loan started increasing .So, NIBL should take major steps in recovering non performing loans and review its current credit policy

Figure-20: Non-Performing loans to total loan and Advance
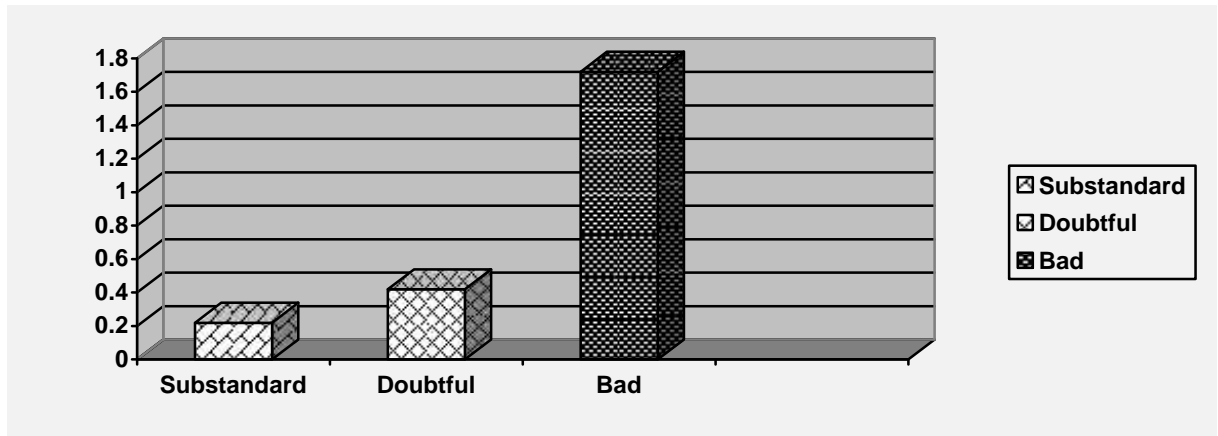
Loan Loss Provision to Non-Performing Loans

As per the NRB directives given to commercial banks has to formulate a specific loan loss provision against doubtful and bad debts. An increase in non-performing loans (Substandard, doubtful and bad loans) increase loan loss provision as a result interest suspense account leads to profit deduction. The table below shows the loan loss provision to non performing loan ratio of NIBL

Table No 21
**Loan Loss Provision to Non-Performing Loans**

	2002/03	2003/04	2004/05	2005/06	Mean
Sub-standard(%)	11.3028	25.1845	25.6098	25.0000	21.77
Doubtful(%)	12.8134	46.7909	50.1201	500.0000	152.43
Bad(%)	9.7847	98.3789	91.7946	99.0033	74.74
Combined mean					82.98

Source: Annual Report (2002/03 to 2008/09)

From the above table, we can see that mean ratio of loan loss provision to non-performing loan is 21.77%. In terms of substandard loan ratio is increasing from 11.3028% in FY 2002/03 to 25.6098% in FY 2004/05. The mean ratio is 21.77%. The ratio of doubtful loan is 12.8134% in 2002/03 & 46.7909%, 50.1201%, 500% in FY 2003/04, 2004/05, 2005/06 respectively and the mean ratio is 152.43% The NRB directives direct to make the provision of 50% for doubtful loans and in FY 2000/01, the ratio of doubtful loans i.e. 500% more than 50% as according to NRB directives.

The mean value of bad loans is 74.08%. The NRB directives direct to make the provision of 100% for bad loan the ratio is approximately 100% as according to NRB directives except the year 2002/03 and 2004/05. It can be said that NIBL has not followed NRB directives in 2002/03 but the following years it reach approximate to the directives.

Figure-21: Loan loss provision to Non-performing loans
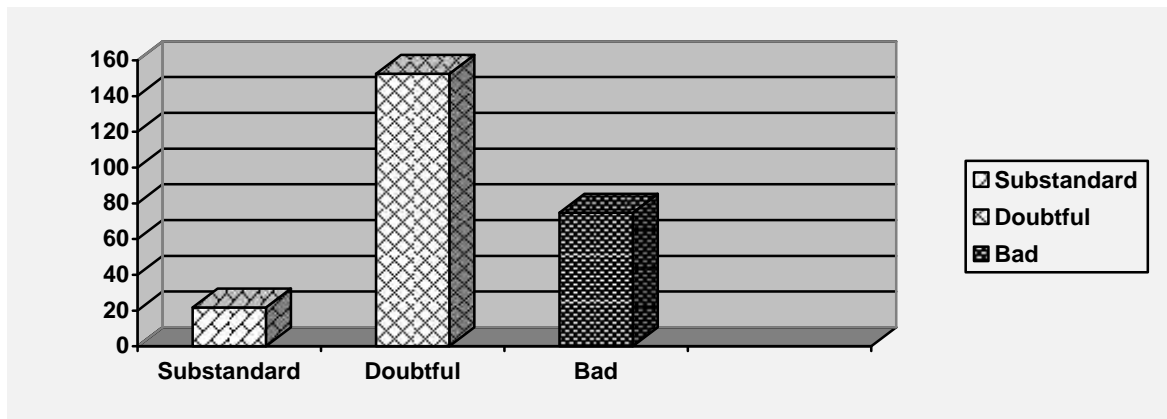
4.4. Analysis of Profitability Position

A firm should earn profits to survive and grow over a long period of time. Profit are essential. In fact, sufficient profits must be earned to sustain the operations of the any firm or business to be able to obtain funds from investors for expansion and growth and to contribute towards the social overheads for the welfare of the society .The profitability of the company should be evaluated in terms of the firm's investment in assets and in terms of capital contributed by creditors and owners. So profitability ratio is calculated in relation to   a. Sales And   b. Investment, Generally profitability ratios are calculated either in relation to sales or in relation to investment. So, here we calculate profitability ratios in relation to investment and assets.

4.4.1. Interest Paid to Working Fund

This ratio measures the cost of working fund in relative term. Working fund is equal to the sum of current assets, net fixed asset and other assets. The commercial bank performance depends upon its ability to generate cheaper funds because more the cheaper fund more will be the profitability in generating loan and advance and vice versa. A high ratio indicates high interest expenses on total working fund and vice versa

Following table shows the data relating to Interest paid to working fund of NIBL
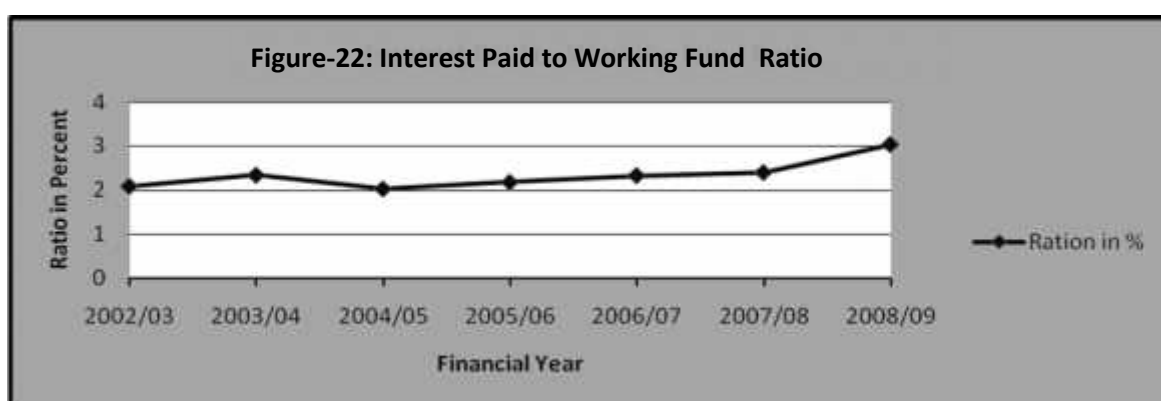
Table No 22
Interest Paid to Working Fund

Figures in Rs. (million)

Fiscal Year	Interest Paid	Working Fund	Ratio %	Yearly Change %
2002/03	189.21	9014.25	2.10	
2003/04	311.19	13255.5	2.35	11.84
2004/05	332.05	16274.06	2.04	-13.19
2005/06	467.37	21330.13	2.19	7.39
2006/07	646.99	27590.84	2.34	7.02
2007/08	938.45	38873.31	2.41	2.95
2008/09	1613.84	53010.80	3.04	26.11
Mean			2.35	
Standard Deviation			0.33	
CV			14.04	

Source: Annual Report (2002/03 to 2008/09)

The above table shows that total interest paid to total working fund ratio of NIBL is not fluctuating trend i.e. highest of ratio 3.04% in FY 2008/09 and lowest of 2.04% in 2004/05. If bank is able to decrease the total interest expenses which will be better position of banking generate income but NIBL is unable to decrease ratio in FY 2002/03 of 2008/09 except the year 2004/05 which has positive growth rate ratio in % are 11.84%, -13.19%, 7.39%, 7.02%, 2.95% and 26.11% respectively. The mean ratio of total interest paid to total working fund is 2.35%. So, bank should not decrease high interest expenses on the total working fund. The mean, S.D. and CV are 2.35%, 0.33% & 14.04% .The CV 14.04% reveals that the ratios are not consistent and variables over the 7 years study period.

Figure-22: Interest Paid to Working Fund Ratio

4.4.2. Net Profit to Working Fund

It shows the relationship between net profits to working fund. It is the capacity to earn the profit by utilizing available resources. Net profit includes the portion of income left to the internal equities after all costs and different types of changes,

expenses should be deducted. Following table shows the data relating to Interest paid to working fund of NIBL

Table No 23
Net Profit to Working Fund

Figures in Rs(million)

Fiscal Year	Net Profit	Working Fund	Ratio %	Yearly Change %
2002/03	116.82	9014.25	1.30	
2003/04	152.67	13255.5	1.15	-11.54
2004/05	232.14	16274.06	1.43	23.85
2005/06	555.41	21330.13	2.60	82.54
2006/07	795.71	27590.84	2.88	10.76
2007/08	1121.96	38873.31	2.89	0.08
2008/09	1428.46	53010.80	2.69	-6.64
Mean			2.13	
Standard Deviation			0.8	
CV			37.56	

Source: Annual Report (2002/03 to 2008/09)

The analysis shows that net profit to working fund of the bank varies from maximum of 2.89% in FY 2007/08 to minimum of 1.15% in FY 2003/04 with average 2.13%. The highest ratio is 2.89% in FY 2007/08 & lowest ratio is 1.15% in FY 2003/04. The net profit to total working fund ratios are fluctuating trend because in FY 2003/04 and 2008/09, there were negative growth ratio in % i.e. – 11.54% and -6.64% respectively but in FY 2004/05, 2005/06, 2006/07 and 2007/08 there were positive growth ratio in % i.e. 23.85%, 82.54%, 10.76 & 0.08% respectively. The mean, S.D. and CV are 2.13%, 0.80% & 37.56% .The CV 37.56% reveals that the ratios are not consistent and variables

Figure-23: Net Profit to Working Fund Ratio
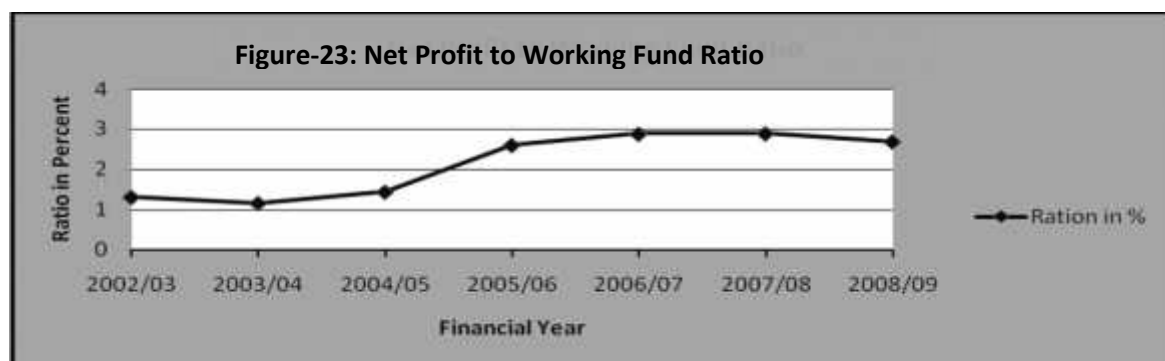
4.4.3. Net Profit to Total Deposit

This ratio describes the percentage of profit earned by using total deposit. This ratio shows the efficiency towards its deposit mobilization. Higher ratio indicates proper utilization of total deposit and lower ratio indicates the improper utilization of total

deposit. Following table shows the data relating to Net profit to Total deposit of NIBL

Table No 24

Net Profit to Total Deposit

Figures in Rs (million)

Fiscal Year	Net Profit	Total Deposit	Ratio %	Yearly Change %
2002/03	116.82	7922.77	1.47	
2003/04	152.67	11524.68	1.32	-10.20
2004/05	232.14	14254.57	1.63	22.93
2005/06	555.41	18927.31	2.93	80.19
2006/07	795.71	24488.86	3.25	10.73
2007/08	1121.96	34451.73	3.26	0.23
2008/09	1428.46	46698.09	3.06	-6.07
Mean			2.42	
Standard Deviation			0.89	
CV			36.78	

Source: Annual Report (2002/03 to 2008/09)

The above table clearly shows that net profit to total deposit ratio are fluctuating trend. The mean ratio is 2.42% and net profit to total deposit varies from maximum of 3.26% in FY 2007/08 to minimum of 1.32% in 2003/04 for 7 years study period. In FY 2007/08, which has highest of all ratios shows the proper utilization of total deposit. In FY 2003/04, change in % ratio or growth ratio is negative -10.20%. Growth rate increased by 22.93% in FY 2004/05 and again in FY 2005/06 growth ratio is highly positive .i.e. 80.19%. But in FY 2006/07, 2007/08 the growth ratios are 10.73%, & 0.23% respectively. In the last year it decreased by -6.07%. This exhibits that net profit to total deposits of NIBL is not stable and inconsistent. The mean of the ratio is found to be 2.42% with CV 36.78% between them, which means the ratio are not consistent

Figure-24: Net Profit to Total Deposit Ratio
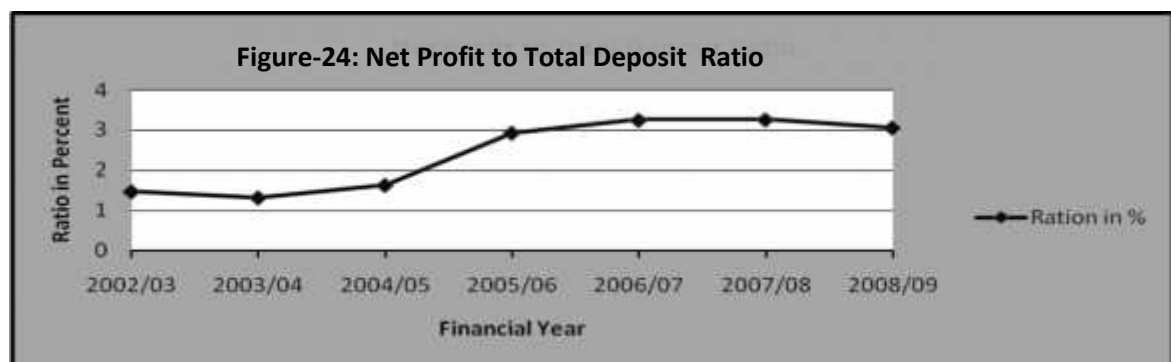
4.4.4. Operating Profit to Net Worth

It shows the portion of operating profit in net worth. In this study, operating profit represents operating income minus operating cost.

Following table shows the data relating to Operating profit to net worth for the study period 1997/98 to 2003/04 of NIBL

Table No 25
**Operating Profit to Net Worth**

Figures in Rs (million)

Fiscal	Operating	Net Worth	Ratio %	Yearly in Change %
2002/03	169.65	638.54	26.57	
2003/04	231.47	729.04	31.51	19.50
2004/05	333.68	1180.17	28.27	-10.95
2005/06	544.31	1415.44	38.46	36.01
2006/07	727.51	1878.12	38.74	0.73
2007/08	1013.33	2686.78	37.72	-2.63
2008/09	1310.85	3907.84	33.54	-11.06
Mean			33.58	
Standard deviation			4.97	
CV			14.79	

Source: Annual Report (2002/03 to 2008/09)

The above table shows that the operating profit to net worth of NIBL has ranged between 26.57% in FY 2002/03 to 38.74% in FY 2006/07. The ratio of NIBL is in fluctuating trend throughout the study period i.e. from the year 2002/03 to 2008/09. Operating profit to net worth ratio is 85.42% in FY 2002/03, which is the highest during 7 years study period and decreased by -34.56 % which is the highest negative growth of ratio in 1998/99.

The mean, S.D. & CV of NIBL is 25.48%, 7.23% & 28.38% respectively. The CV 28.38% reveals that the ratios are not consistent and variables

Figure-25: Operating profit to Net worth Ratio
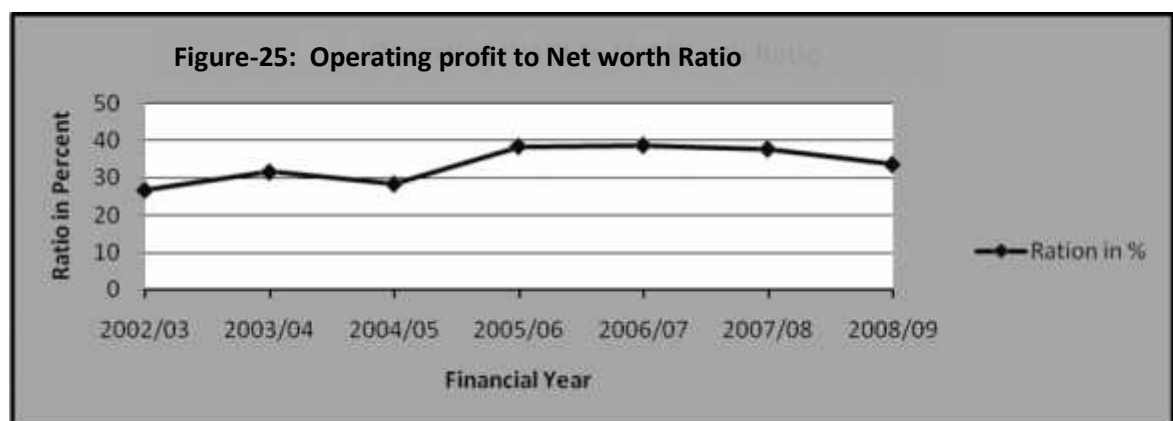
4.4.5. Return on Loan and Advance Ratio

Return on loan and advance ratio measures the earning capacity of the commercial banks on its deposits mobilized on loan and advances. Loan and advances includes loan cash credit, overdraft bills purchased and discounted. A high ratio indicates a high success to mobilize fund as loan and advances and vice versa.

Following table shows the data relating to Return on loan and Advance ratio of NIBL

Table No 26

Return on Loan and Advance Ratio

Figures in Rs (million)

Fiscal Year	Net Profit	Loan and Advance	Ratio %	Yearly in Change %
2002/03	116.82	5772.14	2.02	
2003/04	152.67	7130.13	2.14	5.94
2004/05	232.14	10126.06	2.29	7.07
2005/06	555.41	12776.21	4.35	89.63
2006/07	795.71	17286.42	4.60	5.89
2007/08	1121.96	26996.65	4.16	-9.71
2008/09	1428.46	36241.21	3.94	-5.16
Mean			3.36	
Standard Deviation			1.15	
CV			34.23	

Source: Annual Report (2002/03 to 2008/09)

The analysis shows that net profit to loan and advance of NIBL varies from maximum 4.60% in FY 2006/07 to minimum of 2.02% in FY 2002/03 with mean ratio 3.36% during 7 years period. In the FY 2003/04 the ratio is positive 5.94% and similarly, the ratios is in increasing trend by 7.07%, 89.63%, & 5.89% in FY 2004/05, 2005/06, & 2006/07 respectively. But ratios is decreasing by -9.71% & -5.16% in FY 2007/08 & 2008/09 respectively. It can be said that net profit to loan and advance ratio is not constant and it has lower earning capacity on its deposits mobilized on loan and advances.

The mean, S.D. & CV of NIBL is 3.36%, 1.15% & 34.23% respectively. The CV 34.23% reveals that the ratios are not consistent and variables

Figure-26: Return on Loan and Advance Ratio
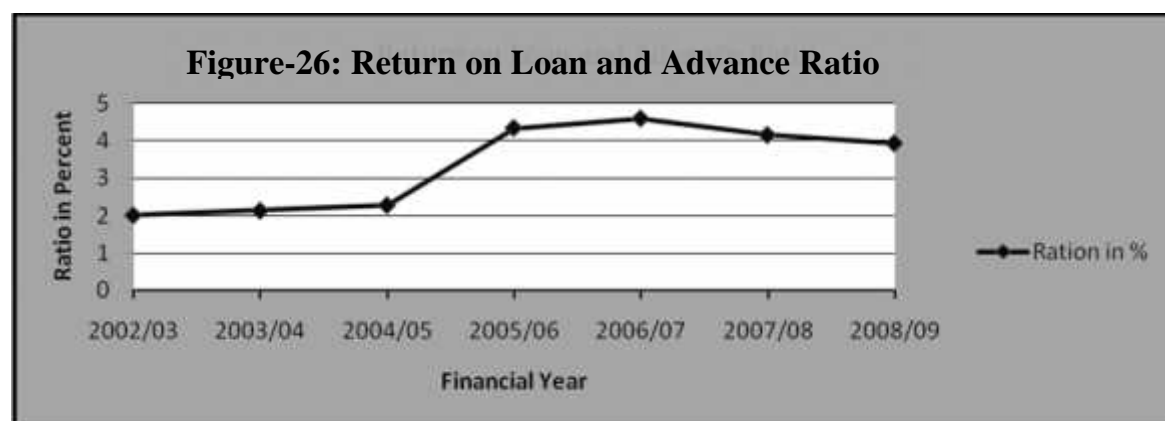
4.4.6. Return on Equity (ROE)

It is also called Net Profit to Net worth ratio. Net worth means different between total assets and total liabilities. It finds the efficiency of bank to use the funds of owners.Net worth includes paid up capital, Reserve funds and other reserves, profit and loss account and bonus share

Following table shows the data relating to return on Equity (ROE) of NIBL

Table No 27

Return on Equity (ROE)

Figures in Rs(million)

Fiscal Year	Net Profit	Total Equity	Ratio %	Yearly in Change
2002/03	116.82	638.54	18.29	
2003/04	152.67	729.04	20.94	14.47
2004/05	232.14	1180.17	19.67	-6.07
2005/06	555.41	1415.44	39.24	99.49
2006/07	795.71	1878.12	42.37	7.97
2007/08	1121.96	2686.78	41.76	-1.44
2008/09	1428.46	3907.84	36.55	-12.46
Mean			31.26	
Standard Deviation			11.06	
CV			35.38	

Source: Annual Report (2002/03 to 2008/09)

The above table shows that ratio of net profit to total equity capital is fluctuating trends, it has mean ratio on equity is 31.26%. The highest ratio is 42.37% in FY 2006/07 & lowest ratio is 18.29 in FY 2002/03. It has positive growth ratio in % in FY 2003/04. 2005/06 and 2006/07 are 14.47%, 99.49% & 7.97% respectively. It has not the efficiency of bank to use the funds of owners.

The mean, S.D. & CV of NIBL is 31.25, 11.06 & 35.38% respectively. The CV 35.38% reveals that the ratios are not consistent and variables

Figure-27: Return on Equity (ROE) Ratio
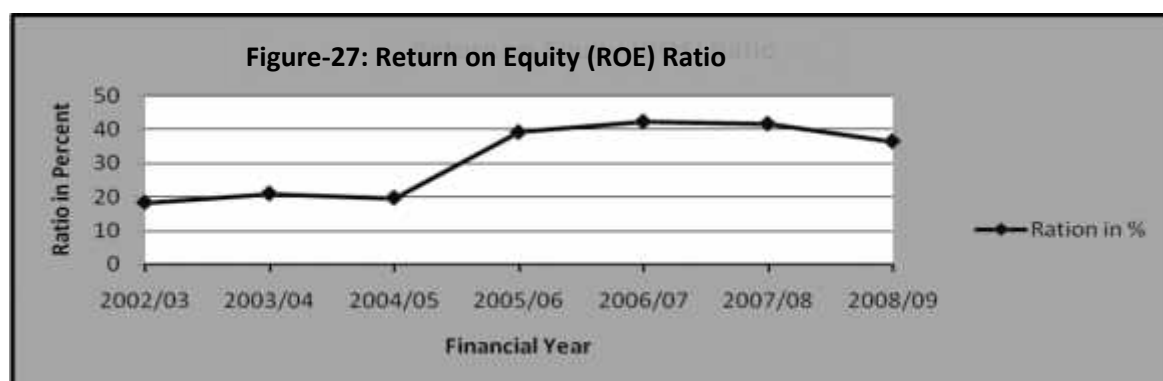
4.4.7. Cost of Services to Working Fund

It shows the relationship between cost of services & working funds. Working funds is equal to sum of current assets, fixed assets (net) & other assets. Cost of services represents interest paid on borrowing on draft, salary allowances, and provident fund. Following table shows the data relating to Cost of services to working fund of NIBL

Table No 28
Cost of Services to Working Fund

Figures in Rs (million)

Fiscal Year	Cost of Services	Working Fund	Ratio %	Yearly Change in %
2002/03	237.66	9014.25	2.64	
2003/04	381.96	13255.5	2.88	9.29
2004/05	412.00	16274.06	2.53	-12.14
2005/06	555.05	21330.13	2.60	2.79
2006/07	767.51	27590.84	2.78	6.90
2007/08	1088.49	38873.31	2.80	0.66
2008/09	1794.87	53010.80	3.39	20.92
Mean			2.80	
Standard Deviation			0.29	
CV			10.36	

Source: Annual Report (2002/03 to 2008/09)

The above table shows cost of services to working fund ratio of NIBL has ranged between 2.64% in FY 2002/03 and 3.39 in 2008/09. It has increasing trend from FY 2002/03 to FY 2008/09 except the FY 2004/05. In FY 2004/05, yearly change in % is negative i.e. -12.14 but then after it is in increasing and decreasing trend. This ratio has little fluctuating trend through out the study period i.e. from 2002/03 to 2008/089. It shows the trend of paying the cost of services.

The mean of the ratio is found to be 2.80% with CV 10.36% between them, which means the ratio are little bit consistent

Figure-28: Cost of Service to Working Fund Ratio
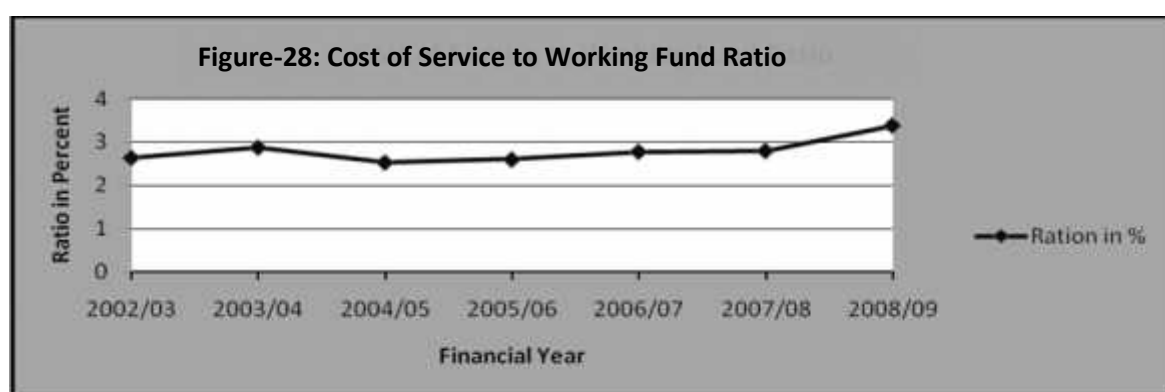
4.5 Analysis of Risk

The bank and its investment in particular are exposed to different degree of risk. Risk exists because of the inability of the decision maker to make perfect forecasts. An investment is not risky, if we can specify a unique sequence of cash flow for it. The possibility of risk makes banks investment a challenging task. A bank has to take risk if it expects high return on its investment. Therefore, bank has to accept and risk ratio measures the level of risk

4.5.1 Credit Risk Ratio

In the area of credit appraisal, the ratio technique is very important and used for measuring past performance and for projecting future trend. When parties approach bank for credit limits, bankers must be satisfied about the financial health of the borrowers. The banker uses ratio technique for following objectives.
To judge the operating efficiency of the borrowers
To judge the financial health
To ensure safety and securities of the advance

The risk behind making investment or granting loan or providing is measured by credit risk ratio. In fact, credit risk ratio shows the proportion of non performing assets in total loan and advances of a bank.

$$\text{It can be expressed as} = \frac{\text{Total loan and advances}}{\text{Total assets}}$$

Following table shows the data relating to Credit Risk Ratio of NIBL

Table No 29

Credit Risk Ratio

Figures in Rs(million)

Fiscal Year	Loan and	Total Assets	Ratio %	Yearly Change
2002/03	5772.14	9014.25	64.03	
2003/04	7130.13	13255.5	53.79	-16.00
2004/05	10126.06	16274.06	62.22	15.68
2005/06	12776.21	21330.13	59.90	-3.74
2006/07	17286.42	27590.84	62.65	4.60
2007/08	26996.65	38873.3	69.45	10.85
2008/09	36241.21	53010.80	68.37	-1.56
Mean			62.92	
Standard Deviation			5.27	
CV			8.38	

Source: Annual Report (2002/03 to 2008/09)

In the above table, the mean credit risk ratio is 62.92% NIBL has mentioned the highest ratio of 69.45% in FY 2007/08 and lowest of 59.90% in FY 2005/06. The highest growth rate or change in % of credit risk increased by 15.68% in FY 2004/05 & highest negative growth rate or change in % of credit risk decreased by -16.00 % in FY 2003/04. From the above table clearly shows that credit risk ratio are fluctuating trend. The mean of the ratio is found to be 62.92% with CV 8.38% between them, which means the ratio are not satisfactorily consistent

Figure-29: Credit Risk Ratio
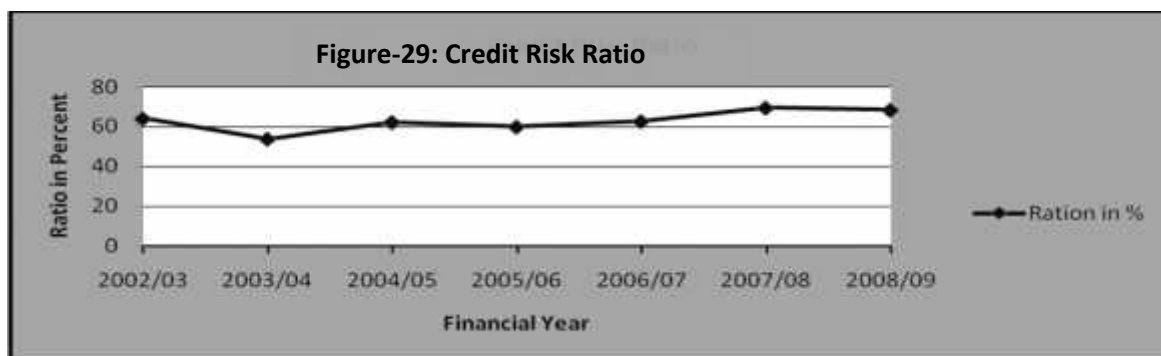
4.5.2 Investment on Government Securities to Total Deposit

Investment on government securities includes treasury bills and development bonds etc. This ratio shows the utilization of firm's deposits in government securities.

It can be expressed as $= \dfrac{\text{Investment on Government securities}}{\text{Total deposit}}$

Table No 30
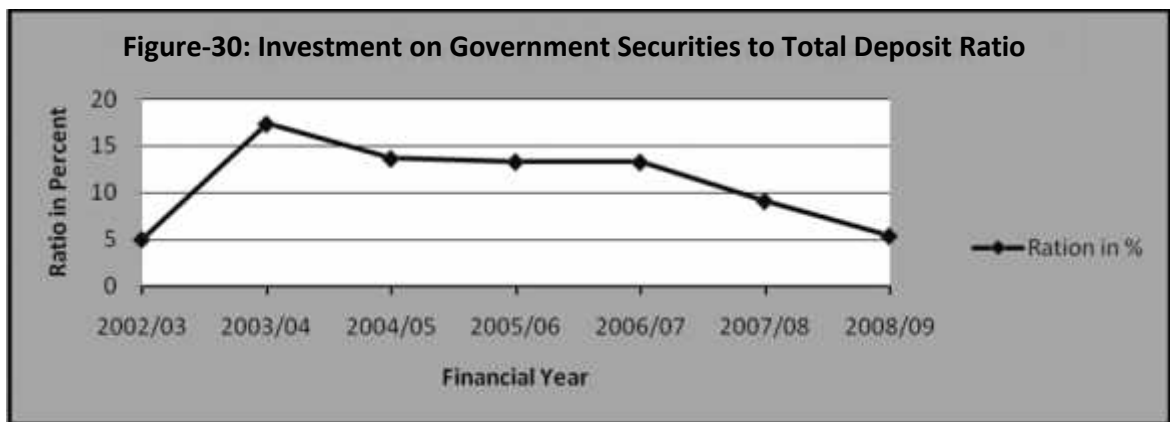
Investment on Government Securities to Total Deposit

Figures in Rs (million)

Fiscal Year	Investment on	Total	Ratio %	Yearly
2002/03	400	7922.77	5.05	
2003/04	2001.10	11524.68	17.36	243.76
2004/05	1948.5	14254.57	13.67	-21.28
2005/06	2522.3	18927.31	13.33	-2.51
2006/07	3256.4	24488.86	13.30	-0.22
2007/08	3155	34451.73	9.16	-31.13
2008/09	2531.3	46698.09	5.42	-40.81
Mean			11.04	
Standard Deviation			4.62	
CV			41.85	

Source: Annual Report (2002/03 to 2008/09)

In the above table, Investment on Government securities to total deposit ratio are in the fluctuating trend. The highest ratio of 17.36% is recorded in the FY 2003/04. The lowest ratio of 5.05 in the FY 2002/03, In FY 2003/04, yearly change in % increased by 243.76% but in the succeeding year change in % or growth rate decreased to negative by -21.28%, -2.51%, -0.22%, -31.13%, &-40.81% in the year 2004/05, 2005/06, 2006/07, 2007/08,& 2008/09 respectively. This shows that total investment of NIBL has to maintain the fluctuating trend in respect of total deposit.

The mean of ratio is found to be 11.04% with 41.85% CV between them which signifies that the ratios are not consistent over the 7 years study period.

Figure-30: Investment on Government Securities to Total Deposit Ratio

4.5.3. Total Investment to Total Deposit

A commercial bank utilizes its total deposit by investing its fund in different securities issued by government and other finances and non financial securities .So This ratio indicates the utilization of bank's deposit in government securities and bonds, debentures and shares of other firms and banks. It can be expressed as

$$\text{Total investment to total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposit}}$$

Following table shows the data relating to Total Investment to total deposit of NIBL

Table No 31
Total Investment to Total Deposit

Figures in Rs (million)

Fiscal Year	Total Investment	Total Deposit	Ratio %	Yearly Change
2002/03	1705.24	7922.77	21.52	
2003/04	3862.49	11524.68	33.51	55.71
2004/05	3934.19	14254.57	27.60	-17.65
2005/06	5602.87	18927.31	29.60	7.26
2006/07	6505.68	24488.86	26.57	-10.26
2007/08	6874.02	34451.73	19.95	-24.89
2008/09	7399.81	46698.09	15.85	-20.58
Mean			24.94	
Standard Deviation			6.11	
CV			24.50	

Source: Annual Report (2002/03 to 2008/09)

In the above table, mean ratio of total investment to total deposit ratio is 24.94%. The highest ratio of all is 33.51% in FY 2003/04 and lowest ratio is 15.85% in 2008/09. Yearly change in % increased by 55.71% in FY 2003/04 but in FY 2004/05 it decreased by -17.65% but later in FY 2005/06 it is increased by 7.26% & in FY 2006/07 2007/08& 2008/09 it decreased by -10.26%, -24.89%& 20.58 respectively. It shows total investment to total deposit ratio are in fluctuating trend. The mean, S.D. & CV of NIBL is 24.94%, 6.11% & 24.50% respectively.

The CV 24.50% reveals that the ratios are consistent and variables

Figure-31: Total Investment to Total Deposit Ratio
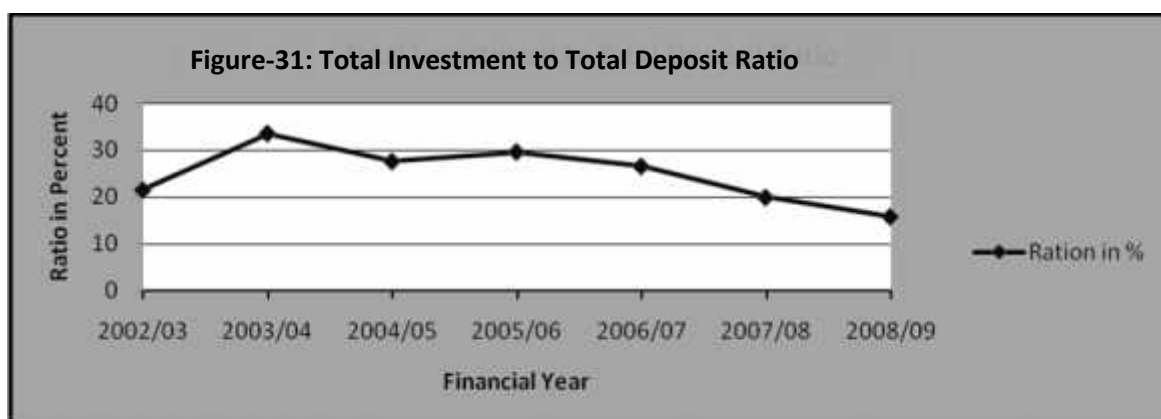
4.6 Ownership Ratio

4.6.1. Earning Per Share (EPS)

In fact, the success and failure of any business firm or bank depends on the earning capacity. Level of earning indicates the goodwill or the status of the firm in the market. The earning of any business firm also helps to evaluate the performance. Higher earning shows higher level of strength while lower earning shows weaker strength of business firms. So, the earning of any firm helps for its growth expansion and diversification. It measures the profit available to the equity shareholders on the per share basis.

Following table shows the data relating to Ownership ratio of NIBL

Table No 32
Ownership Ratio

Figures in Rs (million)

Fiscal	Net income Available to	Total no of Common	EPS (Rs)
2002/03	116.82	2.9529	39.56
2003/04	152.67	2.9529	51.70
2004/05	232.15	5.88	39.48
2005/06	250.54	5.91	42.39
2006/07	501.39	8.01	62.60
2007/08	696.73	12.04	57.87
2008/09	900.62	24.07	37.42
Average Earning Per Share			47.29

Source: Annual Report (2002/03 to 2008/09)

In the FY 2002/03 total earning of NIBL, was Rs116.82 million and earning per share was Rs 39.56 which is less than the average level of earning per share. In FY 2003/04, total earning RS 152.67 million, total no. of share outstanding remained same and EPS were RS 51.70 which was above to the average level. And earning per share was increased to RS 51.70 which was due to the increasing net Income. In FY 2004/05, total earning was Rs232.15 million, total no. of share outstanding increased to 5.88 and EPS was Rs39.48. The bank, in this year, did not became able to maintain EPS equal.   In the FY 2005/06, 2006/07 total earning increases than the earlier earning of FY 2004/05 and EPS is also in increasing trend, which was due to increment in the total number of share outstanding as well as increase in the net income.

Total earning was RS 696.73 million in 2007/08 which was more than FY 2006/07, total no. of share outstanding also increased to 12.04 and EPS were Rs 57.87 which was above to the average level. In FY 2008/09, total earning was RS 900.62 million, which was Rs 203.89 million more than the earlier earning, EPS was Rs 37.42 which was Rs10 less than average because total no of share outstanding increased.

4.6.2. DPS (Ownership ratio)

The amount of earning distributed and paid as cash dividend is considered as dividend per share. Higher the DPS shows the efficiency of management and vice versa. The ratio is calculated as

$$\text{Dividend per share (DPS)} = \frac{\text{Dividend per shares (proposed dividends)}}{\text{No of Equity shares}}$$

Table No 33
Dividend per Share

Figures in Rs (million)

Fiscal Year	Earning Paid to	Total no of Common	Ratio (Rs) (DPS)
2002/03	59.06	2.9529	20.00
2003/04	44.29	2.9529	15.00
2004/05	73.46	5.88	12.00
2005/06	118.11	5.91	20.00
2006/07	40.07	8.01	5.00
2007/08	90.29	12.04	7.49
2008/09	481.41	24.07	20.00
Mean			14.21

Source: Annual Report (2002/03 to 2008/09)

From the above table, NIBL shows that average dividend per share of NIBL is Rs 14.21 NIBL paid Rs20 per share as dividend in 2002/03. But it paid Rs15 & Rs12 in the FY 2003/04 & 2004/05 respectively. Similarly, NIBL paid Rs20 per share as dividend in FY 2005/06, Rs 5 in 2006/07, Rs 7.49 in 2007/08 and Rs 20 also in FY 2008/09. The above table shows that DPS of the bank varies from maximum of RS 20 in the year 2002/03, 2005/06 and 2008/09 to the minimum of Rs 5 in FY 2006/07. It shows that the DPS of NIBL is little satisfactory.

Figure-32: EPS and DPS
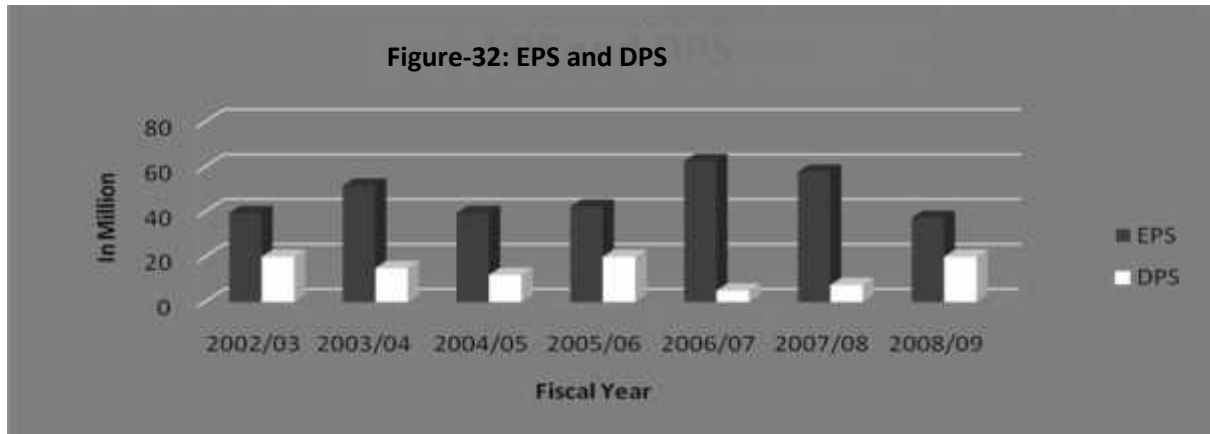
4.6.3. Dividend Payout Ratio

It shows the amount of dividend as a percentage of earning available for equity share. The ability of banks to pay dividend depends on earning. Dividend payout ratio is determined by dividing dividend per share (DPS) by earning per share (EPS) as expressed below:

$$\text{Dividend pays out ratio} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

Following table shows the data relating to Dividend pay out ratio of NIBL

Table No 34
Dividend Payout Ratio

Figures in Rs (million)

Year	DPS	EPS	DPR %
2002/03	20	39.56	50.56
2003/04	15	51.70	29.01
2004/05	12	39.50	30.38
2005/06	20	59.35	33.70
2006/07	5	62.57	7.99
2007/08	7.49	57.87	12.94
2008/09	20	37.42	53.45
Average			31.15

Source: Annual Report (2002/03 to 2008/09)

Above table shows that average yearly dividend payout ratio of NIBL is 31.15%. Highest percentage of dividend payout ratio of NIBL is 53.45% in the FY 2008/09. NIBL is the bank that shows more fluctuating value of DPR in each year. In FY 2002/03, 2005/06 and 2008/09, DPR was more than average level. And DPR was less than average level in the FY 2003/04, 2004/05, 2006/07 and 2007/08.

From the above dividend payout ratio, it can be said that NIBL was not able to follow a strategic dividend payout policy. In order to follow clear policy, it is necessary to follow strategic dividend distribution policy so that the bank would be able to maintain its all requirement considering all variables like market price per share, Net worth etc. It will be able to balance between company's growth and shareholder's interest, if it knows about how much portion of its earning is to be retained for internal financing and how much amount to be allocated for distribution of dividend to shareholders.

Figure-33: Dividend Payout Ratio (|DPR)
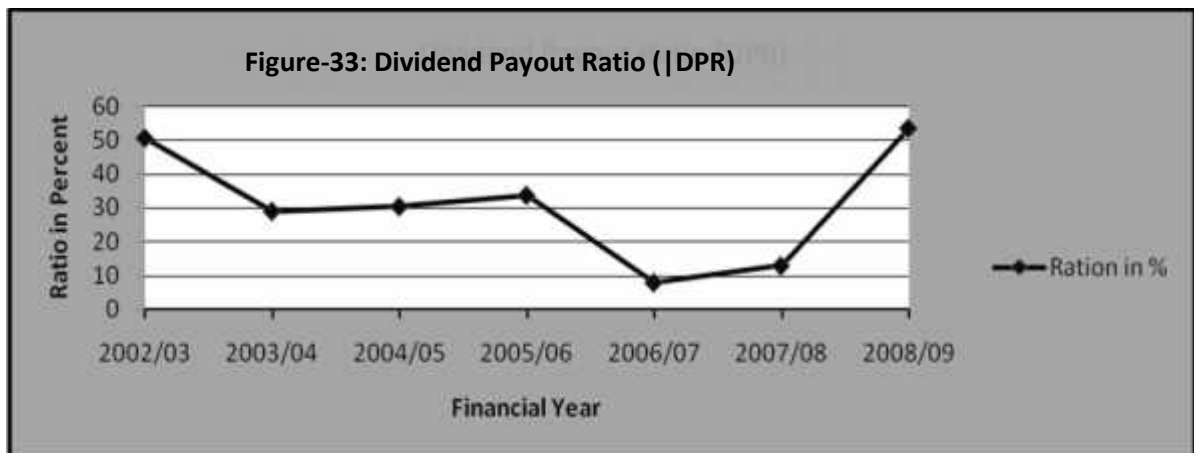
4.7 Growth Ratio

4.7.1. Growth Ratio of Total Loan and Advance

Loan is the sum of money, which will be repaid by the borrower. Following table shows the data relating to growth ratio of Total loan and advance of NIBL.

Table No 35

Growth Ratio of Total Loan and Advance

Figures in Rs.(million)

Fiscal Year	Loan and Advance	Yearly Change in %
2002/03	5772.14	
2003/04	7130.13	23.53
2004/05	10126.06	42.02
2005/06	12776.21	26.17
2006/07	17286.42	35.30
2007/08	26996.65	56.17
2008/09	36241.21	34.24
Average Change		**31.06**

Source: Annual Report (2002/03 to 2008/09)

The above table represents the growth ratio of loan and advance of NIBL. In FY 2003/04 the loan and advance increased by 23.53%. The yearly change of loan and advance or growth rate of loan and advance in FY 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, is42.02%, 26.17%, 35.30%, 56.17%, & 34.24%, respectively.

Now we have,

$$Dn = D_0 (1+g)^n$$

$$\text{Or, } 36241.21 = 5772.14(1+g)^7$$

$$\text{Or, } (1+g)^7 = \frac{36241.21}{5772.14}$$

$$\text{Or, } (1+g) = (6.2786)^{1/7}$$

$$\text{Or, } 1+g = 1.3001$$

$$\text{Or, } g = 0.3001$$

$$\therefore g = 30.01\ \%$$

Where as
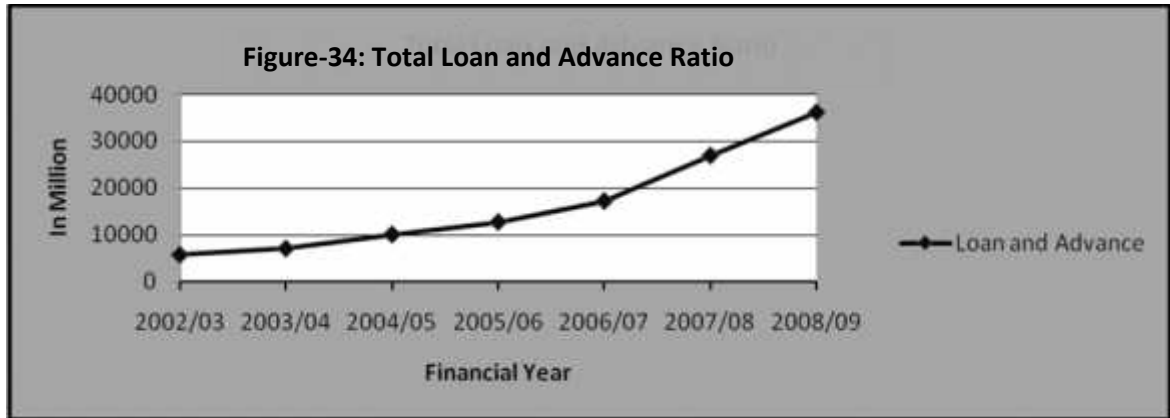Dn = Loan and advance in n_{th} year
D_0 = Loan and advance in the initial year
g = growth rate
n = Total no. of year

From the analysis, it is found that the growth rate of total loan and advance of NIBL is 30% for the study period 7 years. It can be concluded, bank seems in weak condition to increase growth rate of loan and advance

Figure-34: Total Loan and Advance Ratio

4.7.2 Growth Ratio of Total Investment

Investment is defined simply to be the sacrifice of current consumption for future consumption whose objective is to increase future wealth.

Following table shows the data relating to growth ratio of Total investment of NIBL

Table No 36
Growth Ratio of Total Investment

Figures in Rs. (million)

Fiscal Year	Total Investment	Yearly Change in %
2002/03	1705.24	
2003/04	3862.49	126.51
2004/05	3934.19	1.86
2005/06	5602.87	42.41
2006/07	6505.68	16.11
2007/08	6874.02	5.66
2008/09	7399.81	7.65
Average Change		**28.60**

Source: Annual Report (2002/03 to 2008/09)

The above table represents the growth rate ratio of total investment of NIBL. In the FY 2003/04, the yearly change in % increased by 126.51% but in the succeeding year, the growth rate ratio of total investment increased by 1.86%. And in FY 2005/06 total investment increased by 42.41% but in the last FY 2008/09, total investment increased only by 7.65%. The average yearly change in % of total investment is 28.60%.

Now we have,

$$D_n = D_0 (1+g)^n$$

$$\text{Or, } 7399.81 = 1705.24(1+g)^7$$

$$\text{Or, } (1+g)^7 = \frac{7399.81}{1705.24}$$

$$\text{Or, } (1+g) = (4.3394)^{1\backslash 7}$$

$$\text{Or, } 1+g = 1.2333$$

$$\text{Or, } g = 0.2333$$

$$\therefore g = 23.33\ \%$$

Where as
Dn = Total investment in n_{th} year
D_0 = Total investment in the initial year
g = growth rate
n = Total no. of year

From the analysis, it is found that the growth rate of total investment of NIBL is 23.33% for the study period 7 years .It can be concluded that bank have not strong condition to increase growth rate of total investment.

Figure-35: Growth Ratio of Total Investment
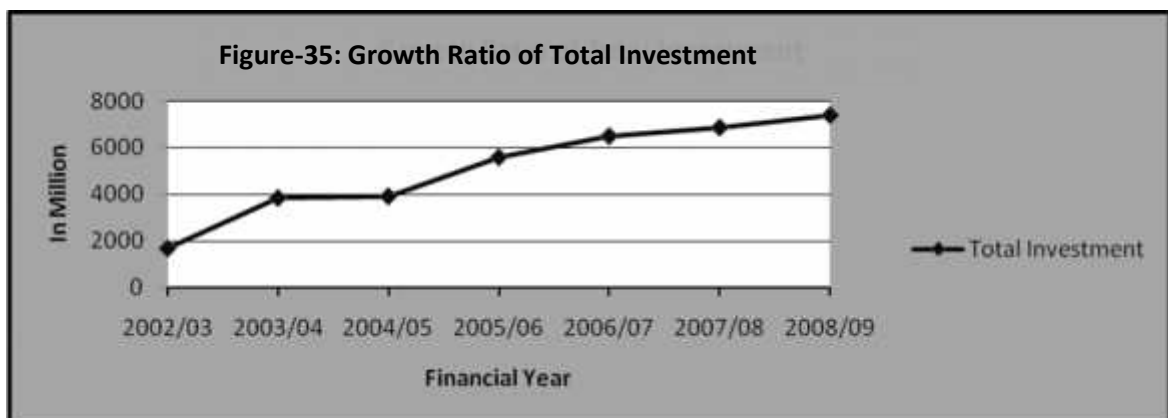
4.7.3. Growth Ratio of Total Deposit

The growth of bank depends upon the growth of its deposits. The volume of funds that management will use for creating income, through loans and investment, is determined largely by the bank's policy governing deposits, so growth ratio of total deposit is analyzed in the following way.

Following table shows the data relating to growth ratio of Total investment of NIBL

<div align="center">

Table No 37

Growth Ratio of Total Deposit

</div>

Figures in Rs(million)

Fiscal Year	Total Deposit	Yearly Change in %
2002/03	7922.77	
2003/04	11524.68	45.46
2004/05	14254.57	23.69
2005/06	18927.31	32.78
2006/07	24488.86	29.38
2007/08	34451.73	40.68
2008/09	46698.09	35.55
Average Change		**29.65**

Source: Annual Report (2002/03 to 2008/09)

The above table represents the growth ratio of total deposit. In FY 2003/04, total deposit increases by 45.46%. Then, yearly growth rate of total deposit are 23.69%, 32.78%, 29.38%, 40.68% and 35.55% for 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively.

Now we have,

$$Dn = D_0 (1+g)^n$$

Or, $46698.09 = 7922.77(1+g)^7$

Or, $(1+g)^7 = \dfrac{46698.09}{7922.77}$

Or, $(1+g) = (5.8942)^{1/7}$

Or, $1+g = 1.2884$

Or, $g = 0.2884$

$\therefore g = 28.84\%$

> **Where as**
> Dn = Total deposit in n_{th} year
> D_0 = Total deposit in the initial year
> g = growth rate
> n = Total no. of year

From the above analysis, it is found that the overall growth ratio of total deposit of NIBL is 28.84% for the 7 years study period. So, it can be said that this bank has been improving its deposit collection in higher growth rate. And, this bank can improve more to reform the existing policy into new activities, program ,policy which might help increased the deposit of the bank.

Figure-36: Growth Ratio of Total Deposit
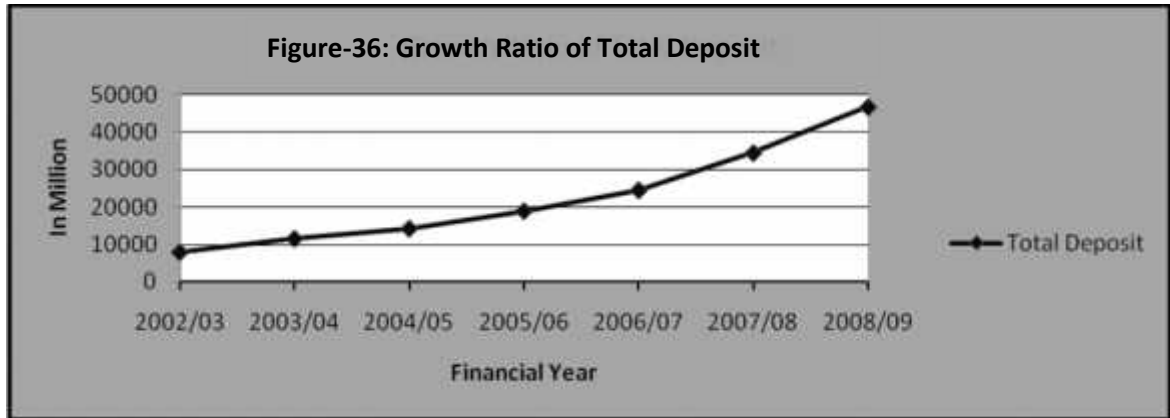
4.7.4. Growth Ratio of Net Profit

Net profit is the portion of income left to the internal equities after all costs and different types of charges, expenses should be deducted. The following table shows the growth ratio of net profit

Following table shows the data relating to growth ratio of Net profit of NIBL

Table No 38
Growth Ratio of Net profit

Figures in Rs(million)

Fiscal Year	Net Profit	Yearly Change in %
2002/03	116.82	
2003/04	152.67	30.69
2004/05	232.15	52.06
2005/06	250.54	7.92
2006/07	501.39	100.12
2007/08	696.73	38.96
2008/09	900.62	29.26
Average Change		**37.00**

Source: Annual Report (2002/03 to 2008/09)

The above table represents the yearly change in net profit of NIBL.NIBL has the highest net profit Rs900.62 million in FY 2008/09 & lowest net profit Rs 116.82 million in 2002/03.

Now, we have,

Dn $= D_0 (1+g)^n$

Or, $900.62 = 116.82(1+g)^7$

Or, $(1+g)^7 = \dfrac{900.62}{116.82}$

Or, $(1+g) = (7.7095)^{1/7}$

Or, $1+g = 1.3388$

Or, $g = 0.3388$
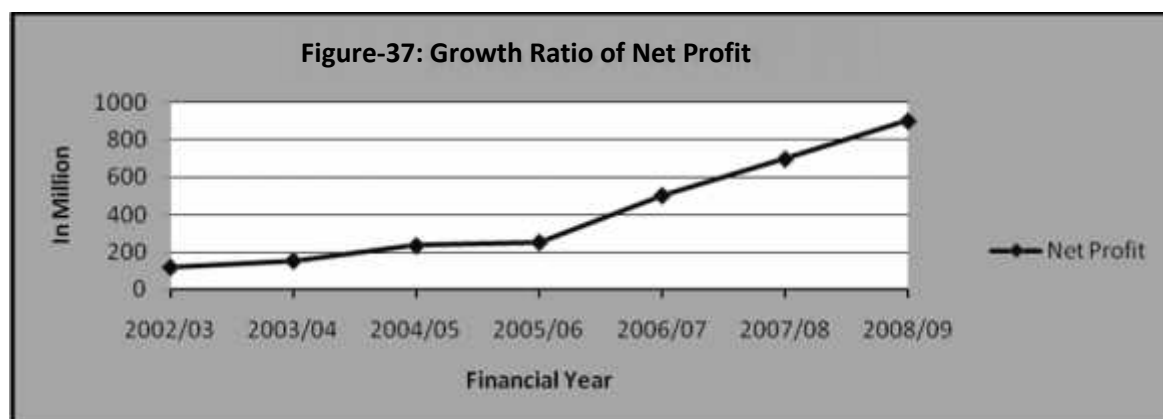
∴ $g = 33.88\%$

Where as
Dn = Net profit in n_{th} year
D_0 = Net profit in the initial year
g = growth rate
n = Total no. of year

From the above analysis, it is found that the overall growth rate of net profit over the 7 years study period is 33.88%. It can be said that, the bank has increasing trend of net profit.

Figure-37: Growth Ratio of Net Profit

4.8 Other Indicator

Various indicators can be used to know the financial performance analysis of the bank and there are very few indicators which are used to analysis the financial performance of NIBL which are given below:-

Spread

"The spread is defined as Interest revenue - Interest expenses. Spread management emphasizes the difference between the return on asset and cost of liabilities over a time. A high positive spread is generally desirable and is required for all financial institutions" Fred c. Yeager

If other factors are hold constant, the bank's spread will decline as competition increases forcing management to try to find other ways of revenue such as fees and commission, to make up a better spread. So, spread is defined as the difference between interest income and interest expenses. It can be expressed as follows:-

Spread = Total Interest earned - Total Interest Paid

The following table shows the spread of NIBL during study period:-

<div align="center">

Table No 39
Calculation of Spread

</div>

<div align="right">

Figures in Rs (million)

</div>

Fiscal Year	Interest Earned	Interest Paid	Spread
2002/2003	459.51	189.21	270.30
2003/2004	731.40	311.19	420.21
2004/05	886.80	332.05	554.75
2005/06	1172.74	490.92	681.82
2006/07	1584.98	685.53	899.45
2007/08	2194.27	992.16	1202.11
2008/09	3267.94	1686.97	1580.97
Average			**801.37**

Source: Annual Report (2002/03 to 2008/09)

The above table shows that the spread of NIBL is increasing trend in the study period of 7 years. The average ratio of spread is Rs 801.37m. From the above analysis, it can be seen that in FY 2008/09 it has highest interest earning and highest interest paying. So, it has the highest spread in FY 2008/09 i.e. Rs 1580.97 million.

4.9 Statistical Analysis

Under this analysis, various types of statistical tools are used to analysis of financial performance of NIBL. Specially, coefficient of correlation and trend analysis of important variables have been conducted.

Coefficient of Correlation

Under this analysis, Karl person's coefficient of correlation is applied to find out the relationship between the two variables. Correlation analysis involves various methods and techniques used for the studying and measuring the extent of the relationship between the two variables. It is preferred in this study to identify the relationship between variables whether the relationship is significant or not.

4.9.1Coefficient of Correlation between Total Deposit & Net Profit

The growth of bank depends primarily upon the growth of its deposits. The volume of funds that management will use for creating income, through loans and investment, is determined largely by the bank's policy governing deposits. Profit is the indicator of efficient operation of a bank. Coefficient of correlation between total deposit and total investment measures the degree of relationship between these two variables. In this analysis, deposit is independent variable(x) and net profit is dependent variable(y). The main objective of calculating coefficient of correlation "r" between these two variables is to justify whether there is significant relationship between these two variables or not.

Table 40
Correlation Coefficient between Total Deposit and Net Profit

Evaluation Criterions					
Name	**r**	**r^2**	**P.E. r**	**6 P.E.r**	**Sign/insig**
NIBL	0.9892	0.9785	0.0055	0.0330	Sign

Source: Annex- I

In the above calculation, it is found that coefficient of correlation "r" between total deposit & net profit is 0.8703, which means there is high degree of positive correlation between these two variables. The coefficient of determination, "r^2" is 0.7574. It indicates that 75.74% of the variation in the dependent variable (net Profit) has been explained by the independent variable (Total deposit).

So, the value of "r" is 0.8703 and comparing it with probable error 6PE r i.e. 0.3714. It can be found that "r" is highly greater than value of 6P.E.r , which shows that value of "r" is significant . The degree of relationship between total deposit & net profit is significant.

In summing up, it can be said that there is positive and significant relationship between total deposit & net profit. This indicates that NIBL is able to earn profit by mobilizing its deposit.

4.9.2 Coefficient of Correlation between Total Deposit & Total Investment

Commercial bank being the financial institution plays significant role by collecting scattered surplus funds as deposit and deploys these fund in the productive sectors as investment. So, we have to compute coefficient of correlation "r" between these two variables to justify whether deposits are significantly used as investment in the proper way or not. It shows the degree of relationship between two variables. In this analysis, deposit is independent variable(x) and total investment(y) is dependent variables.

Table 41

Correlation Coefficient between Total Deposit and Total Investment

Evaluation Criterions					
Name	**r**	**r^2**	**P.E. r**	**6 P.E.r**	**Sign/insig**
NIBL	0.8879	0.7884	0.0540	0.3237	Sign

Source: Annex- II

In the above calculation, it is found that coefficient of correlation "r" between total deposit & total investment is 0.8879. It reveals that there is high degree of positive correlation between these two variables. The coefficient of determination "r^2" is 0.7884. It indicates that 78.84 percent of the variation in the dependent variable (total investment) has been explained by the independent variable (Total deposit). Similarly, considering it with the value of "r" i.e. 0.889 and comparing it with probable error 6P.E.r i.e. 0.3237

Here, "r" is greater than 6P.E. r which shows that value of "r" is significant. So, there is significant & positive relationship between total deposit & investment. This shows that NIBL has mobilized total deposit efficiently as Investment.

4.9.3 Coefficient of Correlation between Total Deposit & Loan and Advance

Coefficient of correlation between deposit & loan measures the degree of relationship between these two variables. In this analysis, deposit is independent variable(x) and loan(y) is dependent variable. The main objective of computing "r" coefficient of correlation between these two variables is to justify whether deposits are significantly used as loan in the proper way or not.

Table 42

Correlation coefficient between Total deposit and Loan and Advance

Evaluation Criterions					
Name	**r**	**r^2**	**P.E. r**	**6 P.E.r**	**Sign/insig**
NIBL	0.9977	0.9953	0.0012	0.0071	Sign

Source: Annex-III

In the above calculation, it is found that coefficient of correlation "r" between total deposit & loan and advance is 0.9977. It shows that there is high degree of positive correlation between total deposit & loan and loan and advance. Again, coefficient of determination "r^2" is 0.9953. It indicates that 99.53 percent of the variation in the loan (dependent variable) has been explained by total deposit (independent variable).

Similarly, considering the value of "r" i.e. 0.9977 and comparing it with probable error 6P.E.r i.e. 0.0012.We found that "r" is greater than 6P.E.r, which reveals that

value of "r" is significant i.e. there is significant relationship between total deposit and loan of NIBL.

4.9.4 Coefficient of Correlation between Net Worth and Total Assets

Coefficient of correlation between net worth and total assets measures the degree of relationship between these two variables. In this analysis, net worth is independent variable(x) and total asset is dependent(y). The objective to compute coefficient of correlation "r" between these two variables is to justify whether there is significant relationship these two variables no not.

Table no 43
Coefficient of Correlation between Net Worth and Total Assets

Evaluation Criterions					
Name	**r**	**r^2**	**P.E. r**	**6 P.E.r**	**Sign/insig**
NIBL	0.9968	0.9935	0.0017	0.0099	Sign

Source: Annex-IV

In the above calculation, it is found that coefficient of correlation "r" between net worth & total assets is 0.9968 It shows that there is high degree of positive correlation between these two variables. Again, coefficient of determination (r^2) is 0.9935. It indicates that 99.35 percent of the variation in the total asset (dependent variable) has been explained by net worth (independent variable).

Similarly, considering the value of "r" i.e. 0.9968 and comparing it with probable error 6P.E.r i.e. 0.0099 it is found that "r" is greater than 6 times P.E.r, which reveals that value of "r" is significant .From the above calculation, we can conclude that there is positive association between net worth & total asset of NIBL as well as significant relationship.

4.9.5 Coefficient of Correlation between Current Assets and Current Liabilities

Coefficient of correlation between current assets and current liabilities measures the degree of relationship between current asset and current liabilities. In this analysis, current asset is independent variable(x) and current liabilities are dependent variable(y). The objective of correlation analysis is to determine the extent to which the current asset and current liabilities are correlated.

Table 44

Coefficient of Correlation between Current Assets and Current Liabilities

Evaluation Criterions					
Name	**r**	**r^2**	**P.E. r**	**6 P.E.r**	**Sign/insig**
NIBL	0.9999	0.9997	0.0001	0.0004	Sign

Source: Annex- V

In the above calculation, it is found that coefficient of correlation "r" between current asset and current liabilities is 0.9999. It can be said there is high degree of positive correlation between these two variables. The coefficient of determination, (r^2) is 0.9997. It indicates that 99.97% of the variation in the dependent variable (current liabilities) has been explained by the independent variable (current asset)

Similarly, considering the value of "r" i.e. 0.9999 and comparing it with probable error 6P.E.r i.e. 0.0004. We found that "r" is greater than the 6P.E.r which reveals that value of "r" is significant i.e. there is significant relationship between current asset and current liabilities of NIBL.

From the above calculation, we can said that there is positive correlation between current asset & current liabilities i.e. r = 0.9999 and relationship between these two variables is significant because the value of "r" is greater than 6P.E.r.This shows that NIBL has efficiently utilized its current assets to overcome the current liabilities.

4.10. Means, standard deviation and correlation of DPS with EPS, Net profit, MPS & Net worth of NIBL

The importance aspect of dividend policy is to determine the amount of earning to be distributed to shareholders and the amount to be retained in the firm. So, dividend decision of the bank is yet another crucial area of financial management. Similarly, dividends are desirable from shareholders' point of view as it tends to increase their current wealth. So, dividend payment by NIBL, can be better explained through the use of statistical tools to provide meaningful relationship among the various interrelated variables. Therefore, it has been considered to determine the degree of correlation between dividend and other variables.

The means, standard deviations and zero order correlation coefficient of NIBL, are presented below in the table:-

Table No 45

Means, Standard Deviation and Correlation of DPS with EPS, Net Profit, MPS & Net Worth of NIBL

Variables	cases	Mean	S.D.	Correlation with				
				DPS	EPS	NP	Pm	NW
DPS	7	14.21	6.27	1	-	-	-	--
EPS	7	49.71	10.70		1			
NP	7	407.27	300.13			1		
MP	7	1337.43	597.31				1	
NW	7	1776.56	1173.29					1

Source: Annex- VI, VII, VIII, IX

From the above table, it can be clearly observed from the above correlation matrix that dividend per share is negative relationship with earning per share, net profit, net worth & market price. It can be said DPS is negatively correlated with all the variables.

To summing up, the payment of dividend depends upon the net profit after tax and EPS on the other hand, the prices of Nepalese stocks and net worth of the banks depends upon dividend payment. The result suggests that high net profit might be able to increase the dividend per share. Similarly, high DPS is responsible to decrease market price per share and the net worth of the bank. But high EPS might be able to increase the dividend per share.

4.11. Trend Analysis and Projection for Next Five Years

In the trend analysis ,if the time series data for a particular phenomenon exhibits a trend in a particular direction, then under the assumption that the same pattern will continue in the near future, an assumption which is quite reasonable unless there are some fundamental and drastic changes in the force affecting the phenomenon.

We can forecast the values of the phenomenon for the future also. The trend values are of paramount importance to a banker in providing him/her the rough estimates of the total deposit, loan and advance, net profit, total investment in near future. Trend analysis enables us to compare two or more time series i.e. total deposit, loan and advance, net profit & total investment over different periods of time and draw importance conclusions about them.

The projections are based on the following assumptions:-

I.   This method completely eliminates the element of subjective judgment or personal bias on the part of the investigator i.e. other thing will remain unchanged.

II. The curve fitting by the principle of least squares is the only technique which enables us to obtain future value of variables, if linear trend is fitted.

III. The bank will have same position in the future i.e. trend and completely ignore the cyclical, seasonal and irregular fluctuation.

IV. Nepal Rastra bank will have same guidelines to commercial bank for forecasting periods.

4.11.1. Trend Analysis of Total Deposit

Under this analysis, the trend values of deposit of NIBL has been calculated for 7 years 2002/03 to 2008/09 and forecast for next 5 years from 2009/10 to 2013/14. The following tables shows the trend value of total deposit for 12 years from 2002/03 to 2013/14

Table No 46
Trend Value of Total Deposit of NIBL

Figures in Rs (million)

Year(t)	Total deposit (y)	X= (t-2005)	X^2	xy	Yc= a+bx
2002/03	7922.77	-3	9	-23768.31	4136.77
2003/04	11524.68	-2	4	-23049.36	10294.42
2004/05	14254.57	-1	1	-14254.57	16452.07
2005/06	18927.31	0	0	0	22609.72
2006/07	24488.86	1	1	24488.86	28767.37
2007/08	34451.73	2	4	68903.46	34925.02
2008/09	46698.09	3	9	140094.27	41082.67
Total	**158268.01**	**0**	**28**	**172414.35**	**158268.04**

Source: Annual Report (2002/03 to 2008/09)

$$a = \frac{Y}{N} = \frac{158268.01}{7} = 22609.72$$

$$b = \frac{XY}{X^2} = \frac{172414.35}{28} = 6157.66$$

The equation of straight line trend is

Yc = a+bx

Yc =22609.72 + 6157.66X

**Trend Value of Total Deposit of NIBL (2004/05 to 2008/09)**

Figures in Rs (million)

Year(t)	X = t-2000	Yc = a+bx
2009/10	4	47240.32
2010/11	5	53398.02
2011/12	6	59555.68
2012/13	7	65713.34
2013/14	8	71871.00

From the above calculated table shows that trend values of total deposit are in increasing trend. The trend value of total deposit is Rs 7922.77 million in FY 2002/03, Rs 46698.09 million in FY 2008/09 and total deposit of NIBL will be Rs 71871 million in the fiscal year 2013/14. The deposit collection of NIBL will be increased in future. The calculated trend values of total deposit of NIBL are fitted in the trend line as given below

Figure: 38
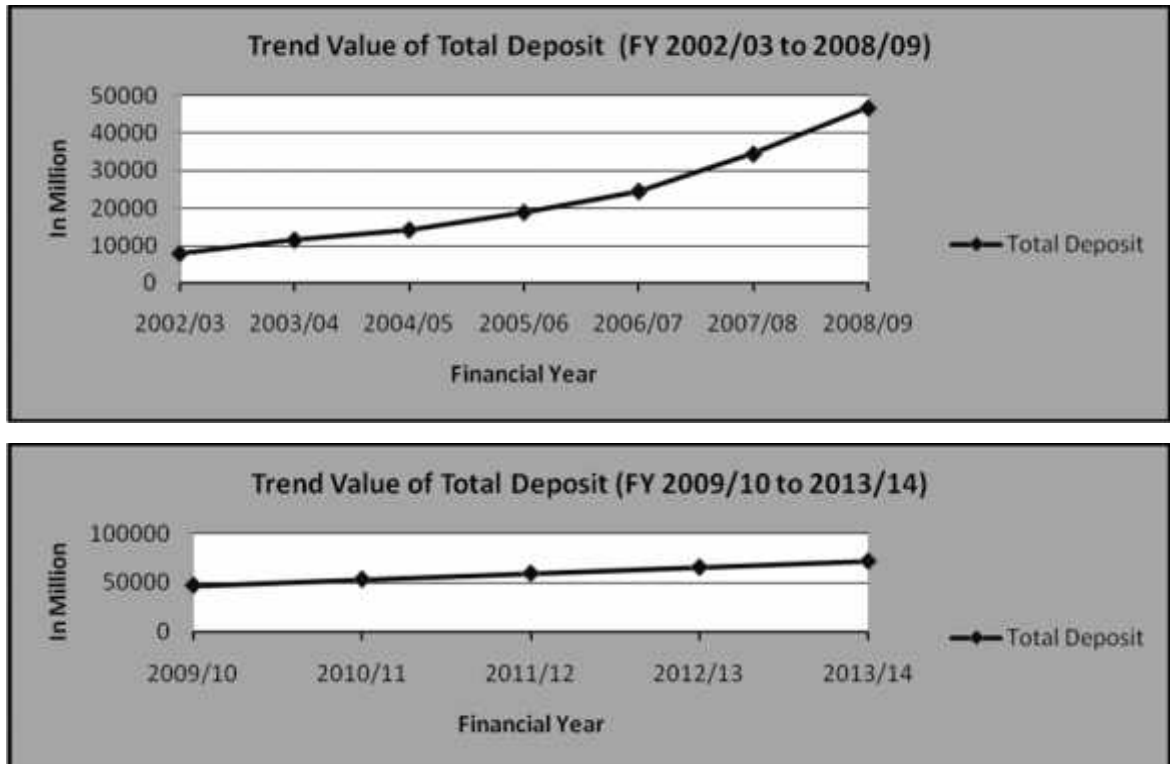
4.11.2 Trend analysis of Total Investment

Under this analysis, the trend value of total investment of NIBL has been calculated for 7 years 2002/03 to 2008/09 and forecast for next 5 years form 2009/10 to 2013/14. The following table shows the trend value of total investment for 12 years from 2002/03 to 2013/14.

Table No 47
Trend Value of Total Investment of NIBL

Figures in Rs (million)

Year(t)	Total investment (y)	X= t-2000	X^2	xy	Yc=
2002/03	1705.24	-3	9	-5115.72	2375.09
2003/04	3862.49	-2	4	-7724.98	3292.17
2004/05	3934.19	-1	1	-3934.19	4209.25
2005/06	5602.87	0	0	0	5126.33
2006/07	6505.68	1	1	6505.68	6043.41
2007/08	6874.02	2	4	13748.04	6960.49
2008/09	7399.81	3	9	22199.43	7877.57
Total	35884.31	0	28	25678.26	35884.31

Source: Annual Report (2002/03 to 2008/09)

$$a = \frac{Y}{N} = \frac{35884.31}{7} = 5126.33$$

$$b = \frac{XY}{X^2} = \frac{25678.26}{28} = 917.08$$

The equation of straight line trend is Yc = a +bx
Yc = 5126.33 +917.08x

**Trend Value of Total Investment of NIBL (2004/05 to 2008/09)**

Figures in Rs (million)

Year(t)	X = t-2000	Yc = a+bx
2009/10	4	8794.65
2010/11	5	9711.73
2011/12	6	10628.81
2012/13	7	11545.89
2013/14	8	12462.97

From the above calculated table shows that trend values of total investment are increasing trend. The trend value of total investment is Rs1705.24 million in FY 2002/03, Rs 7399.81 million in FY 2008/09 and total investment will be Rs 12462.97 million in FY 2013/14. The total investment of NIBL will be increased in future. The calculated trend values of total investment of NIBL are fitted in the trend line as given below.

Figure: 39
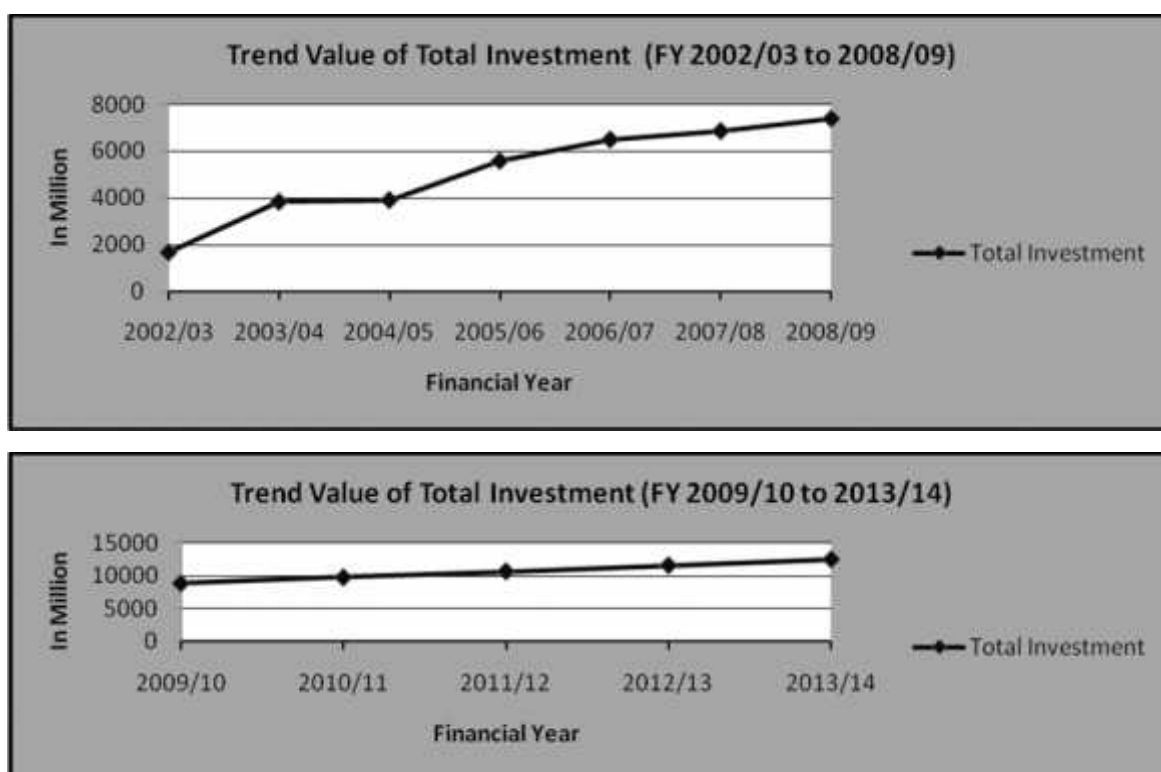
4.11.3 Trend Analysis of Loan and Advance

Under this analysis, the trend values of loan and advance of NIBL has been calculated for 1997/98 to 2003/04 and forecast for the next 5 years from 2004/05 to 2008/09. The following table shows the trend value of loan and advance for 12 years from 1997/98 to 2008/09

Table No 48
Trend Value of Loan and Advance of NIBL

Figures in Rs (million)

Year(t)	Loan and	X= t-2000	X^2	xy	Yc=
2002/03	5772.14	-3	9	-17316.4	1800.47
2003/04	7130.13	-2	4	-14260.3	6739.78
2004/05	10126.06	-1	1	-10126.1	11679.09
2005/06	12776.21	0	0	0	16618.4
2006/07	17286.42	1	1	17286.42	21557.71
2007/08	26996.65	2	4	53993.3	26497.02
2008/09	36241.21	3	9	108723.6	31436.33
Total	**116328.80**	**0**	**28**	**138300.6**	**116328.8**

Source: Annual Report (2002/03 to 2008/09)

$$a = \frac{Y}{N} = \frac{116328.8}{7} = 16618.40$$

$$b = \frac{XY}{X^2} = \frac{138300.6}{28} = 4939.31$$

The equation of straight line trend is Yc = a +bx

Yc = 16618.4 +4939.31x

Trend Value of Loan and Advance of NIBL (2004/05 to 2008/09)

Figures in Rs (million)

Year(t)	X = t-2000	Yc = a+bx
2009/10	4	36375.64
2010/11	5	41314.95
2011/12	6	46254.26
2012/13	7	51193.57
2013/14	8	56132.88

From the above calculated table shows that trend value of loan and advance are in increasing trend. The trend value of loan and advance is Rs5772.14 million in 2002/03, Rs36241.21 million 2008/09 and loan and advances will be Rs56132.88 million in FY 2013/14. The loan and advance will be increased in future. The calculated trend value of loan and advance of NIBL are fitted in the trend line as given below.

Figure: 40

Trend Value of Loan and Advance (FY 2002/03 to 2008/09)

Trend Value of Loan and Advance (FY 2009/10 to 2013/14)
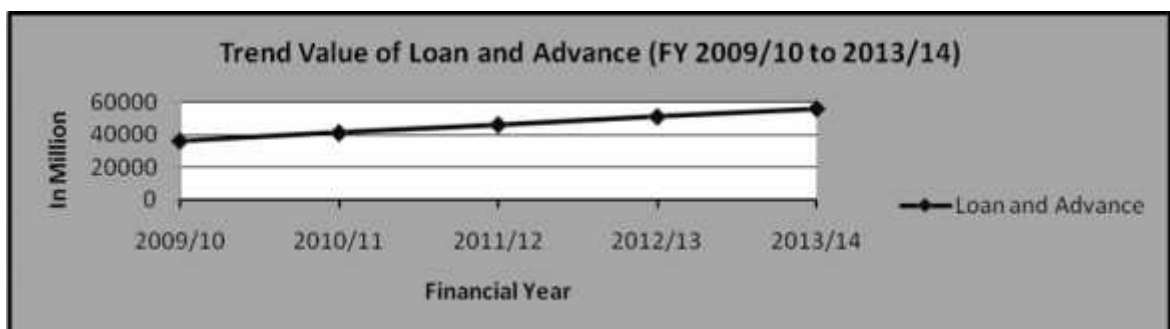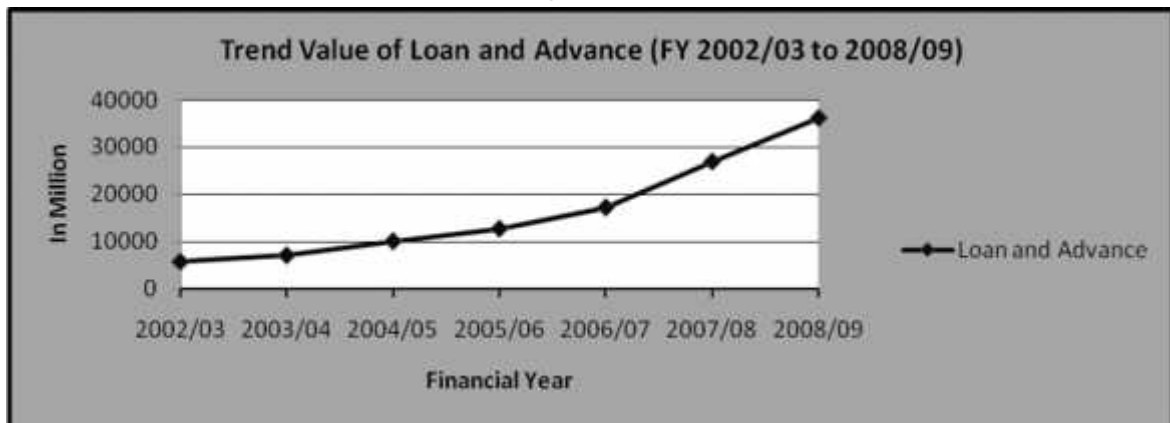
4.11.4 Trend Analysis of Net Profit

Under this analysis, the trend value of Net profit has been calculated for 1997/98 to 2003/04 and forecast for the next 5 years 2004/05 to 2008/09. The following tables shows that trend values of net profit for 12 years from 1997/98 to 2008/09

Table 49
Trend Value of Net Profit

Figures in Rs(million)

Year(t)	Net profit(y)	X= t-2000	X^2	xy	Yc= a+bx
2002/03	116.82	-3	9	-350.46	9.89
2003/04	152.67	-2	4	-305.34	142.35
2004/05	232.15	-1	1	-232.15	274.81
2005/06	250.54	0	0	0	407.27
2006/07	501.39	1	1	501.39	539.73
2007/08	696.73	2	4	1393.46	672.19
2008/09	900.62	3	9	2701.86	804.65
Total	2850.92	0	28	3708.76	2850.92

Source: Annual Report (2002/03 to 2008/09)

$$a = \frac{Y}{N} = \frac{2850.92}{7} = 407.27$$

$$b = \frac{XY}{X^2} = \frac{3708.76}{28} = 132.46$$

The equation of straight line trend is Yc = a +bx
Yc = 407.27 +132.46x

Trend Value of Net Profit of NIBL (2004/05 to 2008/09)

Figures in Rs(million)

Year(t)	X = t-2000	Yc = a+bx
2009/10	4	937.11
2010/11	5	1069.57
2011/12	6	1202.03
2012/13	7	1334.49
2013/14	8	1466.95

From the above calculated table shows that trend value of Net profit are in increasing trend. The trend value of net profit is Rs116.82million in FY 2002/03 & Rs 900.62 million in FY 2008/09 and net profit will be Rs 1466.95 million in FY 2013/14.The net profit will be increased in future according to the trend analysis.

The calculated trend values of net profit of NIBL are fitted in the trend line as given below

Figure: 41
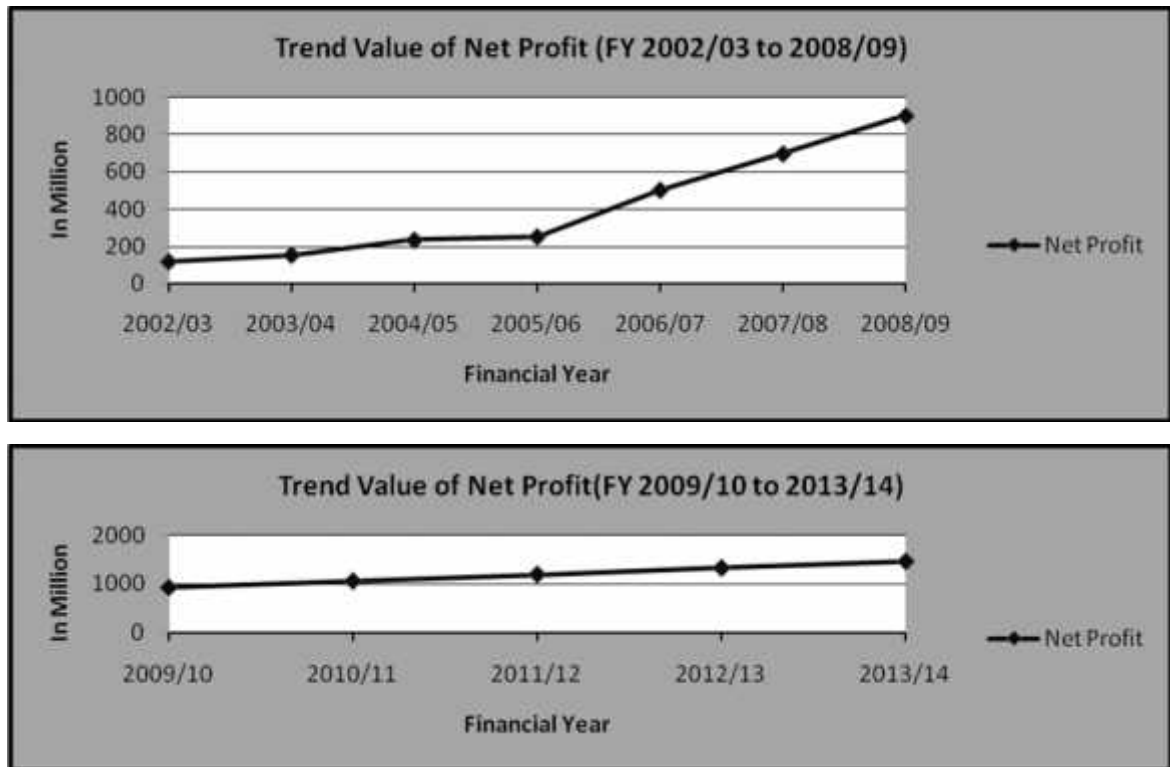
4.12. Calculation of Risk and Return

Table No 50
MPS and DPS of Shares of NIBL

Fiscal Year	Market Price per	Dividend Per	Stock	Total
2002/03	795	20	-	20
2003/04	940	15	-	15
2004/05	800	12	-	12
2005/06	1260	20	-	20
2006/07	1729	5	-	5
2007/08	2450	7.49	-	7.49
2008/09	1388	20	-	20

Source: Annex-VIII

Total dividend amount = cash dividend + Stock dividend % x next years MPS

Market price per share, dividend per share, stock dividend and total dividend are shown in above table. MPS of NIBL is found very high in Fiscal year 2007/08, which that was very low in the fiscal year 2002/03. The trend MPS is increasing except the up to the FY 2007/08, but in the FY 2008/09 it starts to decrease.

Table No 51

Realized Return (R), Expected Return ($\overline{R}$) and coefficient of variation of NIBL

Fiscal Year	Market price per share MPS	Dividend per share(DPS)	$R = \dfrac{P_1-P_0+D_1}{P_0}$	$\overline{R}$-R	$(R-\overline{R})^2$
2002/03	795	20	0.0724		
2003/04	940	15	0.2013	0.0284	0.0008
2004/05	800	12	-0.1362	-0.3091	0.0955
2005/06	1260	20	0.6000	0.4271	0.1824
2006/07	1729	5	0.3762	0.2033	0.0413
2007/08	2450	7.49	0.4213	0.2484	0.0617
2008/09	1388	20	-0.4253	-0.5982	0.3579
Total			1.0373		0.7396

We have,

$$\text{Expected Return } (\overline{R}) = \frac{R}{N} = \frac{1.0373}{6} = 0.1729$$

$$\text{Standard deviation} = \sqrt{(R-\overline{R})^2/(n-1)} = \sqrt{0.7396/6}$$
$$= 0.3511$$

$$\text{Coefficient of variation (CV)} = \frac{\Omega}{\overline{R}}$$
$$= \frac{0.3511}{0.1726} = 2.0309$$

Here, from the above calculation it is found that return on common stock of NIBL is 17.29% and risk is 35.11%. The coefficient of variation is 2.0309, which means for earning 1 unit of return the investors have to bear 2.0309 unit of risk.

4.13. Major Findings of the study

Based upon the study, the findings of this study are given in the present chapter below: -

Liquidity

1. The current ratios show that bank does not have ability to meet their short term obligation for the study period 2002/03 to 2008/09 because this ratio is less than 1 during 7 years period. It is unable to meet their short term obligation. The mean, S.D. and CV are 0.94, 0.03 and 3.19% respectively. And CV i.e. 3.19% shows that the ratios are satisfactorily consistent.

2. The highest ratio in % of cash and bank balance to current asset is 16.82% in FY 2008/09 and lowest ratio in FY 2004/05 i.e.9.60%. The mean, SD, CV are 12.10%, 2.38% & 9.67% and CV 9.67% shows that ratios are little bit satisfactorily consistent over the 7 years study period. The analysis of this ratio is in fluctuating trend.

3. The mean of ratio of Investment on Government securities to current assets is 11.39% and coefficient of variation is 42.49%, which signifies that ratios are not consistent and variable over the period of 7 years study period. The highest ratio in % is 17.96% in FY 2003/04. So, investment on government securities of the NIBL trend is very much fluctuating.

4. The mean ratio of Loan and advances to current assets is 73.42% and CV is 6.81%. And this CV i.e. 6.81% shows that there is some satisfactorily uniformity in maintaining the ratio over the period. NIBL has highest ratio in FY 2007/08 is 79.06% & lowest ratio in FY 2003/04 i.e. 63.98%. So it can be said that NIBL has followed the fluctuating trend in loans and advances to current assets ratio.

5. The mean ratio of fixed deposit to total deposit is found to be 24.4% with 16.19% CV between them which signifies that the ratios are not consistent over the period of study. Fixed deposit is the highest interest bearing deposit, which can be withdrawn only after its maturity among all the interest bearing deposit. It can be found this analysis that fixed deposit to total deposit ratio decreased in the fiscal year 2003/04, 2007/08.

6. The mean, SD. And CV of saving deposits to total deposit ratio are 40.43%, 5.39% & 13.33 % respectively. And CV i.e. 13.33% shows that there is not satisfactorily consistent the ratio over the 7 years study period. In FY 2004/05, it has highest ratio of all, so this FY can be said the best of all for the liquidity position of NIBL.

7. The mean of the short -term loan to total deposit ratio is found to be 2.47% with CV 44.53% between them, which means the ratios are not consistent. But, the highest of all ratio is 3.27% in FY 2006/07, so it can be said that

NIBL is able to utilize its very few deposit to short term lending through out the study period.

8. From the analysis of cash and bank balance to total deposit ratio, it is in fluctuating trend i.e. 11.69% in FY 2002/03 to 9.40% in FY 2004/05.The mean, SD, CV are 11.78%, 2.50% and 21.22% respectively. Mean 11.78% it shows that the bank is not maintaining its CRR as per NRB directives i.e. 12% of their deposit liabilities as reserve CV i.e. 21.22% shows that ratio are not consistent.

Stability ratio

1. The higher ratio like 146.88% in FY 2003/04 indicates the sustainability growth of the bank yearly change in % of ratio is positive except FY 2003/04 & 2005/06. The mean, SD & CV of NIBL are 119.01%, 29.00% & 24.37% respectively.

2. The mean, SD & CV of Net worth to total asset ratio are 6.79%, 0.62% & 9.13% .In the FY 2008/09 it has highest ratio i.e. 7.37% among all FY's ratio. So, its capital adequacy is in good position Yearly change in % of ratios are positive except FY 2003/04 & 2005/06. So, in respect of capital adequacy, NIBL's performance is more satisfactory in the later years than in the beginning fiscal years.

3. From the analysis of current assets to net worth ratio, it is found that, ratios has a fluctuating trend throughout the study period i.e. from FY 2002/03 to 2008/09 with ratio i.e. 1177.36% in beginning year 2002/03 and in last FY i.e. 1204.80% The mean, SD & CV of all this ratios are 1269.43%, 120.71% & 9.51% respectively. The banks should reduce the proportion of the current asset in order to maintain the profitability of bank.

4. The mean, SD & CV of total deposit to net worth ratio are 1306.83%, 131.19% & 10.04%. The CV 10.04% reveals that ratios are not satisfactorily consistent and variables over the 7 years study period. Higher ratio is unfavorable to the bank while it is incurring losses or while the rate of return is less than the interest payable and vice versa, the ratio of NIBL has ranged between 1580.8% in FY 2003/04 to 1194.98% in FY 2008/09.

Asset management Ratio (Activity Ratio)

1. The mean, SD & CV of loan and advances to total deposit ratios are 71.40%, 5.71% & 8% respectively. And CV 8% shows that ratios are little bit consistent. The ratio varies from maximum of 78.36% in FY 2007/08 to the minimum of 61.87% in FY 2003/04. The average loan and advance to deposit ratios is 71.40% which shows that it is should improve mobilization of deposit on loans and advance.

2. From the analysis of Loan and advances to fixed deposit, it is found that mean, & CV of the ratio are 298.34% & 15.65%. This ratio measures how many times the amount is used in loans and advances in comparison to fixed deposit. Coefficient of variation i.e. 15.65% shows the little bit uniformity in maintaining the ratio over period. Here, higher ratio shows higher efficiencies of the bank.

3. The loan and advances to saving deposit ratio of NIBL varies from maximum of 237.14% in FY 2002/03 to the minimum of 145.93% in FY 2003/04 with the average 180.39% and CV i.e. 19.54% between them shows the little bit uniformity in maintaining the ratio over the period. The analysis shows that the bank is not properly mobilize its saving deposits in FY 2003/04 i.e. 145.93% comparing in the FY 2002/03 i.e. 293.14%.

4. The mean of total off balance sheet operation to loan and advance ratio is 45.56% and coefficient of variation is 12.38% which shows that the ratios are not consistent and variation over the 7 years period. It varies from maximum of 54.27% in the FY 2002/03 to the minimum of 37.56% in FY 2007/08.And it is not better position regarding the proportion of fee based activities to loan and advance

5. The ratio of loan loss provision to total loans & advance raged from 3.23% in FY 2004/05 to 1.62% in FY 2008/09 and its mean ratio is 2.61% & CV is 22.99%. NIBL has less fluctuating ratio ranging from 3.23 in FY 2004/05 to 3.15% in FY 2005/06 but more fluctuating in FY 2006/07 & 2007/08. If there is increase in ratio, that will indicate the increase in volume of sub-standard loans and advance i.e. in FY 2003/04 & 2004/05 the yearly change ratio in % are 11.60% & 11.71% respectively.

Non performing loan

1. The mean value of sub- standard loan is Rs 19.48million.Substandard loan decreases from Rs 22.03 million in FY 2002/03 to Rs 0.82 million in FY 2004/05 and increases to Rs 44.24 million in FY 2005/06. The mean value of doubtful loan is Rs 35.62 million which also increases from Rs 3.59 million to Rs 74.94 million in FY 2004/05 but again in FY 2005/06 decreases to Rs 0.05 million. Similarly, mean value of bad loan is Rs 157.77 million and the doubtful loan is increasing from FY 2002/03 .i.e. Rs91.47 million to Rs 227.76 in FY 2005/06.

2. From the analysis of loan loss provision for non performing loans, it has been found that the maximum loan loss provision for substandard loan is Rs 11.06 million in FY 2005/06 and minimum provision for substandard loan is Rs 0.21 million in 2004/05. And maximum loan loss provision for doubtful loan is Rs 37.56 million in FY 2004/05 & minimum loan loss provision for doubtful loan is Rs 0.25 million in FY 2005/06.Similarly, maximum loan loss provision for bad loan is Rs 225.49 million in 2005/06 & minimum loan loss provision for bad loan is Rs 8.949 million in FY 2002/03. The mean value for substandard, doubtful & bad loans are Rs 4.12 millio, Rs 17.04 million & Rs 131.93 million respectively. The combined mean value of loan loss provision for non performing loan is Rs 153.09 million

3. The combined mean ratio of non performing loan to total loan and advance is 0.79%. The highest ratio of substandard in FY 2002/03, doubtful in FY 2003/04 and bad loan in FY 2004/05 are 0.3817%, 0.8959% & 2.0256% respectively. The ratio of substandard & bad loan to total loan and advance decreasing trend from 0.3817% in FY 2000/01 to 0.0081 in FY 2004/05 & 2.0256% in FY 2004/05 to 1.7827 % in FY 2005/06 respectively. And doubtful loan to total loan and advance decreases from 0.8959 in FY 2003/04 up to 0.0004% in FY 2005/06.

4. The loan loss provision of Substandard to non performing loan ratio ranged from 25.6098 in FY 2004/05 to 11.31% in FY 2002/03 with average of 21.77% and loan loss provision of doubtful loan to non performing loan ranges from 500.00% in FY 2005/06 to 12.81% in FY 2002/03, with average of 152.43%. Likewise, loan loss provision of bad loan raged from 9.78% in FY 2002/03 to 99.033% in FY 2005/06, with average of 74.74%. The combined mean ratio of loan loss provision to non performing loan is 82.98%.

The loan loss provision is the cushion against future defaults by borrowers. But in short term, it affects on the profitability of the bank. The increasing trend of loan loss provision shows that the quality of loans becoming degrading year by year & it

can be said that amount of non performing loan is increasing and possibility of default in future is increasing but here there is decreasing trend of loan loss provision which shows that amount of non performing loan is increasing.

The profitability ratio

1. The mean value of interest paid to working fund ratio is 2.35% and CV is 14.04% which means the ratios are not consistent over the period. Total interest paid to working fund ratios are fluctuating over the years because the analysis reveals that interest paid to working fund varies from maximum of 3.04% in FY 2008/09 to minimum of 2.04% of in FY 2004/05.

2. The mean value of net profit to working fund is 2.13% with CV is 37.56% between them, which shows that the ratios are not satisfactorily consistent over the study period. The analysis shows that net profit to working fund of the bank varies from maximum of 2.89% in FY 2007/08 to minimum of 1.15 % in FY 2003/04. The ratios indicate that the earning power of the total assets of NIBL is average.

3. The total interests paid to working fund ratios are more than the net profit to total working fund ratio. This indicates that the bank is not in profitable position as it is getting higher interest cost than higher return in the respect of working fund.

4. The net profit to total deposit ratios are ranging between maximum of 3.26% in FY 2007/08 to a minimum of 1.32% in FY 2003/04. The mean of the ratios is found to be 2.42% with 36.78% CV between them, which indicates that ratios are not satisfactorily consistent over the 7 years study period.

5. The operating profit to net worth ratio is fluctuating over the years. The ratio ranges between 26.57% in FY 2002/03 to 38.74% in FY 2006/07. The mean of the ratios is found to be 33.58% with 14.79% CV between them, which means the ratios are not consistent over the period.

6. From the analysis of return on loan and advance ratio, it has been found that mean and CV of ratio are 3.36% and CV 34.23% during 7 years period and CV shows that the ratios are more variable and inconsistent during the study period because the ratio varies from maximum of 4.60% in FY 2006/07 to a minimum of 2.02% in the FY 2002/03. It can be said that lower earning capacity on its deposits mobilized on loan and advance.

7. The return on equity ratios are fluctuating trend because the ratio varies maximum of 42.37% in FY 2006/07 and minimum of 18.29% in the FY 2002/03 with the mean ratio of 31.26% and 35.38% CV between them which shows that the ratios are more variable and inconsistent during the study period. It has not the efficient to use the funds of owners properly.

8. Cost of services to working funds are in increasing trend from FY 2004/05 to FY 2008/09 .i.e. from 2.53% to 3.39% respectively. The mean of the ratios is 2.80% with 10.36% CV which shows that ratios are little bit consistent over the study period. The trend has been found for paying the cost of services.

Risk ratio analysis

1. The credit risk ratios are not consistent for the study period ranging from the minimum 53.79% in FY 2003/04 to maximum of 69.45% in FY 2007/08 . The mean of ratios is found to be 62.92% with 8.38% CV between them which shows that ratios are not much more variable.

2. Investment on government securities to total deposit ratio has been decreasing from 17.36% in FY 2003/04 to 5.42% in FY 2008/09.. The mean of the ratios is 11.04% and CV between them is 41.85% which shows that the ratios are not consistent. But in FY 2003/04, the ratio is 17.36% which shows that it has higher proportion of risk free asset on the total deposit as well as less productive too.

3. The investments to total deposit ratios are increasing trend till the FY 2003/04 but then it has decreasing trend. It has the highest ratio 33.51% in FY 2003/04 and lowest ratio is 15.85% in FY 2008/09. The mean of the ratios is 24.94% and CV between them is 24.50% on the basis of CV it can be concluded that the ratios are not consistent during the study period and it is found that there is not mobilized sufficient amount of fund on the government securities and debentures of other companies.

Correlation analysis

1. The correlation coefficient 'r' between deposit & net profit of the bank is 0.9892 & probable error (PEr) multiplied by 6 is found to be 0.0330.So, r > 6PEr, the value of r is significant.

2. The correlation coefficient 'r' between total deposit and total investment of the bank is 0.8879 & probable error (PEr) multiplied by 6 is found to be 0.3237.So, r > 6PEr, the value of r is significant.

3. The correlation coefficient 'r' between total deposit and loan and advance of the bank is 0.9977 & probable error (PEr) multiplied by 6 is found to be 0.0071.So, r > 6PEr, the value of r is significant

4. The correlation coefficient r' between net worth and total assets of the bank is 0.9968 & probable error (PEr) multiplied by 6 is found to be 0.0099 So, r > 6PEr, the value of r is significant.

5. The correlation coefficient 'r' between current asset and current liability of the bank is 0.9999 & probable error (PEr) multiplied by 6 is found to be 0.0004.So, r > 6PEr, the value of r is significant.
6. The correlation coefficient 'r' between Dividend per share & Earning per share is -0.5543
7. The correlation coefficient 'r' between Dividend per share & net profit is - 0.2088
8. The correlation coefficient 'r' between Dividend per share & Market per share is –0.6007
9. The correlation coefficient 'r' between Dividend per share & net worth is – 0.0657

10. The holding period return (HPR or r) is the highest in the FY 2005/06 i.e. 60% and the lowest holding period return (HPR or r) is – 42.53% in FY 2008/09 during study period. The expected return (r) is 17.29% & coefficient of variation (CV) is 2.03 times.

11. The trend analysis of total deposit, loan and advance, net profit & total investment show that the amount of total deposit, loan and advance net profit, total investment are in increasing trend.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is one of the land locked country in the world, which sandwiched between India and China. Nepal is predominantly agricultural country. Agriculture is the main sector for employment and contributes where agricultural sector provides large contribution to the nation's economy.

Nepal is one of the poorest countries in the world where many people live below the poverty line. The reason of poverty is due to the lack of direct access to sea lack of strategic success in commercial exploitation of natural resource and optimum and effective utilization of human resources. Nepalese economy suffers basically from poor connectivity. Rugged topography with limited croplands and absence of good governance are some of the major challenges for Nepal's fast economic growth and Development the economy suffers basically from par numbers structural constraints.

Banks are institutions that collect scattered domestic resources of the country and mobilize it toward the development of the country. With the adoption of the liberal economic policy by the Nepal government in mid 1980s, many private financial institutions have been emerged in Nepal.

To meet the basic objectives of the banks financial health and strengthens is key variable. For this a regular financial appraised is most necessary, for the purpose of analyzing the financial efficiency of sampled institution i.e. Nepal Investment Bank Ltd, on the basis of financial statement from 2002/03 to 2008/09. To approach the result necessary data and other related variable have been collected from secondary source and they are presented in tabular form. Similarly, available literatures relating to financial efficiency analysis are reviewed and appropriate research design and methodology is also described.

Later on some financial and statistical tools have been used. As financial tools, ratio analysis has been massively. In the same way, some statistical tools such a coefficient of correlation and trend analysis of important variables have been use to accomplish the objectives. This study is mainly based on secondary data that have been first processed and analyzed.

This study was conducted to examine and evaluate the financial efficiency of NIBL which has been working as second joint venture bank in Nepal was established in

1986. At present, there is no foreign investment in it and all shares are owned by the Nepalese shareholders.

In the global market condition, banking has become extremely complex and sophisticated. Several changes create threats and opportunities that have direct impact on the financial performance of the banks. The economy growth of any country is highly influenced by the role of the commercial banks. Commercial banks are the main sources of capital needed for trade and commerce by mobilizing the dispersed saving of individuals and institutions in order to aid industry, trade, commerce and agriculture for the economic development of a nation though banking is considered as the platform of money market and capital markets, commercial bank basically help to promote the money market.

Financial efficiency analysis of bank is different from the each other because every bank has the special nature of assets and liabilities. Here the main finding of the study is the performance of the Nepal Investment Bank Limited has been presented. The financial data, statement of seven consecutive years i.e. 2002/03 to 2008/09 has been examined for the purpose of the study. Financial tools are used to analysis the performance of the bank. And statistical tools like trend analysis, mean, and standard deviation, coefficient of variation, coefficient of correlation are conducted for the analysis and interpretation of the data. This study is largely based on the secondary data that have been first processed and then analyzed. It has been found that NIBL is able to utilize its very few deposit to short term lending through out the study period. In respect of capital adequacy (net worth to total assets), NIBL's performance is more satisfactory in the beginning years than later fiscal years of the study period. From the analysis of Investment to total deposit ratio, it has been found that there is not mobilized sufficient amount of fund on the government securities and debentures of the other companies. From the growth ratio of total investment the growth rate of the total investment of NIBL is 116.19 for the study period of 7 years but the overall growth rate of net profit over the years is only 7.20%

5.2 Conclusion

Nepal is one of the developing countries in the world. Financial system plays a vital role for the development of any country. The role of financial system is considered to be the key to economic growth. A well-developed financial system promotes investment by identifying and financing lucrative business opportunities, mobilizing savings, efficiently allocating resources, and helping diversify risks and facilitating the exchange of goods and services. Economists have generally reached a consensus on the central role of financial system in economic development. The theoretical argument is that policies to develop financial system are expected to raise economic growth and, therefore, developed countries have more developed financial system.

The liquidity ratio analysis of the bank shows that the ratio is not consistent. In the respect of capital adequacy, NIBL's performance is not satisfactory in the later years. The loan and advances to total deposit ratios are little bit consistent but the loan and advances to saving deposit ratio of NIBL shows that the bank is not properly mobilize its saving deposits in FY 2003/04 comparing in the FY 1997/98.

From the analysis of nonperforming loan, it shows that there is decreasing trend of loan provision which shows that amount of non-performing loan is increasing. Return on loan and advance are more variable and inconsistent during the study period and it can be said that lower earning capacity on its deposits mobilized on loan and advance. The return on equity ratio shows that it has that it has not the efficient to use the funds of owners properly. The cost of services to working fund ratio has little fluctuating trend through out the study period i.e. from to . And it shows the trend of paying the cost of services. The total debt to total asset ratios are consistent. It can be said that banks success in exploiting debt to be more profitable as well as its riskier capital structure in FY 2003/04 than other years.

The correlation analysis shows that there is positive correlation between total deposit and net profit during the 7 years study period. The increase and decrease of total deposit strongly affects the volume of net profit. The correlation analysis shows that value of 'r' is significant so there is significant and positive relationship between total deposit and total investment as a result, NIBL has mobilized total deposit efficiently as investment. The correlation analysis shows that value of 'r' is significant i.e. there is significant relationship between total deposit and loan of NIBL. This shows that NIBL has efficiently mobilized their deposit as loan and advance.

There is positive association between net worth and total assets and the relation is significant there is positive correlation between current assets and current liabilities and the relation is significant. That is the increase or decrease of current assets affects the current liability of the bank.

Dividend decision of the bank is a crucial area of financial management. So. From the analysis of correlation of DPS with EPS, net profit, MPS and net worth of NIBL shows that DPS is positively correlated with EPS, net profit but negatively correlated with m. It can be said that payout of dividend depends upon the net profit after tax and EPS but high DPS is responsible to decrease market price per share and the net worth.

The holding period return (HPR or r) is the highest in the FY 1999/2000 and the lowest holding period return in FY 2001/02 during study period. The expected return ® is 15.17% and coefficient of variation (CV) is 2.59 times. The CV (2.59) shows that earning 1 unit of return the investors have to bear 2.59 unit of risk.

The trend analysis of total deposit shows the amount of total deposit is in increasing trend. From the trend analysis of total investment of NIBL, it is found that the total investment of NIBL is in fluctuating trend.

The trend analysis of loan and advance shows that value of loan and advance of NIBL is in increasing trend. The trend analysis of net profit is in increasing trend.

5.3 Recommendations

A clear financial picture of NIBL can be seen from all above presentation. Now, some important valuable and timely suggestions and recommendations can be put forward on the basis of finding and conclusion or from the critical evaluation of their financial pictures to overcome weakness and inefficiency and to improve weakness and inefficiency and to improve present financial position of the NIBL.

1. NIBL is suggested to maintain their liquidity position in normal standard i.e. 2:1 as their liquidity position is below the normal standard during the study period 2002/03 to 2008/09.
2. NIBL has lower amount in the investment on government securities to current assets. Investment on government is the more safe investment than other current assets. NIBL should take care of securities investment because they are loosing the additional interest income by keeping idle cash instead of investing it on government securities.
3. NIBL is maintaining only 11.78% in the form of cash and bank balance in relation to total deposit. So, it is recommended to increase cash and balance.
4. NIBL has significantly higher amount of total deposit to net worth So NIBL is suggested to draw its attention to reduce the proportionate amount of deposit in relation to net worth
5. The average loan and advance to fixed deposit ration is 298.34%. Here the fixed deposits are in increasing trend. The ratio is in fluctuating trend. So, high ratio can be risky because it increases the risk of having to suffer from bad debts. So, it is recommended to maintain the moderate ratio.
6. NRB has directed all the commercial banks to classify loan and advances into category and make provision according to these loans classified. So, NIBL is suggested to follow the NRB directives properly.
7. NIBL is suggested to decrease the total interest expenses which will be better position of banking generate income.
8. The overall profitability position of NIBL is better. So, NIBL is recommended to maintain the utilization of its resources more effectively for generating more profit margins.
9. The bank is suggested to maintain the higher EPS by using its owners' equity effectively.
10. NIBL should be taking care of consistent dividend policy and suggestion to maintain a stable dividend policy.

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