CHAPTER – I
INTRODUCTION

1.1 Background of the Study

Financial institution plays vital role in the economic growth of the country. Financial infrastructure of an economy consists of financial intermediation, financial institution and financial markets. Financial institutions mainly facilitate the development of trade, industry and commerce.

Nepal has adopted mixed economy system, which is known to be combination of good aspects of socialistic and capitalistic economic system. In this economic system both government and private sector are active for the development of economy by way of their individual contribution or by through Public private partnership model. Since 1990, Nepal has adopted more liberal and open economic system due to which we could see a lot development in our economic system, peoples are doing their business freely, new invention and production could be possible, foreign technologies are affordable and available to us, foreign counterparts are investing here, different banks are opened with involvement of public shareholder or with JV with foreign banks, different service sectors like telecom, tourism sector is developed and which is not be possible with the effort of government only.

Bank is one of the financial institutions which simply borrow from public and lends to public. Bank is now an essential element to a country and to a people. It has provided so much services, facilities and benefits that it is essential in a day to day life. If you have surplus fund go to bank, if you need to transfer fund or pay to somebody go to bank, if you need to transfer fund abroad go to bank, if you have valuable assets and you do not want to take risk than go to bank, if you need a loan than bank. Bank has made our life easier; its service has been reached to remote and undeveloped areas too. If you think in macro level than by providing funds and capital for large projects, for infrastructure development, by providing capital to entrepreneur bank has played a vital role in development of economy.

Especially in developing countries commercial banks has great importance. As it has a large network, large capital base, large shareholders, large customer, large assets size, it helps in developing an economy majorly. As it has large deposits size, they are generally involved in providing funds to large sector like hydropower, road, transport, tourism, large business groups. Similarly it provides funds to government in large amount through investment in treasury and development bonds. Due to their large size they have more relations with foreign banks and agencies, because of that it helps in promoting international trade with different countries, businessman by using their network can import and export different types of goods and services by opening LCs and guarantees. Similarly commercial banks too help to increase foreign reserves through remittances and other means. As bank has more networks in both rural and urban areas they also help to collect the scatters funds from different parts of the country.

As Nepal Bank Ltd is the oldest and large commercial banks of Nepal, it has been selected for the study. Since this bank has a major portion of share among commercial banks and has great impact on the economy, this bank is selected. These are the banks which are too big to fail in NRB terms and as this banks restructuring program is in continuation, these bank is selected to know its financial performance, its progress after restructuring program and for its future trend analysis.

1.1.1 Banking History of Nepal

Although the first step towards the establishment of a modem bank was taken as late as in 1937 AD, it does not that banking in Nepal is of recent origin. "Historically the banking system is traceable for back into dim ages of the past although the old chronicles contain at place obscure details, inaccurate figures and even impossible facts" *(Pant; 1980:117).* However, "the history of banking and currency in the country becomes definite only from the fifth century that is in the Lichhavi period, when the first coins were minted" *(Pant; 1980: 940).*

In the history of Nepal, banking activities in ancient time can be inferred. Guna Kam Dev did rebuilding of Kathmandu in 723 from borrowing. In the Nepalese chronicle, it was recorded that Shakhadhar and Sudra merchant of Kathmandu introduced a new era known as Nepal Sambat in 879 or 880 AD after having paid all the outstanding debts in the country. This is considered to be an adequate basis for a logical inference that the money lending operations were in practice during that period.

The reign of Jayasthiti Malla is recognized as the glorious age for codifying the law relating to commercial transaction and immovable property. This reform “has left a lasting impression upon the Nepalese Nation of even today; and it is from about Raja Jayasthiti Malla reign onward that the granting of loans against immovable property must have more commonly, if not newly, practiced in the country" *(Pant; 1980: 8)*. He also classified the people in 64 classes on the basis of their occupations, which included a class called "Tanka dhari" meaning money dealers. This is lenders and bankers during the medieval period of Nepal. It is believed that money lending business, particularly for financing the foreign trade with Tibet, become quite popular during the reign of Mallas. Advance for commercial transactions against personal security or merchandise, remittance service for foreign trade (with India and Tibet) and loans for personal use were common with the increases in demand for these services. A large number of personal talking to this business, demoralization crept in the profession and consequently, several type of malpractice becomes their favorable technique. Thus, cheating and fraud were common in the absence of any regular measure during the Malla period and onward. The unscrupulous money was known to have changed exorbitant rates of interest and other extra dues on loans advanced. Also people were facing great inconveniences in obtaining loans at reasonable terms.

Ranodip Singh, the Prime Minister for 8 years from 1877-1885, took a concrete step by establishing a government institution called "Tejarath" for supplying easy and cheap credit 5% interest to the public on the security of gold and silver ornaments. At the same time government servants also the privilege of taking loans from this newly established office, repayable in investment from their salaries at source.

In the overall development of banking system in Nepal, the "Tejarath Adda" may be regarded as the father of modem banking institutions, and for quite a long time it rendered a good service to general public as well as to the government servants. Later on, with the evolution of some kind of systematic banking the government's cashier office had the primary responsibility of handling government accounts but not the public account.

Only in 1937, during the time of Juddha Shamsher, even with the non-existence of a central bank, the first commercial bank of the country, Nepal Bank Limited (NBL) was established on November 15 (Kartik 30; 1994 BS). This marked the beginning of an era of formal banking in Nepal, thus "Tejarath" was replace by a commercial bank. The establishment of NBL solved to the great extent the problem of commercial banking in Nepal. It made available facilities for depositing and narrowing money for commercial and agricultural pursuits. It also provided remittance facilities for setting internal and external transaction to create banking habit of the people, widening monished area and helped the government and business community in various ways.

Despite the above fact, the lone NBL was not in opposition to cope with all problems due to its limitation in respect of financial position and scope of business. "The credit needs of the people are still predominantly met by in dangerous money lenders and a very large portion of the productive activity of the community banking system" *(Pant; 1980:115)*. In order to overcome these difficulties the government establishment in 1956, the first Central Bank, "Nepal Rastra Bank" under the NRB Act of 1954. The setting up to this Central Bank marked another milestone in the history of growth of banking.

While the Nepal Bank Ltd. was facing the problem of utilization funds mobilized by it, the government came forward with a proposal to set a new commercial bank in public sector. Accordingly, to spread banking habits and to fulfill the growing credit requirements, state commercial bank, known as Rastriya Banijya Bank was set up on July 23, 1966. It contributes to the development of banking system, particularly in the remote areas lying in the hilly regions.

But these institutions could not properly fulfill the demand of public. There is a great needed of other commercial banks. So, Nepal has adopted the policy of economic liberalization to develop the economic condition through the participation of private sector equally on in the market on the area of industry, trade, business and banking. The government did amend the commercial banking Act 1974 in 1984 to increase competition between commercial banks, to develop their working capacity and also to open the foreign joint-venture banks. As per the provision made in this act, private sector, including foreign investor was given freedom in opening commercial banks.

1.1.2 Introduction to Nepal Bank Limited (NBL)

As mentioned earlier Nepal Bank Limited is the first commercial bank of Nepal established in Kartik 30,1994 B.S in the regime of Juddha Shumsher JBR. It was established before the establishment of Central Bank. It was established on that time too with public private partnership. At that time it had authorized capital of Rs 10 million, issued capital of Rs 2.5 million of which paid up capital of Rs 8,42,000 with 10 public shareholders. Out of share composition 40% was owned by Nepal Government and remaining by public shareholders.

Now too bank has the share composition of 40% by government and 60% by public shareholders and banks and financial institutions.

Nepal Bank establishes the banking in Nepal and it teaches public how their funds are safeguarded by banks safely with interest and how they can obtain loans from bank for to meet their requirements. It slowly attracts public towards banking channel instead of local lenders and creditors. The total deposits it collects for the first year was NRs. 17,02,025 where current deposits was about NRs. 12,98,898 fixed was about NRs. 3,88,964 and saving was NRs. 14,163. Loan disbursed and outstanding at the end of the first year was NRs. 1,985,000*(source www.nepalbank.com.np)*. With increase in its branches and services, now same deposit has been increased to 4,200 crores and loans and bill purchases to 2,500 crores with 110 branches all over the nation.

The main vision of bank is "to remain the leading financial institution of country" and it has the following objectives:

- Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country.
- Provide competitive and customer oriented banking services to all customers through competent and professional staff.
- Reclaim leadership within the national financial community.

To fulfill its vision and objectives, bank is being competitive with newly established banks and financial institution with different services like ATM facility, ABBS facility, web remittance, online banking, internet banking. Bank is too providing services other than loan and deposits like L/C, bank gurantee, foreign exchange, remittance from abroad,

1.2 Focus of the Study

Commercial banks play a vital role in the economic growth of the country. Likewise they are equally liable to the benefits of their shareholders, customers, and depositors and overall to the whole society. Amidst the unfavorable circumstances their success mainly depends on their financial decisions. This thesis focuses on the analysis of their financial performance to disclose the truth about their financial decisions, present problems and recommendations for corrections. For research purpose only one commercial bank has been chosen i.e. Nepal Bank Limited.

1.3 Statement of the Problems

For each and every bank or financial institution it is very crucial to analyze the financial performance. Every banking sector cannot reach their objective without a good financial performance. The financial sector has not been responsive enough for them to meet the growing resources. In this competitive market each and every bank and financial institution need to analyze their financial situation to develop strategies and to identify the strengths and weaknesses. Similarly investors are also needed to evaluate the performance of the companies for secured investment. In the Nepalese capital market financial institutions have dominated to the other sectors. Many researchers have been made in the field of the performance evaluation of the commercial banks among the financial institutions.

The study aims to find out the answer to the following questions.

- Does the overall financial statement analysis and financial position indicate any specific strengths and weakness?
- What are the major factors effecting the financial performance of NBL?
- Is there any relationship between net profit with investment and total deposit.
- What is the financial position of the bank in the market?

1.4 Objectives of the Study

The main objective of this study is to analysis the financial performance of the Nepal Bank Ltd (NBL). The other specific objectives are as follows.

1. To analyze the financial performance of Nepal Bank Ltd (NBL).
2. To analyze the relationship between net profit with investment and total deposit.
3. To see the trend of deposit, investment and net profit.

1.5 Limitations of the Study

Limitations of the study are as follows:

- This research has been conducted on the requirement of partial fulfillment of Master Degree in Business Study.
- It has been conducted in the limited time and resources.
- The study mainly focuses with the financial performance of Nepal Bank Ltd (NBL).

- Generally it is based on secondary data like balance sheet, profit and loss account and other useful documents.
- It is covering the period of 5 years from 2005/06 to 2009/10 of NBL banks.

1.6 Organization of the Study

This study has organized into the following five chapters:

Chapter – I: Introduction

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

Chapter - II: Review of Literature

This chapter reviews the existing literature on the concept of financial performance analysis. It also contains reviews of journals and articles, and earlier thesis related to the subject.

Chapter - III: Research Methodology

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

Chapter - IV: Data Presentation and Analysis

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

Chapter - V: Summary, Conclusion and Recommendations

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

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

CHAPTER - II

REVIEW OF LITERATURE

This chapter focuses with literature in the selected field and research related to the present studies. Review of literature is a way to discover what other research in the area of our problem has uncovered. Scientific research must be based on the past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study *(Wolf and Pant; 1999:3).*

Review of literature means reviewing research studies of other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. This part of the study highlights available literature related to this research which makes base of knowledge for the study. Review of literature is stock thinking of available literature in one's field of research. It comprises conceptual review, review of related studies and concept of financial analysis.

2.1 Conceptual Framework

2.1.1 Concept of Banking

The writers on the banking are divided regarding the origin of the word "Bank". Some authors feel that the word bank is derived from the words "Banco". "Bancus"or "Banque"which all means a bench.

A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credit and transfer funds by written order of depositors *(The Encyclopedia America; 1984:234).*

Bank is an institution, which deals with money & credit. It accepts deposits from public, makes fund available to those who need them and helps in remittance of fund from one place to another. “A bank seeks optimum combination of earning liquidity and safety. While formulating investment policy" *(Chandler; 1973:138).* The more developed financial system of the world characteristically falls into three parts, the central bank, the commercial bank and other financial institutions *(Sayer; 1976:16).*

2.1.2 Function of Commercial Bank

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

A) Accepting Deposit

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

a. Current Account

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

b. Fixed Account

When account holders want to deposit their fund for certain time period, they have to open fixed account in banks. Money in these accounts is deposited for fixed period of time. It may range from one month, three months, six months, one year and up to five years. The money deposited into fixed account cannot be withdrawn before the expiry of that period. So the rate of interest on this account is higher than that on other types of accounts *(Bhandari; 2003: 23).*

c. Saving Account

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

d. Home Saving Account

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

e. Recurring Deposit Account

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

B) Advancing of Loan

Commercial bank is a profit oriented business organization. So banks have to advance loans to public and generate interest from them as profit. After keeping certain cash reserves, bank provide short, medium and long-term loan to needy borrowers. For security, banks generally provide loan on mortgage. General loans for individual are provided on the mortgage of gold, silver, fixed deposit receipts, treasury bills, development bonds etc whereas business loan are advanced on the mortgage of negotiable instrument such as land, buildings, store room etc. According to the needs of the borrowers, banks provide different types of loan for different time period as given below: *(Dahal; 2004: 386)*

a. Term Loans

Banks provides medium-term and long-term loans on the basis of loan proposal. The maturity period of such loan is more than one year. Generally, the amount sanctioned is created to the account of the borrowers. However, banks pay the amount in cash to the borrowers in some case *(Dahal; 2004: 386)*

b. Cash Credit

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

c. Overdraft

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

d. Money at call

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

C) Discounting of Bills of Exchange

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

D) Payment of Cheque

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

E) Collection and Payment of Credit Instruments

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

F) Remittance

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

G) Exchange Foreign Currencies

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

H) Consultancy

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

I) Bank Guarantee

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

J) Agency Functions

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

a. Period Collection

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

b. Period Payment

Banks can execute the standing order or instruction of customers for making periodic payment on behalf of their customers. Under this function, banks pay subscription, income tax, rents, etc. for their respective customers and earn appropriate service charge.

c. Purchase and Sale of Securities

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

d. Representative

Banks can act as representative of their customers. They can proceed for passports, travelers tickets, book, vehicles, plots of lands etc for their customers.

e. Trustee or Executor

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

K) Others

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

2.1.3 Financial Statement Analysis

Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable condition of a business concern; therefore, financial analysis reflects the financial position of a firm which is the process of determining the operational and financial characteristics of a firm.

Financial statements analysis is largely a study of relationship among the various financial factors in a business as disclosed by the statement and a study of the trend of their factors as shown in a series of statement *(Pandey; 1989:46).*

Local commercial banks have been found relatively higher leveraged compared to other joint venture banks. Loans and advances has been the main form of the investment. Two third of the assts have been used for earning purpose *(Joshi, 1989:56).*

Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firms to identify problems, if any in the past or present and/or likely to be in the future and to provide recommendation to solve the problems *(Pradhan; 1991:71).*

Financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statement by making comparison of various components and by examining. Their context, this can be used by financial managers as the basis to plan future financial requirements by means of forecasting and budgeting procedures *(Van Horne, J.C.;2000:144).*

It is both the analytical and judgmental process that helps answer and question that have been posed. Therefore, it is means to end. A part from the specific analytical answer, the solutions to financial problems and issues depend significantly. On the view of the issue and on the nature and reliability of the information available.

- **Objective of Financial Analysis**

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

- To understand the solvency of short term and long term of a firms.

- To know the present and future profitability of the firm.
- To compare with different firms.
- For cast the future & preparing budgets.
- The financial stability of business firm.
- The long term liquidity of its fund.

- **Need of Financial Analysis**

The analysis of financial statement is mainly focus with the some questions.

- What is the present performance of the firm?
- Which are the problem existing areas?
- What is the present performance of the firm? What will be the position of the firm in future? What are the projections?
- Is there any likely problems are the way in the future?
- What are the recommendations?

2.2 Review of Journals and Articles

Shrestha (1990) in his article *"Commercial Banks' comparative Performance Evaluation"* published in **Nepal Bank Patrika** stresses on a proper risk management with appropriate classification of loans under performing and non performing category. He further clarifies that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income.

Regarding the risk management of the bank Shrestha suggests that:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio related to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.

- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

Shrestha (1990) in his article *"Capital Adequacy of Bank"* published in **Nepal Bank Patrika** said that banks deal with in highly risky transactions to maintain strong capital base. He suggested that capital should be optimum level to keep the standard ratio of capital for each bank.

Shrestha (1995) made a study *"Portfolio Behavior of Commercial Banks in Nepal"* in Economic Review analyzed the financial performance of the commercial banks through ratios and management achievement index. She also analyzed the investment and lending operations of commercial banks and their contribution to the national economy. She used data from 1975 to 1990 and analyzed the portfolio composition of the commercial banks and their behavior by testing the relationship with economic and fiscal variables of the country.
Some of her conclusions relevant to this thesis are:

- Per capita deposits as well as per capita credit in commercial banks have increased tremendously. The contribution of deposit in GDP has also been increasing.
- Structural ratios show 75% of their total deposits invested in the government securities and the shares.
- Reserve position shows quite high percentage of deposit as cash reserve.
- The commercial banks are highly leverage and highly risky.
- By risk and return JBVs are aggressive.
- BY comparative total management achievement index JBVs are better.
- Among the commercial banks, Standard Chartered Bank seems to have highest growth rate of EPS.

Poudel (1996) in his article *"Financial Statement Analysis": "An Approach to Evaluate Banks Performance"* published in Business Age has indicated that balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank's balance sheet and P/L account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets.

Financial innovations which are generally contingent in nature are considered as off balance sheet item.

Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decision. The requirements of bank's financial statement have been expressly laid down in the concerned act. The Commercial Banking Act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

The principle objectives of analyzing financial statement are to identify: liquidity, profitability and solvency. Most of users of the financial statements are interested in assessing the bank's overall performances which are affected by the following factors:

- The structure of balance sheet and profit and loss account.
- Operating efficiency and internal management system
- Managerial decision taken by top management regarding rate, exchange rate, lending policies etc.
- Environmental changes (technology, government, competition and economy)

The other factors to be considered in analyzing the financial statements of a bank are to assess the capital adequacy ratio and liquidity position. In the line of adequacy, a bank is assessed on the basis of risk weighted assets. It indicates a bank's strength and solvency. Bank 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 to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

Shrestha (1997) in his article *"Nepalma Banijya Bank Haruko Bhumika: Ek Paridrist"* published in Banking Samachar pointed out some important activities, seen in the banking sector, that deserve reviews:

- Possibility of capital flight: The unstable political situations caused the possibility of capital flight soaring high. Joint venture banks can become the main source of capital flight. It should be seriously considered and analyzed and corrective actions to be taken in time.
- Minimum deposit amount: Commercial banks and financial institutions have increased the minimum deposit amounts (threshold). This policy harasses depositors. Therefore this policy deserves review.
- Debt recovery and its effectiveness: Debt recovery has become a problem to the banks. Therefore, effective evaluation of collateral and monitoring of loans use should be done effectively.

Poudel (1997) in his article *"An Overview of Financial Companies of Nepal"* published in Business Age observed that the finance companies violating the directives regarding deposits mobilization. He found companies mobilize the deposits by more than ten times their capital base. Credit to deposit ratio remained high. The loan diversification is improved. Hire purchase and housing loan consumed greater amount of loans. He found due to increasing number of companies sources of funds declined. He suggested that the regulatory and supervisory authority to keep close eyes on the activities of the financial companies.

Sharma (1998) in his article *"Joint Venture Banks in Nepal Co-Existing and crowding Out"* published in Business Age opined that the government should favor domestic banking sector in order to build competence against JVBs. He said that both should coalesce and co-exist complimenting each other and contributing for the development.

Pant (2001) in an interview to *"Business Age"* monthly said that due to slow down in the world economy and poor law and order situation in the country many economic sectors of Nepal are sick. He said when a sector of economy catches cold, banking sector sneezes. From this perspective, the banking industry as a whole is not healthy. However, JVBs for example NABIL with its strong risk management system, sound capital adequacy provision, quality staff can survive in the difficult times.

K.C (2003) in his article *Financial Sector Reforms Still a Long Way to Go*. Published in **"***The Rising Nepal"* on June 6, 2003, he concludes that the financial sector has a direct impact in the national economy. It is oblivious that any change in the financial sector brings a significant change in the national economy. Following the implementation of the financial sector reform policy, the country's economy has seen a great change.

Rana (2003) in his interview to *"Business Age"* monthly said that though JVBs have short term threats they are operating efficiently and earning and paying handsome dividends. Hence the share prices have gone up. If the law and order situations do not improve in the country, in two three years time top ranked banks are expected to survive somehow but others may find harder time.

Roy (2006) in his article, *"Micro Finance in Nepal"* published in **Business Age** said that the micro-credit programmers, which began in Nepal in 1975, have become a powerful tool for poverty alleviation. Micro finance has enabled the poor to utilize opportunities, generate self-employment and be enterprising. It enhanced self-confidence and self-esteem and purchasing power. It empowered the poor people economically and socially. It contributes at overall economic growth.

Thapa (2005), in his article "*Deficit Financing: Implementations and Management*" published in Business Age said that developing countries use internal borrowing and outside loans for financing development activities. This in turn soars the debts and demands more financing from the debts. It's a vicious circle that drains out the resources of the developing countries. Liquidity is also involved while borrowing and servicing. Thus debt management should be effective and the country is in a comfortable position with regard to the liquidity.

Grönlund and Ponni (2007), in their article, *"Financial Performance of Commercial Radio in Sweden"*, published in Stockholm City Business Journals have stated despite slowing median growth of turnover, the profitability of Swedish commercial radio companies improved slightly in 2005. Both operating margin and net result have improved and are now positive. After the recession in 2001 the profitability of Swedish radio companies sank fairly badly, with the net result being almost -11 percent in 2002. Since then profitability has improved steadily. Median growth of turnover was only 0.1 percent in 2005, down from 5.1

percent in 2004. The total advertising investments in different Swedish media increased around 7 percent in 2005 and advertising investments in Swedish commercial radio grew by 4.5 percent, being now SEK 513 million. Despite the overall growth, slowing median growth of turnover suggests that growth in advertising investments has not been distributed evenly. Clearly it has been concentrated in the bigger companies in radio business.

The solidity of the Swedish commercial radio companies has improved slightly. Equity ratio was 36.4 percent in 2005 (35.8% in 2004) and relative indebtedness was 31.5 percent (32.7% in 2004). Both of these key figures are on fairly good levels for the radio business. Current ratio (1,4) remained on the same level in 2005 as it was in the previous year, at the moderate level. It is quite obvious that an industry that has created losses for many years, must be financed from outside. In Sweden most of the commercial radio companies are owned by large media houses that are paying the losses as a price for participating in the marketplace. The productivity of the Swedish commercial radio companies has improved steadily during the past three years. Value added per personnel was 290,400 SEK compared to 286,000 SEK in 2004. This is, of course, a good development, but when compared to commercial radio companies in Finland, Swedes are still clearly behind. In other key figures Swedish commercial radio companies are slightly ahead of Finnish counterparts. Although the economic performance of Swedish commercial radio companies has improved in 2005, it is still not at a good level. The radio business is still fighting with profitability and the industry losses are seen as a cost for establishment and thus an investment into a future (hopefully more profitable) presence on the radio market. The consolidation and forming of radio networks, cost-cutting and synergy seeking are all a part of the attempts to improve the profitability of companies.

Abraham (2007), in his article, *"A Model of Financial Performance Analysis Adapted for Nonprofit Organizations"*, published in Australian Accounting Business and Finance Journal has stated that measurement of financial performance by ratio analysis helps identify organizational strengths and weaknesses by detecting financial anomalies and focusing attention on issues of organizational importance. Given that the mission of a nonprofit organization is the reason its existence, it is appropriate to focus on financial resources in their relationship to mission. The application of this financial performance model to an individual organization will indicate a number of issues which need to be grasped. However it must be realized that these issues will not be purely financial, but bear direct relationships to the culture and traditions of the organization - for mission is central to the heart of every NPO.

This view is consistent with the challenge for nonprofit organizations to explore new ways of raising the operating revenue and capital they need to pursue their mission. To continue as a viable organization into the future, an NPO may have to deal with some difficult issues, issues that may very well move people out of their comfort zones. The organization's management team may need to consider advice on how to say goodbye to services, programs and assets that have outlived their time because It's vitally important in a changing environment, as your customers' or clients' needs change, that you adapt your services to meet their current and future needs.

Pille (2008), in his article, "*Financial Performance Analysis of Ontario (Canada) Credit Unions: An Application of DEA in the Regulatory Environment*" published in Canadian Journal of Business has stated that the equity/asset ratio and some DEA models appear to be equally competent in predicting the failure of Credit Unions. However, DEA Model 1 offers indicators of where the problems are and how to address them. Hence it should be the preferred tool for the regulator. Each of the models shows that failures, on average, have lower scores than healthy units, for up to three years before failure, thus our Hypothesis is proven. Prediction of failure is most reliable at one year prior to failure, and declines as we go further out.

Prediction improves when only larger asset sized DMUs are included, and also when failures due to plant closure or fraud are excluded. Catastrophic failures due to the latter two causes cannot be predicted and should be excluded from all analyses. DICO management believes that many cases of mismanagement are actually fraud but that cannot be proven. If this belief is true, then prediction of failure is more difficult than it would otherwise be. The models in this work do not consider the risk involved if a Credit Union has a large proportion of its assets in a single large loan or investment. Yet, this may be the most serious potential problem because a large loan default may well wipe out the entire equity of the Credit Union. Hence, size matters because the relative size between the firm's equity and the largest loan or investment is a crucial survival issue.

McGrann and Richardson (2009), in their article, *"Measuring Producer Level Beef Cattle Alliance Financial Performance"* published in Journal of Small Business Management, have stated that there has been a movement toward developing production and marketing alliances in the beef cattle sector in the United States to improve communications and ultimately provide higher priced branded products that are more consistent with consumer demand. Beef cattle producers do not employ a consistent methodology to measure the financial performance of participating in an alliance. Nor do they have the information to negotiate agreements that are financially sustainable at the producer level. Given the concentration of packer and retail sector there is little reason to expect them to share cost and financial returns information beyond the general corporate total business performance required by public traded corporations. Described is a methodology to measure financial performance from breeding, growing and finishing segments to measure return on assets from an alliance. Application of the methodology is demonstrated in an example from cow-calf to finishing phase.

The methodology uses cost accounting and economic analysis to calculate ROA as a measure of alliance's financial sustainability. Questions of profitability, competitiveness and the opportunity cost of participation can be addressed. This information can be used to inform the margin sectors, feed yards, packers and retailers to provide them insights into what share of increased revenue from branded product sales must be passed to the cow-calf segment. The cow-calf segment must absorb the added costs and cyclical financial loss to participate in alliances. Increased revenue is required to make branded products a more profitable marketing option for beef producers. The return can be compared to ROA in the other segments of the alliance to establish the criteria for net margin sharing or to evaluate alternative production or marketing systems irrespective to the information shared by the concentrated packer and retail sectors. Further studies to employ this methodology with producer members of an alliance could provide valuable decision information for participants to negotiate alliance arrangements.

2.3 Review of Thesis

Prior to this study several research works have been done by the students on the performance of commercial banks of Nepal. For review purpose relevant studies have been gone through. Some of the conclusion drowns by them are cited below:

Lamsal (1999) made *"A Comparative Financial Statements Analysis of HBL and NGBL"*. His main objective to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. He found that liquidity position of HBL is better than NGBL. HBL has sufficient cash and bank balance to meet its current and fixed deposits. HBL has better turnover than NGBL in terms of loan and advances to total deposits ratio. Investment to total deposit ratio of NGBL is better than HBL. NGBL pays higher dividend per share than HBL.

Maharjan (2000) made *"A Comparative Analysis of Financial Performance of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd."* His main objective was to analyze and evaluate the financial position of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd in order to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, Hypothesis tests. He used the data of five years till the year 2000. At liquidity position NGBL don‟t meet the required standard but it is consistent. At fund utilization NBBL is better. NBBL is more aggressive at fund mobilization bearing higher risk. At profitability NBBL has increasing trend till 1997. NGBL has higher fluctuation at profitability. Overall capital position is better at NGBL.

Oli (2003) made *"A Comparative Study on Financial Performance of HBL, NSBIBL, and NBBL*". His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And he observed that NSBIBL and NBBL are always above the normal standard, HBL always below the normal at liquidity position. Liquidity position of NBBL is better than NSBIBL and NSBIBL is better than HBL. And they are suggested to utilize the excess of resources for income generation. Total debt to equity and total assets is higher for HBL than both. NBBL has been able to mobilize total deposits in loan and advances than HBL and NSBIBL. NSBIBL is better than HBL at this. HBL has better utilization of fixed deposits in earning. NSBIBL has better used of saving deposits than other two net profit to total assets of HBL is better. The profit level is lower in all.

Ghimire (2003), has made a study on, *"Financial Performance of Commercial Banks: A comparative Case Study of Nepal Bangladesh Bank Ltd., Himalayan Bank Ltd. and Everest Bank Ltd."* the main objective of the study is to reveal the comparative financial performance of NBBL, HBL and NBL. The other specific objectives are;

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

His major findings are;

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

Joshi (2004) has made a study on, *"Financial Analysis of Nepalese Commercial Banks."* The main objective of the study is to find the comparative financial strength and weakness of various commercial banks.

The other specific objectives are;

a. To trace out the credit position of the commercial banks.
b. To analyze the earning capacity of the banks.
c. To measure the investors' degree of satisfaction on the banks.

His major findings are;

a. The lending condition of commercial banks is in decreasing trend. However, the outstanding loan is in increasing trend.

b. Strong banks are holding good customers and discoursing low rated and less amounted loans. Instead of that they are initiated towards remittance, bank guarantees and other commission generating activities.
c. Many banks are showing aggressive and are spontaneously increasing loan loss provision. Deposit in the banks is also decreasing while some banks are holding enough funds.
d. The earning capacity of SCBNL and NABIL is comparatively higher than that of other banks. Also, the dividend payout ratio of these banks is higher than other banks.

Deoja (2004) made "*A Comparative Study of the Financial Performance Between Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd*"**.** His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And after having studied the performance of five consecutive years till 2000 he concludes a sound liquidity position in both banks. NBBL has better utilization of resources to generate income than NSBIBL. Profitability of NBBL is better than NSBIBL. Interest earned to total assets and return on net worth of NBBL is higher than NSBIBL. Both are highly leveraged.

Pyakurel (2005) has conducted a study on, *"A Comparative Appraisal on Financial Performance of Nepal Bangladesh Bank and Bank of Kathmandu."* The main objective of the study is to show the causes of changes in cash position of the two banks. The other objectives are;

a. To evaluate the liquidity position of NBB and BOK.
b. To analyze the profitability ratios of NBB and BOK.
c. To examine the marketability position of NBB and BOK.

His major findings are;

a. NBB is more efficient than BOK in all respect and the study found the current ratio of NBBL was high.
b. NBBL is utilizing its deposits more effectively than BOK, all the profitability rates were found to be higher in case of NBBL than BOK.

c. Since BOK is suffering losses in three fiscal years, thus showing its operational deficiencies in mobilizing the resources in production sectors. On the other hand, NBBL has always been increasing its profit from the outset.
d. On average, BOK was generating more cash from financial activity than NBBL. However, the contribution of financial activity in the final cash and bank balance of the bank was not as significant that of operating activities.

Kapadi (2006) made *"A Comparative Study of Financial Performance of NABIL and SCBNL"*. His main objective was to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors from his findings. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, coefficient correlation, probable error, hypothesis tests in his study. He used the data from 1994 to 2000 and used most of the ratios and extensively used statistical tools. And he concluded that both have lower liquidity position, both are highly leveraged, performing assets to total assets ratio satisfactory in both ,unsatisfactory profitability in both , threat of solvency being high, recommends to increase equity base, improve operational profit ,and to decrease operating expenses, expand services to rural areas.

K.C. (2006) has conducted a study on, "*Comparative Study of Financial Performance Between Nepal Bank Limited and Bank of Kathmandu Limited.*" The main objective of the study is to make a comparative financial analysis between NBL and BOK. The other specific objectives are;

a. To compare the liquidity position of NBL and BOK.
b. To examine the efficiency of NBL and BOK.
c. To analyze the solvency of NBL and BOK.
d. To trace out the financial strength and weakness.

His major findings are;

a. The current ratios of both banks are not satisfactory. Cash and bank balance to total deposits of NBL and BOK do not go outward equally. NBL has more secured credit position than BOK.
b. Loans and advances to total deposit ratio of BOK is better than NBL. But the ratio implies that NBL is utilizing its fixed deposit in loans and advance more efficiently.

c. Net profit to working found ratios on both banks is in poor condition but in latest years, it seems in positive way. Both banks have been improving or overcoming from the weak condition.
d. Average earning per share of NBL is seen well rather than BOK but both of them are not running in favor of investors. Market value per share of NBL is increasing slowly while in case of BOK, it has zero value in initial three years.
e. To sum up, it can be said that NBL has performed better than BOK during the study period. It seems that NBL will perform better than BOK in future too.

Joshi (2007) has conducted a study on, *"A Comparative Study on Financial Performance of NABIL Bank Ltd. and Nepal Bangladesh Bank Ltd."* The main objective of the study is to know the financial condition, financial performance and financial growth of NABIL and NBL. The other specific objectives are;

a. To examine the EPS and DPS of NABIL and NBL.
b. To analyze the efficiency of NABIL and NBL in utilizing the assets.
c. To evaluate the trend of net profit of the concerned banks.

His major findings are;

a. The overall liquidity position of NBBL was stronger than that of NABIL. Analyzing the activity or turnover of both banks, NBBL mobilized its deposits more on loan and advances whereas NABIL mobilized its deposits more prudently and efficiently in generating income.
b. Similarly, capital adequacy position of NABIL was found to be better than that of NBBL. Regarding the capital structure of the banks, NBBL was found to have adopted high risk, high return strategy as suggested by it's highly leveraged i.e. debt dominated.
c. According to profitability analysis, NABIL was found sound profitability due to its higher ratio. Also, other indictors as EPS, DPS, TPS were found sharply higher in NABIL which implies positive attitude of stakeholders toward NABIL.
d. NBBL should keep only the reasonable amount of liquidity, which will save the bank from creating low return; NBBL should improve its capital adequacy by investing the assets and deposits in highly returnable sector; NABIL should invest its deposit in profit generating sectors.

Dahal (2007) made *"A Comparative Study of Financial Performance of HBL and NBBL"*. His main objective was to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and statistical tools like average, CV, SD, hypothesis tests (F test) in his study. And he concludes that NBBL maintains above the standard liquidity ratio, NBBL is better at mobilizing the deposits, at mobilizing fixed deposits HBL is better, HBL is more leveraged and riskier, NBBL has been found better performed at utilizing overall resources, where as net profit to total deposit ratio is higher with HBL, HBL in better at mobilizing the equity. NBBL has higher fluctuation at net profit margin so it has high risk of solvency, NBBL is better at commission and discount whereas HBL is better at interest income, operational cost of HBL is higher.

Dangi (2008) made *"A Comparative Study of Financial Performance of SCBNL, NABIL and HBL"*. His main objective to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools excessively but did not use any statistical tools in his study. And he concludes all have unsatisfactory liquidity position, all are highly leveraged, all have low coverage ratio due to excessive use of debts, and SCBNL is better at mobilizing assets, SCBNL is better at EPS suggesting effective utilization of owners‟ equity. DPR higher with SCBNL, HBL is better at lending and SCBL better at service giving, SCBNL has higher expenditure at staff, HBL at interest payment, NABIL at general expenditure, all borrowed but SCBNL is continuously borrowing throughout the period, suggests to improve quality of current assets structure, to increase equity base, and EBT.

Manandhar (2008) has conducted a study on, *"A Comparative Study on Performance Analysis of Top Five Commercial Banks of Nepal."* The main objective of the study is to analyze and compare liquidity, profitability, stability and market value position among the top five commercial banks. The other specific objectives are;

a. To trace out the trend of loan and advances.
b. To find out the relationship between deposits and loans & advances, and deposits and net profit.

c. To analyze the trend of profit and dividend distribution.

His major findings are;

a. NBL and NIBL have been getting lower net profit out of total income with comparison to all the banks.
b. NBL comparatively fails to maintain operating ratio on total assets whereas NIBL did best. HBL, NBL and NIBL have been suffering from ineffectively using the total fund. So, they are getting lower return than SCBNL and NABIL.
c. All top five commercial banks have been earning sufficient interest income on loan and advances. It means they have been high utilizing the loan and advances.
d. NABIL has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NIBL have been providing lower cash dividend in inconsistency manner. SCBNL has been providing dividend on share capital comparatively greater than other banks in a consistency manner.
e. NABIL has also been providing better dividend in a consistency manner to some extent too. As a lower average, NIBL has not provided dividend on share capital. NABIL shows greater inconsistency too.

Rai (2009), has made a study on, *"A Comparative Study on Financial Performance Between the Commercial Banks"*. The main objective of the study is to examine the financial performance of SBI bank and NBBL bank. The other objective are;

a. To study the liquidity position of both the banks.
b. To analyze the lending position of both the banks.
c. To examine marketability position and the efficiency ratio of SBI and NBBL.

His major findings are;

a. The analysis of liquidity position of these commercial banks shows different position. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities, i.e. it indicates the availability of current assets in rupees for every one rupee of current assets than current liabilities. The average current ratio of SBI (1.05) is greater than that of NBBL (0.98) Therefore, the liquidity position of SBI bank is in normal standard and NBBL is also trying to gain that position.

b. From the analysis of turnover of these two banks, NBBL has better turnover than SBI bank in terms of loans and advances to total deposit ratio. Thus, NBB has better utilization of resources in income generating activities, than SBI bank.
c. The analysis of profitability of these two commercial banks is also different. The overall calculation seems to be better for NBBL. Though certain ratio like dividend per share, dividend payout ratio etc better for SBI Bank. The writer has also conduced that earning per share of NBBL is better than that of SBI bank.

Research Gap

After reviewing the researches done throughout the past, the present researcher has found that the study of the financial performances of the Nepal Bank Ltd has not been long analyzed. The past studies have recommended some of the remedial references like to increase profit and reduce negative net worth, inject required capital, increase the liquidity, to limit the operating cost. It's been time to check how far the differences have occurred in the bank. The present study explores the financial performances of the Nepal Bank as sample bank.

CHAPTER - III
RESEARCH METHODOLOGY

Research Methodology is the process of arriving at the solution of a problem through a planned and systematic dealing with the collection, analysis and interpretation of the facts and figures. It presents research methodology adopted in achieving the objective stated in the earlier chapter. It contains research design, sources of data, data gathering procedure and data analysis tools.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure *(Wolff & Pant; 2000:68).*

Research design is plan, structure and strategy of investigation conceived. So as to obtain answer to research question and to control variances to achieve of the study, descriptive and analytical research design have been used.

3.2 Population and Sample

All the commercial banks operating i.e. out of 31 banks in the country is the population of the country among them one commercial bank Nepal Bank Limited is selected as sample of the study.

3.3 Sources and Collection of Data

For the purpose of study only the secondary data are used. The required data and information for analysis are directly collected from the annual reports of the respective banks. The supplementary data are collected from number of institution like Nepal Commerce Campus Library and documentation section of T.U. Library, company office etc. Similarly related books magazine Journals articles reports bulletins and data from security board Nepal. Further the secondary data have been collected from reports and financial statement of the company, published and unpublished officials record, books, articles magazine, annual report etc.

3.4 Method of Data Analysis

For the purpose of analysis, financial statements, profit and loss account and Balance Sheet of the concerned banks have taken financial as well as statistical tools have been used.

3.4.1 Financial Tools

a) Ratio Analysis

Ratio analysis is such a powerful tool of financial analysis that through it economic and financial position of a business unit can be fully *(Kothari; 1992:34)*. Ratio analysis is a widely used tool of financial analysis it is defined as the systematic use of ratio to interpret the financial analysis statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined *(Khan and Jain; 2003:49)*.

The following financial ratios are used in this research.

1) Liquidity Ratio

These ratios mainly used to evaluate the liquidity position of the banks. This ratio includes cash, bank balance, total deposits, NRB Balance, Current and saving deposits, money at call and short notice and investment in government securities.

I) Liquid assets to short term liabilities

This ratio shows the liquidity position of bank to meet its short term liabilities, so that bank can manage its liquid position timely.

$$\text{Liquid Assets to short term liabilities} = \frac{\text{Liquid Assets}}{\text{Short term liabilities}}$$

II) Current Ratio

The current ratio is the ratio of total current assets to total liabilities. It is calculated by dividing current assets to current liabilities which presented as follows

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

Where,

Current assets include cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivable and miscellaneous current assets or (Total asset - Fixed assets- other long term investments and assets) whereas current liabilities include deposits and other accounts short term loan, bill payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities or (Liabilities- shares, reserves, bond debenture and other long term liabilities).

III) Cash and Bank Balance to Total Deposit Ratio

This ratio measures the percentage of most liquid current with the bank to make immediate payment to the depositors. A high ratio indicates the sound ability to meet their daily cash requirement of their customer and vice versa. This ratio can be presented as follows

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

IV) Cash and Bank Balance to Current and Saving Deposit Ratio

It measures the ability of the bank to meet its immediate obligations. Current and saving deposits consist of all type of deposit excluding fixed deposits. The ratio can be calculated by dividing cash and bank balance by current and saving deposits as follows.

$$\text{Cash \& Bank Balance to Current and Saving Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current \& Saving Deposit}}$$

V) C/D Ratio

This ratio called credit to deposit ratio, which is derived by dividing total loans and advances by total deposits.

$$\text{C/D Ratio} = \frac{\text{Credit}}{\text{Deposit}}$$

VI) Fixed Deposit to Total Deposit Ratio

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

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

Apart from above we can too calculate other ratio like cash reserve ratio, structured liquidity ratio, net liquid assets to deposit ratio to observe the liquidity position of bank.

2) Activity Ratio

Activity ratio measure the effectiveness of the employment of resources in a business concern. Through these ratios we can know whether the funds have been used efficiently in the business activities or not.

i) Investment to Total Deposit Ratio

This ratio is calculated investment dividing by total deposits. This ratio presents how efficiently the resources the banks have been mobilized high ratio shows managerial efficiency regarding the utilization of deposits and vice-versa.

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

ii) Loan and Advance to Total Deposit Ratio

This ratio shows the banks how they invested of total deposits in loans and advances.
This ratio can be calculated in this way.

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

iii) Loan and Advances to Total Assets Ratio

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

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

3) Capital Adequacy Ratio

Capital adequacy ratio is used for to measure whether bank has adequate capital or not to meet the stress condition. As per the capital adequacy framework 2007 bank shall maintain their capital as per the risk of their assets portfolio, so that it bank can tackle the stress condition.

4) Capital Structure Ratio

Capital structure ratio measures bank's capacity of borrowings as a means of capital accumulation. It measures the long term solvency of a bank. The combination of capital structure is debt and equity of banks. The ratio indicates the long term financial position. The following ratios are calculated to defined capital structure ratio of NBL.

i) Debt to Equity Ratio

This ratio represents the relationship between the both debt capital and equity capital. The ratio indicates the high debt and equity both are risky to the banks. This ratio is calculated in this way

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholders Equity}}$$

ii) Debt to Total Capital Ratio

This ratio determines the relationship between total debt and total capital of the banks.

This ratio is calculated in this way

$$\text{Debt to Total Capital Ratio} = \frac{\text{Total Debt}}{\text{Total Capita}}$$

iii) Total Debt to Total Assets Ratio

This ratio shows the portion of capital assets that are financed by outside funds on total assets. A high ratio implies a bank's success in exploiting debt to more profitable and riskier capital structure. It is calculated by dividing total debts by total assets.

iv) Interest Coverage Ratio

The interest coverage ratio is a measure of the number of times a company could make the interest payments on its debt with its earnings before interest and taxes, also known as EBIT. The lower the interest coverage ratio, the higher the company's debt burden and the greater the possibility of bankruptcy or default.

This ratio is calculated by dividing earnings before interest and tax by interest. This ratio shows the bank can pay the interest easily.

$$\text{Interest Coverage Ratio} = \frac{\text{Earning Before Interest \& Tax}}{\text{Interest}} * 100$$

5) Profitability Ratio

Profitability ratio rated is designed to provide answer to questions such as: Does the firm adequate earn the profit? What rate of return does it represent? What is firm? What is the rate? Return to equity holders?

The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors.

i) Return on Total Assets Ratio

This ratio can be calculated as

$$\text{Return on Total Assets Ratio} = \frac{\text{NPAT}}{\text{Total Assets}} * 100$$

It shows that the relationship of company in terms of net profit and total assets. This ratio indicates that if the bank RTAR is higher bank could well manage their operations.

ii) Return on Net Worth Ratio

This ratio also represents the relationship of net profit and net worth as net profit is directly related to net worth. The ratio can be calculated in this way

$$\text{Return on Net worth Ratio} = \frac{\text{NPAT}}{\text{Net Worth}} * 100$$

iii) Staff Expresses to Total Income Ratio

Staff Expenses refers to staff salary, allowance, personnel expenses, medical expense, and staff training expenses are involved. This ratio is calculated by staff expresses dividing by total income.

$$\text{Staff Expresses to Total Income Ratio} = \frac{\text{Staff Expenses}}{\text{Total Income}}$$

v) Interest expenses to interest income

This ratio is calculated using following formula:

$$\text{Interest expenses to interest income: } \frac{\text{Interest Expenses}}{\text{Interest Income}}$$

A total interest expense consists of interest paid on deposits and borrowings and total interest income consists of interest earned in loans and advances and government securities.

v) Return on Total Deposit Ratio

This ratio is computed by net profit after tax dividing by total deposits. This ratio indicates the portion of net profit in terms of total deposits.

$$\text{Return on Total Deposit Ratio} = \frac{\text{NPAT}}{\text{Total Deposit}}$$

vi) Office Operation Expenses to Total Income Ratio

It is calculated in this way

$$\text{Office Operation Expenses to Total Income Ratio} = \frac{\text{Office Operating Expenses}}{\text{Total Income}}$$

This ratio shows what portion of income spends in daily operation.

6) Invisibility Ratio

i) Earning Per Share

Share holders are concerned about the earning that will eventually be available to pay them dividends of that are used to expand their interest in the firm because the firm retains the earning. There earning may be express on a per share banks is an EPS.

This ratio is calculated the following formula

$$\text{EPS} = \frac{\text{Earning Available to Common Shareholders}}{\text{No of Outstanding Share of Common Stock}}$$

ii) Dividend Per Share

Dividend means that portion of net profit, which is allocated to share holders as their return in term of their capital investment.

This ratio is calculated in this way

$$\text{DPS} = \frac{\text{Earning to Shareholders}}{\text{No of common share outstanding}}$$

iii) Tax per share

This ratio is computed by dividing tax paid to government by company divide by number of common share outstanding

$$\text{TPS} = \frac{\text{Tax paid to Government}}{\text{No of Common Share Outstanding}}$$

iv) Dividend Pays out Ratio

Dividend payout ratio (DPR) indicates the dividend paying ratio of organization out of total earning. It is the ratio distributed to share holder out of the earnings during the fiscal year. Dividend payout ratio (DPR) is calculated by dividing dividend per share by earning per share.

$$DPR = \frac{DPS}{EPS}$$

7) Other Ratios

i) Non Performing Assets

This ratio represents that out of total lending, how much loan is performing and how much loans are low performing and non performing. If bank has high NPA then its yield on loans and advances will be low due to which it has direct impact on profitability of a Bank. This ratio is derived by dividing Non performing loan by Total Loan. Non Performing loan represents, substandard loan, doubtful loans and bad loans.

ii) **Non Banking Assets to Total Assets**

Non Banking Assets are the assets of bad loan clients which are later converted to bank assets when it is not sold in the market through auction for to recover the loan of bank. This ratio of Non Banking Assets to Total assets is calculated to know the composition of banks acquired assets and non banking assets. Higher the non banking assets to total assets lower the performance of bank. This is because when there is risky loan, there will be high NPA and when the quality of mortgaged assets are not good that assets should be accepted by bank. So, higher non banking assets represent management disability and low performance.

3.4.2 Statistical Tools

To analyze the data, we take various statistical tools are used. Therefore every researcher has chosen the most important and suitable tools to reach the financial decision.

i) Karl Pearson's Coefficient of Correlation

ii) Probable error of correlation

iii) Trend Analysis

Karl Pearson's Coefficient of Correlation (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. This tools is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by 'r' can be obtained as:

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

Where,

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

Probable Error of Correlation

The probable error of the co-coefficient of correlation helps in interpreting its value; it is obtained the following formula.

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

It is used in interpretation whether calculated value of 'r' is significant or not.

1. If r < P.E., it is insignificant. So, perhaps there is no evidence of correlation.
2. If r > P.E., it is significant.
3. In other cases nothing can be concluded.

Trend Analysis

Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. The linear trend values from a series in arithmetic progression.

Mathematically,

Y = a + bX

Where,

Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the dependent variable i. e. time

Normal equation of the above are

$$\sum Y = Na + \sum X$$

$$\sum XY = a\sum X + \sum X^2$$

CHAPTER - IV
DATA PRESENTATION AND ANALYSIS

In this chapter, various elements and variables related with financial performance of NBL are analyzed. During analysis, data are gathered from various sources have been inserted in tabular form. The analysis of data consists of organizing, tabulating and evaluating the collected data. The data have been analyzed by using financial and statistical tools.

4.1Ratio Analysis

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

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of a firm to meet its short-term obligations and reflects the short-term financial solvency of a firm. Sales factory liquidation position is one of the distinguishing characteristics of a sound banking system. Liquidity position of NBL is analyzed using the following relevant liquidity ratio.

a) Current Ratio

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

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

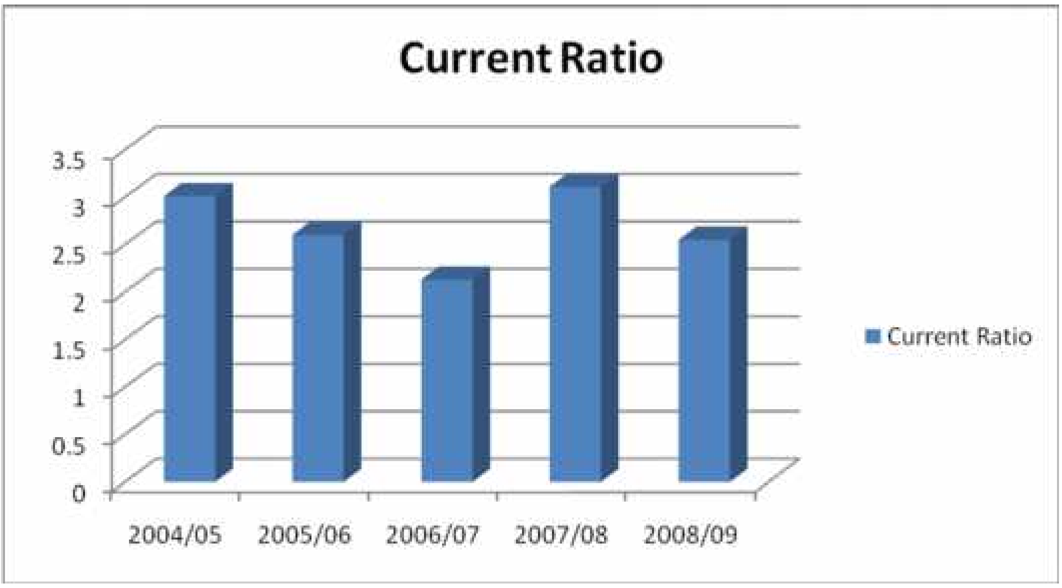
Table 4.1
Current Ratio

(Rs. In Thousand)

Year	Current Assets	Current liabilities	Current Ratio
2004/05	2,52,35,82,299	83,93,15,319	3.01
2005/06	2,38,14,19,027	91,51,12,220	2.60
2006/07	1,97,16,92,244	92,50,21,121	2.13
2007/08	2,90,98,08,670	93,43,75,511	3.11
2008/09	2,47,54,08,487	97,14,85,466	2.55

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.1
Current Ratio



The above analysis shows the relation of current ratio and current liabilities. Current assets consists cash balance, Balance with NRB, Balance with others institutions, Loan advances & Bills purchased, Money at calls and others assets. Current liabilities includes borrowing, deposits, bills payable, income tax liabilities and others liabilities.

The above calculated ratios of NBL show current ratio is above the standard 2:1. Hence, looking at the nature of assets and liabilities of the commercial banks the ratio, this may be accepted as satisfactory. But it signifies bank have poor liquidity position. The bank may face the problem of working capital if they need to pay current liabilities at demand. Bank may lose their goodwill in case of delay in the payment of liabilities. Bank will have the problem in winning the confidence of current depositor and short term lenders.

b) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio of NBL different year have been presented in table 4.2.

Table 4.2

Cash and Bank Balance to Total Deposits Ratio

(Rs. In Thousand)

Year	Cash and Bank Balance	Total Deposits	Ratio (%)
2004/05	3,985,733.00	10,197,981.00	39.08
2005/06	1,625,987.00	13,921,476.00	11.68
2006/07	2,191,550.00	18,216,276.00	12.03
2007/08	2,557,891.00	23,996,389.00	10.66
2008/09	6,171,371.00	36,919,551.00	16.72
Average			18.03

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.2
Cash and Bank Balance to Total Deposits Ratio

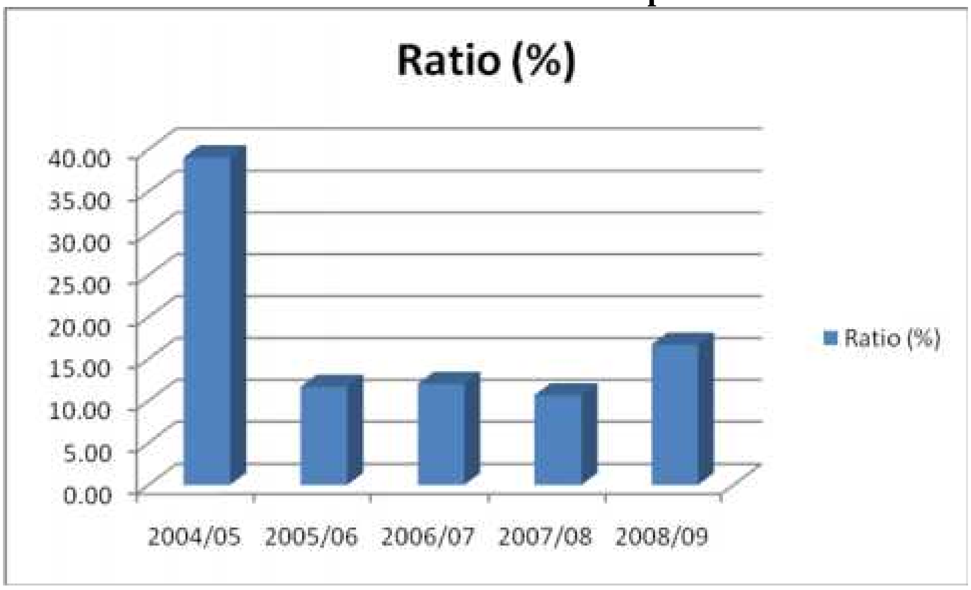


Table 4.2 and figure 4.2 show that the cash and bank balance to total deposit ratio of the NBL is 39.08, 11.68, 12.03, 10.66 and 16.72 respectively in the selected year. It has highest in the year 2004/05 and lowest in 2007/08. The above analysis helps to conclude that the cash and bank balance position of NBL with the respect to deposits is better against the readiness to serve its customers deposits. The calculation of cash and bank balance to total deposit ratio

indicates that payment of deposits and liquidity of NBL. Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa.

c) Cash and Bank Balance to Current and Saving Deposit Ratio

Cash and Bank Balance to current and saving deposit Ratio measures the ability of the bank to meet its immediate obligations. Current and saving deposits consist of all type of deposit excluding fixed deposits.

Table 4.3

Cash and Bank Balance to Current and Saving Deposit Ratio

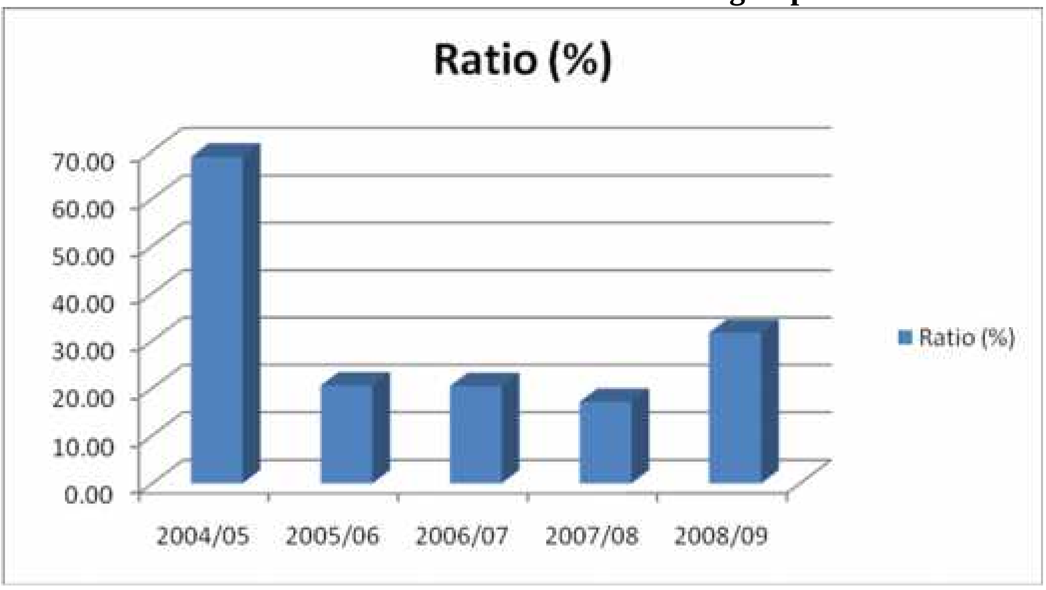
(Rs. In Thousand)

Year	Cash & Bank Balance	Current & Saving Deposit	Ratio (%)
2004/05	3,985,733.00	5,792,745.00	68.81
2005/06	1,625,987.00	7,905,012.00	20.57
2006/07	2,191,550.00	10,725,710.00	20.43
2007/08	2,557,891.00	14,923,819.00	17.14
2008/09	6,171,371.00	19,467,280.00	31.70
Average			31.73

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.3

Cash and Bank Balance to Current and Saving Deposit Ratio



Above calculated ratio shoes Cash and bank balance to current & saving deposit ratio. Cash and bank balance to current & saving deposit ratio remained 68.81, 20.57, 20.43, 17.14 and 31.70 respectively over the five year of study period. It was fluctuated over the five year period. The bank should maintain suitable cash and bank balance in current and saving deposit.

d) NRB Balance to Fixed Deposit Ratio

This ratio shows the portion of fixed deposit deposited in the Nepal Rastra Bank. The ratio for both banks has been presented in table 4.4.

Table 4.4
NRB Balance to Fixed Deposit Ratio

(Rs. In Thousand)

Year	NRB Balance	Fixed Deposits	Ratio (%)
2004/05	1,012,980.00	2,799,623.00	36.18
2005/06	1,141,592.00	4,268,340.00	26.75
2006/07	1,198,998.00	5,728,660.00	20.93
2007/08	1,078,914.00	6,445,190.00	16.74
2008/09	4,781,955.00	7,118,800.00	67.17
Average			33.55

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.4
NRB Balance to Fixed Deposit Ratio

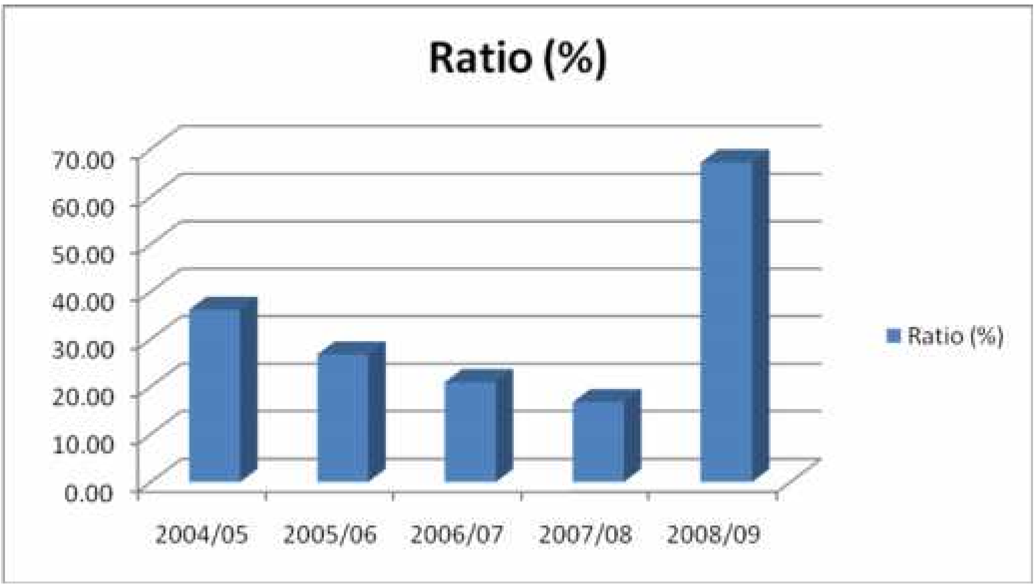


Table 4.4 shows that the average ratio of NBL over the period is 33.55. This ratio is highest in the year 2008/09 and lowest in the year 2007/08. This indicates the amount of fixed deposit in the last year has decreased substantially and increased in the year 2008/09.

e) Fixed Deposit to Total Deposit Ratio

Fixed deposits to total deposits ratio shows the portion of fixed deposit in total deposit. Higher the ratio more chances will be to earn higher return in the future.

Table 4.5

Fixed Deposit to Total Deposit Ratio

(Rs. In Thousand)

Year	Fixed Deposits	Total Deposit	Ratio (%)
2004/05	2,799,623.00	10,197,981.00	27.45
2005/06	4,268,340.00	13,921,476.00	30.66
2006/07	5,728,660.00	18,216,276.00	31.45
2007/08	6,445,190.00	23,996,389.00	26.86
2008/09	7,118,800.00	36,919,551.00	19.28
Average			27.14

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.5

Fixed Deposit to Total Deposit Ratio

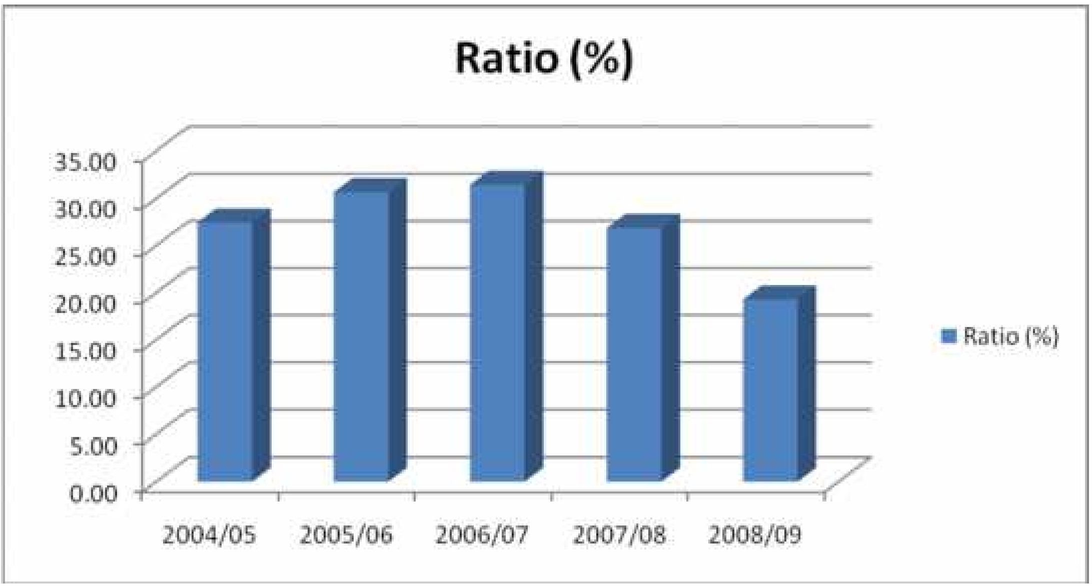


Table 4.5 shows that the mean ratio of NBL is 27.14. The ratio over the period is decreasing over the period. The deposit in the year 2004/05, 2005/06 and 2006/07 are higher than average and in other year lower than average. This indicates the decreasing creditworthiness of the bank in the market. The decreasing trend of the banks also indicates the increasing competition in the market. So NBL can invest in short term loans and current assets so as to strength its liquidity position.

4.1.2 Activity Ratio

This ratio is used to measure the efficiency and proper utilization of assets. Investment to total deposit ratio, loan & advance to total deposit ratio, loan & advance to total assets ratio, loan & advances to total saving deposit ratio here are included in this ratio.

a) Investment to Total Deposit Ratio

Investment to total deposit ratio of NBL is presented in table 4.6

Table 4.6

Investment to Total Deposit Ratio

(Rs. In Thousand)

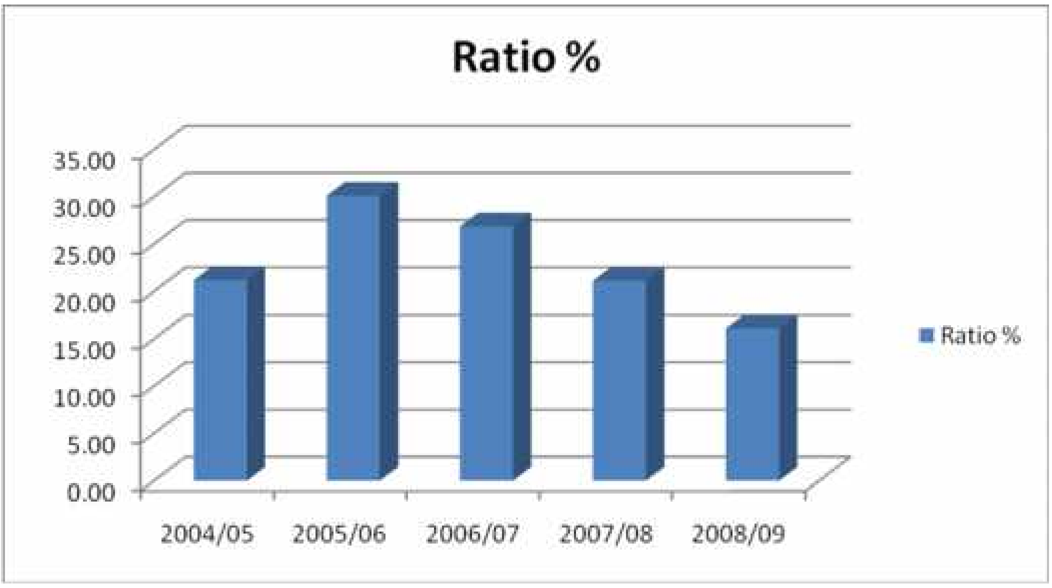
Year	Investment	Total Deposit	Ratio %
2004/05	2,159,870.00	10,197,981.00	21.18
2005/06	4,190,550.00	13,921,476.00	30.10
2006/07	4,893,414.00	18,216,276.00	26.86
2007/08	5,061,655.00	23,996,389.00	21.09
2008/09	5,950,480.00	36,919,551.00	16.12
Average			23.07

Source: Annual Reports of NBL (2004/05 to 2008/09)

Table 4.6 shows investment portion out of total deposit in the sampled year. The average ratio of NBL is 23.07% which mean that in average the bank is investing 23.07 percent of its deposit in different sectors. Greater average ratio indicates successful utilization of deposit.

Figure 4.6

Investment to Total Deposit Ratio



b) Loan and Advances to Total Deposit Ratio

This ratio is calculated by following formula.

$$\frac{\text{Loan and Advance}}{\text{Saving Deposit}}$$

Table 4.7

Loans and Advances to Total Deposit Ratio

(Rs. In Thousand)

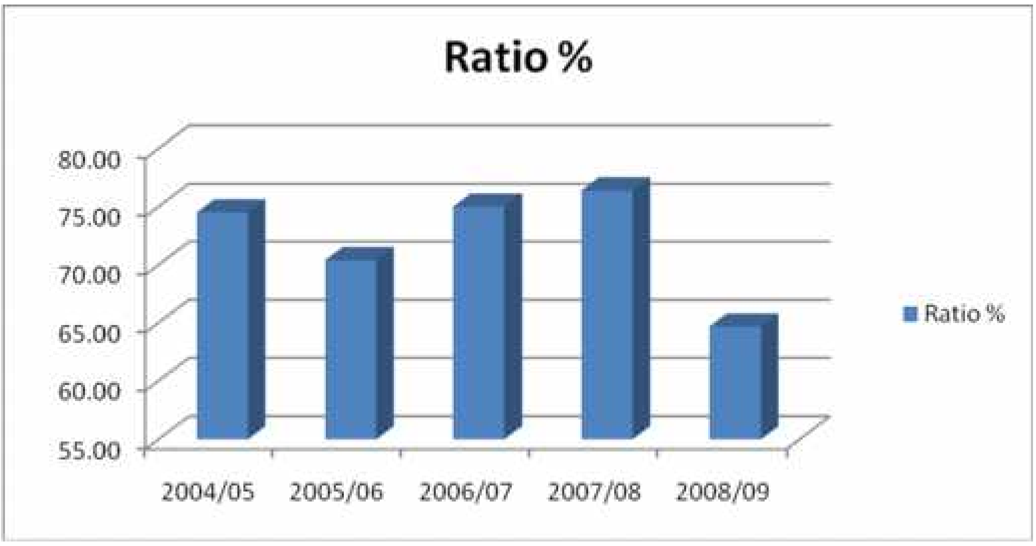
Year	Loans and Advances	Total Deposit	Ratio %
2004/05	7,598,570.00	10,197,981.00	74.51
2005/06	9,800,480.00	13,921,476.00	70.40
2006/07	13,664,081.00	18,216,276.00	75.01
2007/08	18,335,885.00	23,996,389.00	76.41
2008/09	23,880,671.00	36,919,551.00	64.68
Average			72.20

Source: Annual Reports of NBL (2004/05 to 2008/09)

This ratio shows to the extent of saving has been turnover to loans and advance. Table 4.7 shows loan and advances to total deposit ratio in the sampled year. The mean ratio of NBL is 72.20 which mean that in average the bank is lending more than 72% of its deposit. The ratio is fluctuated over the period. Greater the average ratio indicates successful utilization of deposit.

Figure 4.7

Loans and Advances to Total Deposit Ratio



c) Loan and Advances to Total Assets Ratio

Table 4.8

Loan and Advances to Total Assets Ratio

(Rs. In Thousand)

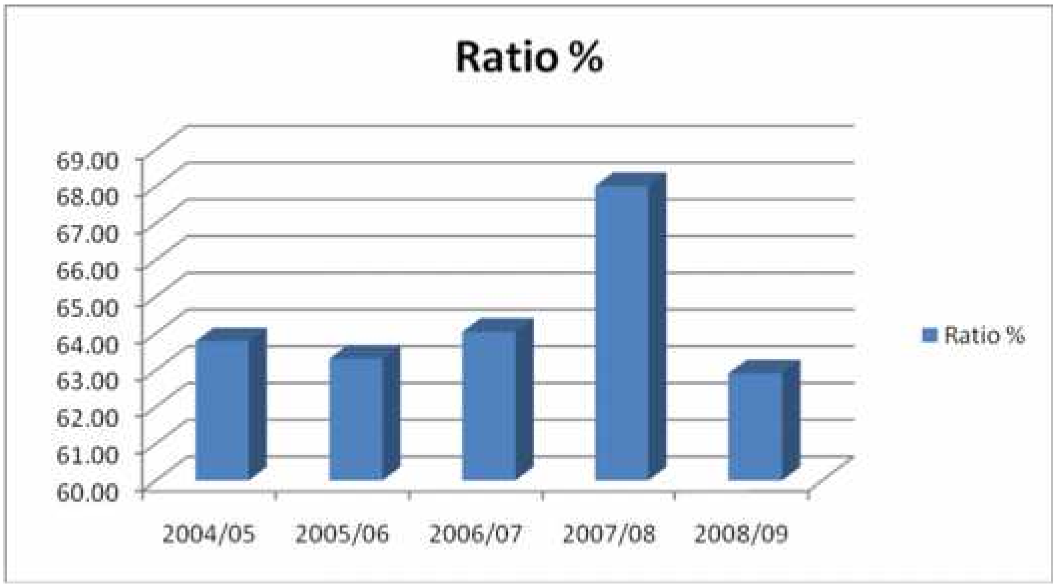
Year	Loans and Advances	Total Assets	Ratio %
2004/05	7,598,570.00	11,912,126.00	63.79
2005/06	9,800,480.00	15,479,285.00	63.31
2006/07	13,664,081.00	21,335,974.00	64.04
2007/08	18,335,885.00	26,958,248.00	68.02
2008/09	23,880,671.00	37,956,955.00	62.92
Average			64.42

Source: Annual Reports of NBL (2004/05 to 2008/09)

Table 4.8 shows loan and advances to total assets ratio in the sampled year. The average ratio of NBL is 64.42. This ratio is also fluctuating over the period which means the bank may have the idle cash or investing its money in marketable securities.

Figure 4.8

Loan and Advances to Total Assets



d) Loan and Advances to Saving Deposit Ratio

Table 4.9
Loan and Advances to Saving Deposit Ratio

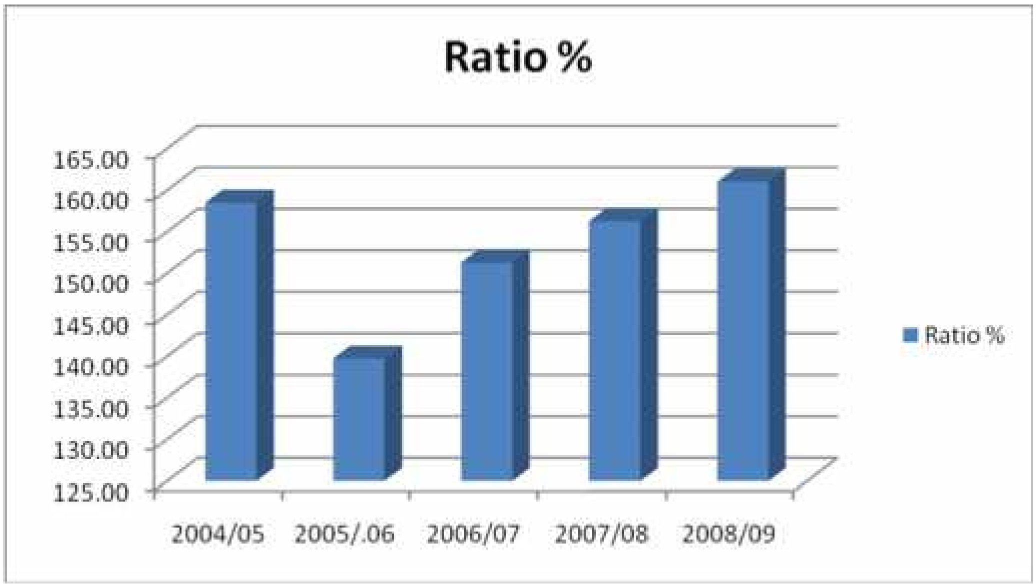
(Rs. In Thousand)

Year	Loans and Advances	Saving Deposit	Ratio %
2004/05	7,598,570.00	4,793,630.00	158.51
2005/06	9,800,480.00	7,014,200.00	139.72
2006/07	13,664,081.00	9,030,255.00	151.31
2007/08	18,335,885.00	11,732,896.00	156.28
2008/09	23,880,671.00	14,829,472.00	161.04
Average			153.37

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.9

Loan and Advances to Saving Deposit Ratio



The above table and figure shows loan and advances to saving deposit ratio in the sampled year. The average ratio of NBL is 153.37. This ratio is increasing from 2005/06 which means the bank investing its deposit properly and may not have idle cash or investing its money in marketable securities. Greater average ratio indicates successful utilization of deposit.

4.1.3 Capital Adequacy Ratio

Banks and financial institutions have to maintain a sufficient amount as capital fund as required by the NRB. Holding an excess amount of capital there required may have hither holding cost and lower return from their investment**.**

a) Net Worth to Total Assets Ratio

Table 4.10

Net Worth to Total Assets Ratio

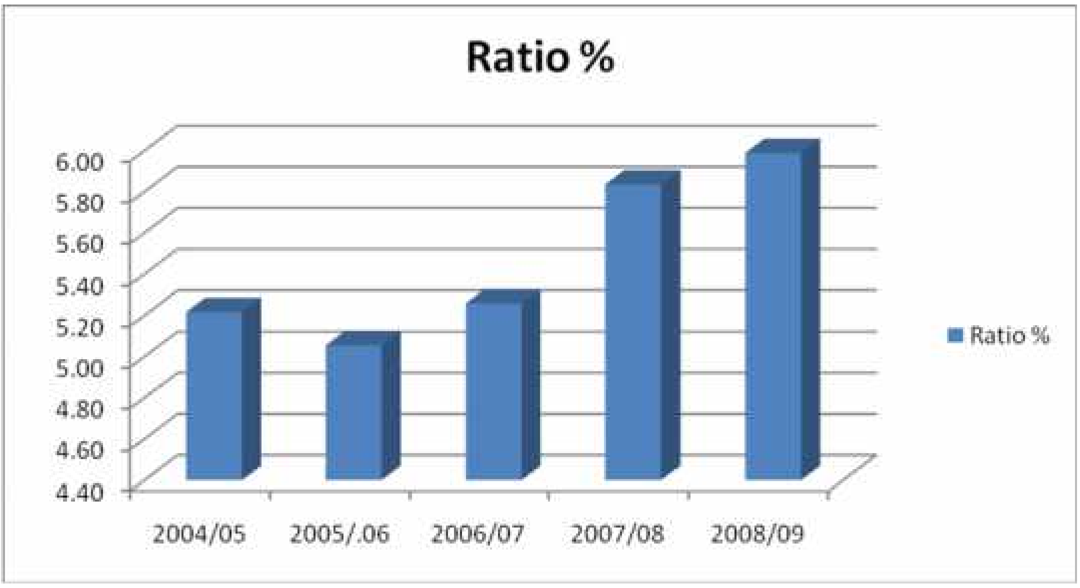
(Rs. In Thousand)

Year	Net Worth	Total Assets	Ratio %
2004/05	621,500.00	11,912,126.00	5.22
2005/06	782,500.00	15,479,285.00	5.06
2006/07	1,122,000.00	21,335,974.00	5.26
2007/08	1,573,400.00	26,958,248.00	5.84
2008/09	2,273,410.00	37,956,955.00	5.99
Average			5.47

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.10

Net Worth to Total Assets Ratio



The above table and figure illustrate net worth to total assets ratio of the bank over the selected period. The average ratio of NBL is 5.47. This ratio is increasing over the period which means the bank's profitability over the period is increasing. The higher average ratio indicates that bank has strong and highly capital adequacy position to contribution to investors.

b) Net Worth to Total Deposit Ratio

Table 4.11

Net Worth to Total Deposit Ratio

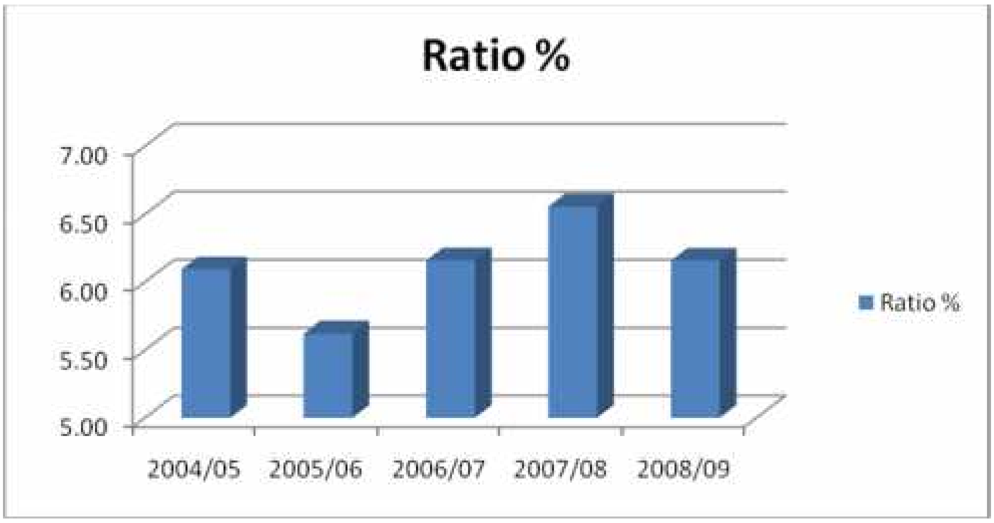
(Rs. In Thousand)

Year	Net Worth	Total Deposit	Ratio %
2004/05	621,500.00	10,197,981.00	6.09
2005/06	782,500.00	13,921,476.00	5.62
2006/07	1,122,000.00	18,216,276.00	6.16
2007/08	1,573,400.00	23,996,389.00	6.56
2008/09	2,273,410.00	36,919,551.00	6.16
Average			6.12

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.11

Net Worth to Total Deposit Ratio



The above table and figure shows Net Worth to Total Deposit Ratio. The ratios of NBL were 6.09, 5.62, 6.16, 6.56 and 6.16 in respective year. Greater the ratio shows the favorable capital adequacy ratio. So the capital adequacy ratio of the NBL was average in sampled year.

4.1.4 Capital Structure Ratio

Capital structure or leverage ratio is used to judge the long-term financial position of the firm. As short term creditors are interested to know the liquidity or short-term financial position of the firm, long-term creditors are interested to know the long-term financial position of the firm & this is reflected through capital structure or leverage ratio.

a) Total Debt to Total Assets Ratio

Table 4.12

Total Debt to Total Assets Ratio

(Rs. In Thousand)

Year	Total Debt	Total Assets	Ratio
2004/05	9,840,000.00	11,912,126.00	82.60
2005/06	11,980,000.00	15,479,285.00	77.39
2006/07	1,514,600.00	21,335,974.00	7.10
2007/08	2,112,600.00	26,958,248.00	7.84
2008/09	3,322,500.00	37,956,955.00	8.75
Average			36.74

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.12

Total Debt to Total Assets Ratio

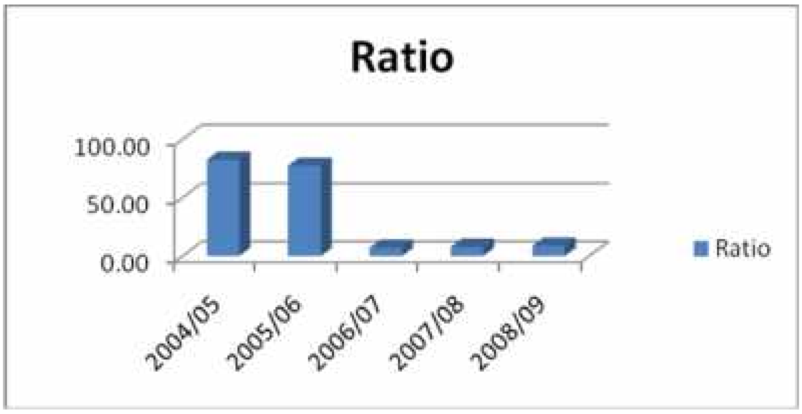


Table 4.12 and figure shows total debt to total assets ratio. The ratios of NBL over the fiscal year 2004/05 to 2008/09 are 82.60, 77.39, 7.10, 7.84 and 8.75 percent respectively. The average ratio is 36.74. Higher debt ratio indicates the higher risk. This indicates that the risk is increasing in NBL.

b) Interest Coverage Ratio

Table 4.13
Interest Coverage Ratio

(Rs. In Thousand)

Year	EBIT	Interest Expenses	Ratio (Times)
2004/05	169,844.00	298,523.00	0.57
2005/06	236,980.00	402,696.00	0.59
2006/07	298,450.00	519,220.00	0.57
2007/08	450,418.00	632,770.00	0.71
2008/09	638,992.00	1,021,985.00	0.63
Average			0.61

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.13

Interest Coverage Ratio

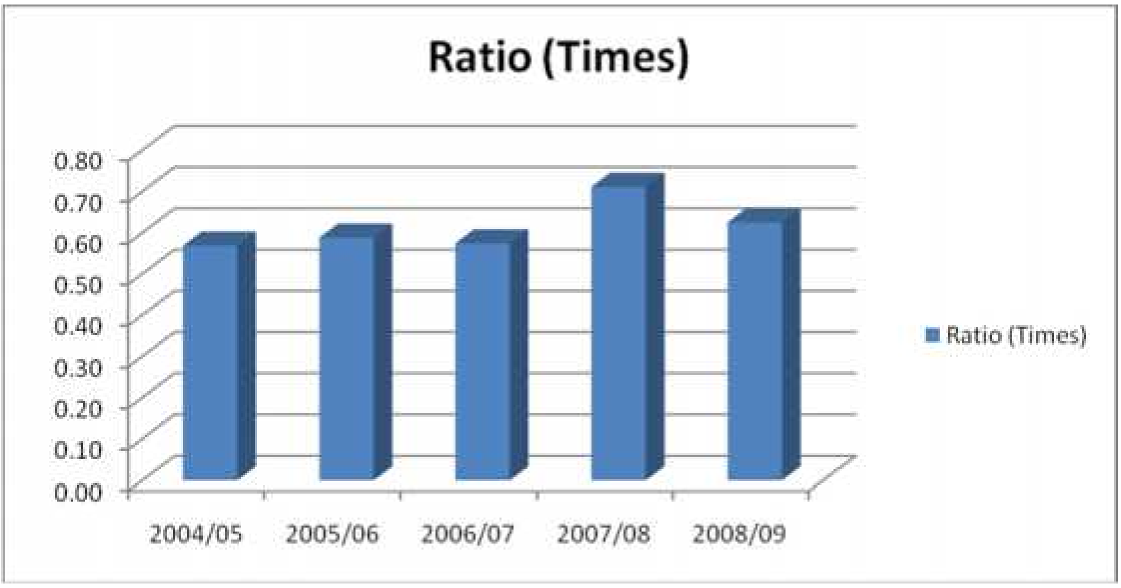


Table 4.13 shows the interest coverage ratio of the NBL for sampled years. The ratio over the period of NBL is 0.57, 0.59, 0.57, 0.71 and 0.63 respectively. The average ratio of the bank is 0.61. This ratio shows that the interest paying ability of NBL.

4.1.5 Profitability Ratios

Profit is the difference between total revenue & total expense over a period of time. Profitability ratios are used to indicate the overall efficiency of the firm. There are many measures of profitability. Higher degree of profitability ratio shows better financial position & performance to the firms.

a) Return on Total Assets Ratio

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

Table 4.14

Return on Total Assets Ratio

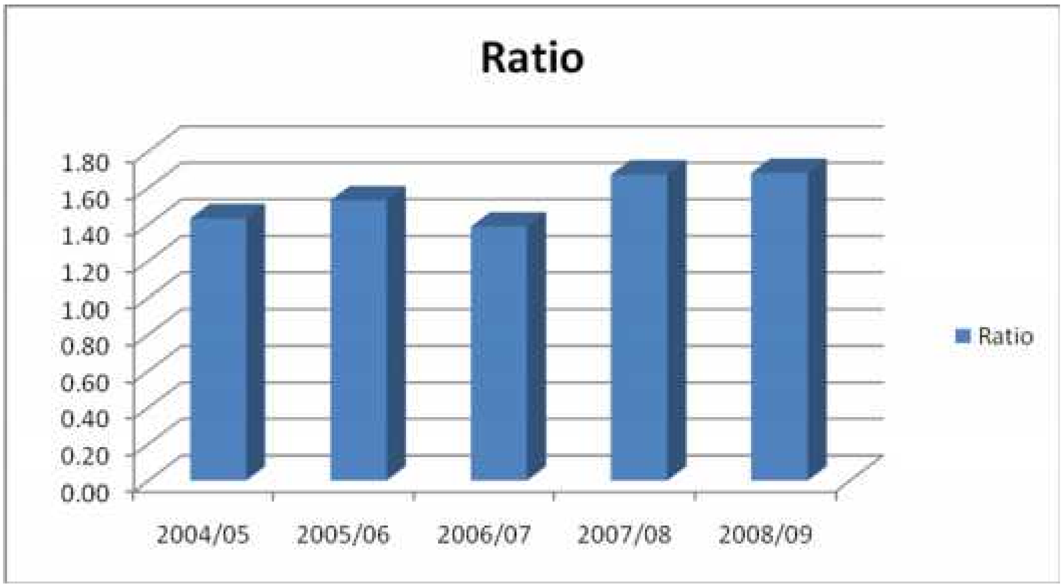
(Rs. In Thousand)

Year	NPAT	Total Assets	Ratio
2004/05	170,813.00	11,912,126.00	1.43
2005/06	237,290.00	15,479,285.00	1.53
2006/07	296,409.00	21,335,974.00	1.39
2007/08	451,218.00	26,958,248.00	1.67
2008/09	638,732.00	37,956,955.00	1.68
Average			1.54

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.14

Return on Total Assets Ratio



The above table and figure shows analysis of return on total assets of the NBL over the selected period. The ratios of the NBL are 1.43, 1.53, 1.39, 1.67 and 1.68 respectively. The average ratio is 1.54. NBL has the highest profit ratio in the fiscal year 2008/09 and lowest in the fiscal year 2006/07. This ratio shows the profitability position over the total assets.

b) Return on Net Worth Ratio

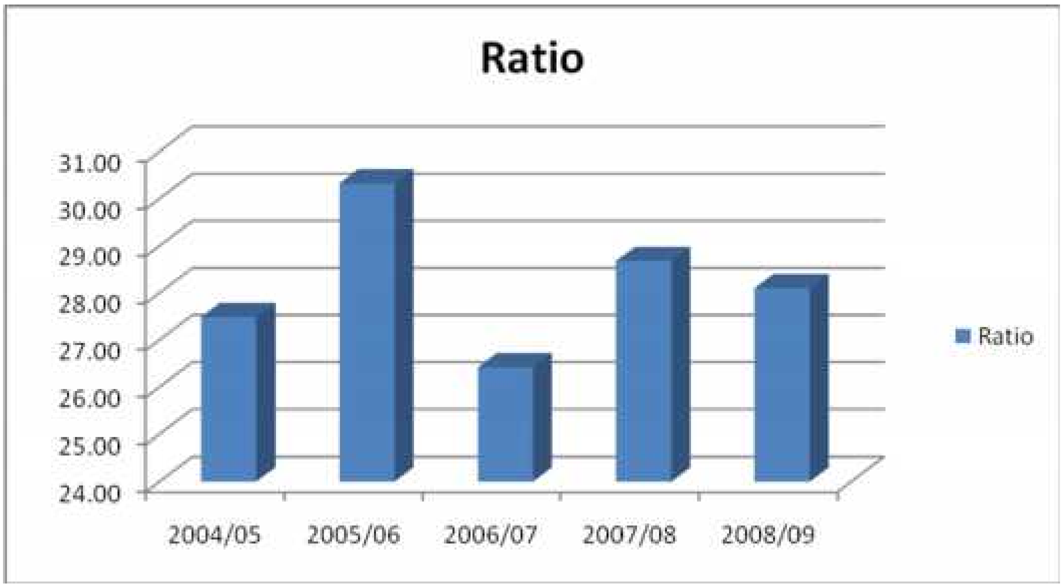
Table 4.15
Return on Net worth Ratio

(Rs. In Thousand)

Year	NPAT	Net Worth	Ratio
2004/05	170,813.00	621,500.00	27.48
2005/06	237,290.00	782,500.00	30.32
2006/07	296,409.00	1,122,000.00	26.42
2007/08	451,218.00	1,573,400.00	28.68
2008/09	638,732.00	2,273,410.00	28.10
Average			28.20

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.15
Return on Net Worth Ratio



The above table and figure shows the return on net worth. Return on net worth ratio of NBL over the period is fluctuating and highest in 2005/06 and lowest in 2006/07. The average ratio of the bank is 28.20 percent. This ratio shows that how much the bank is able to generate return on equity to the shareholders.

c) Total Interest Expenses to Total Interest Income

Table 4.16

Total Interest Expenses to Total Interest Income

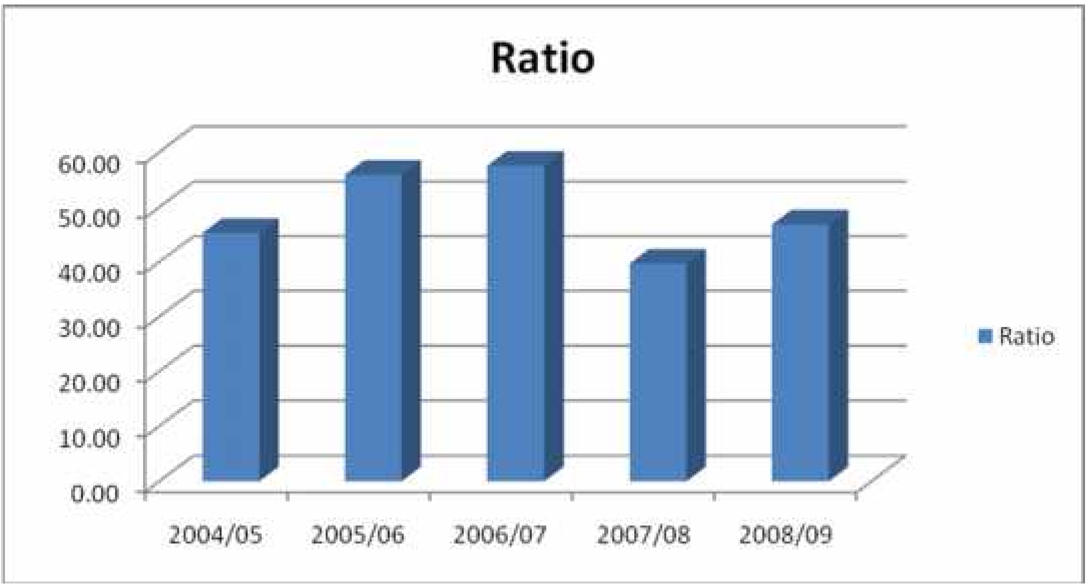
(Rs. In Thousand)

Year	Interest Expenses	Interest Income	Ratio
2004/05	298,523.00	659,550.00	45.26
2005/06	402,696.00	720,498.00	55.89
2006/07	519,220.00	902,733.00	57.52
2007/08	632,770.00	1,594,850.00	39.68
2008/09	1,021,985.00	2,182,894.00	46.82
Average			49.03

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.16

Total Interest Expenses to Total Interest Income



The main source of income of the bank is interest income. The above table and figure shows the interest expenses to total interest income ratio. The mean ratio of NBL is 49.03. Total interest expenses to total income ratio of NBL is in fluctuating trend over the five years of study period. It indicates that the bank is not able to earned more interest.

d) Return on Total Deposit Ratio

Table 4.17
Return on Total Deposit Ratio

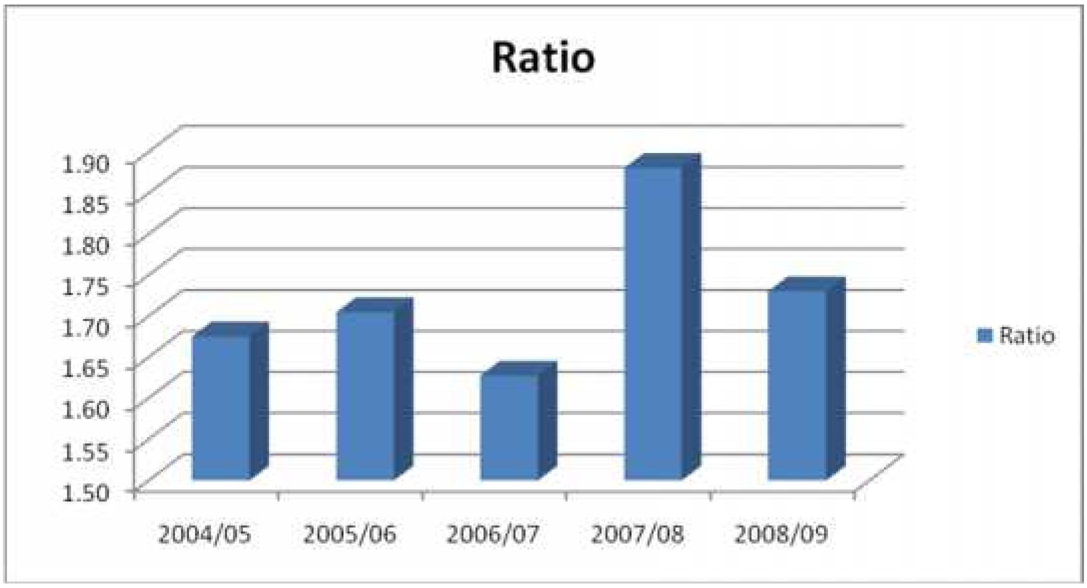
(Rs. In Thousand)

Year	NPAT	Total Deposit	Ratio
2004/05	170,813.00	10,197,981	1.67
2005/06	237,290.00	13,921,476	1.70
2006/07	296,409.00	18,216,276	1.63
2007/08	451,218.00	23,996,389	1.88
2008/09	638,732.00	36,919,551	1.73
Average			1.72

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.17

Return on Total Deposit Ratio



The above table and figure shows return on total deposit ratio of Bank. The ratios are 1.67, 1.70, 1.63, 1.88 and 1.73 in respective year. The average ratio of NBL is 1.72 which indicates that NBL is successful to earn almost constant profit over the study period.

4.1.6 Invisibility Ratio

a) Earning Per Share

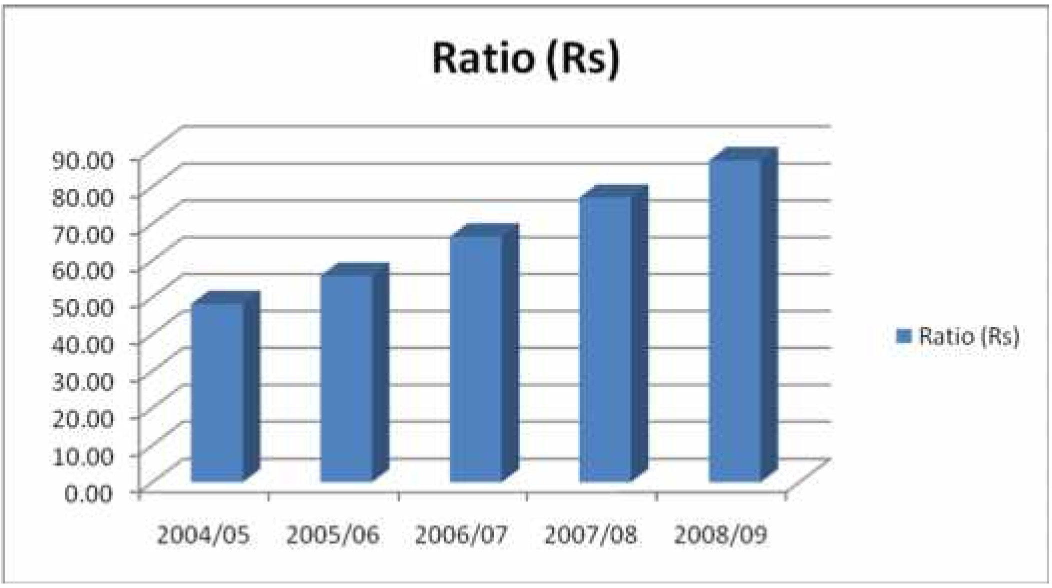
Table 4.18
Earnings per Share

Year	EAC	No of Ordinary Share	Ratio (Rs)
2004/05	238,701,000.00	4,950,000.00	48.22
2005/06	319,400,000.00	5,720,000.00	55.84
2006/07	415,820,000.00	6,250,000.00	66.53
2007/08	613,391,000.00	7,958,000.00	77.08
2008/09	724,738,000.00	8,318,000.00	87.13

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.18

Earnings per Share



EP

S refers to the income available to the common shareholders. It is calculated by dividing earning available to equity shareholders by number of common share outstanding. The above table and figure analysis of five year period the ratio came of NBL were 48.22, 55.84, 66.53, 77.08 and 87.13. The ratio is in increasing trend it indicates that NBL is able to earn more profit per share to the common share holders which reflects sound profitability position of the bank.

b) Dividend per Share

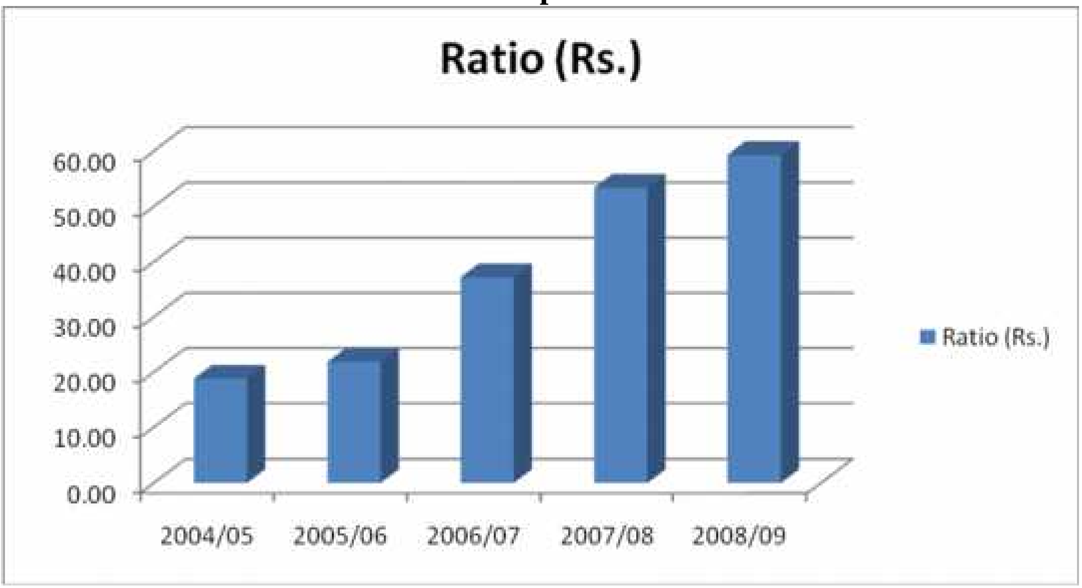
Table 4.19

Dividend per Share

Year	Paid to shareholders	No of Ordinary Share	Ratio (Rs.)
2004/05	93,000,000.00	4,950,000.00	18.79
2005/06	125,000,000.00	5,720,000.00	21.85
2006/07	232,400,000.00	6,250,000.00	37.18
2007/08	425,100,000.00	7,958,000.00	53.42
2008/09	493,210,000.00	8,318,000.00	59.29
Average			38.11

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.19
Dividend per Share



The above table and figure shows the dividend paid by the NBL over the period. Over the study period NBL has paid dividend each year with an average 38.11 per share. The ratio is in increasing trend it indicates that NBL is able to earn more profit per share and it also reflects the better performance of the company.

c) Dividend Payout Ratio

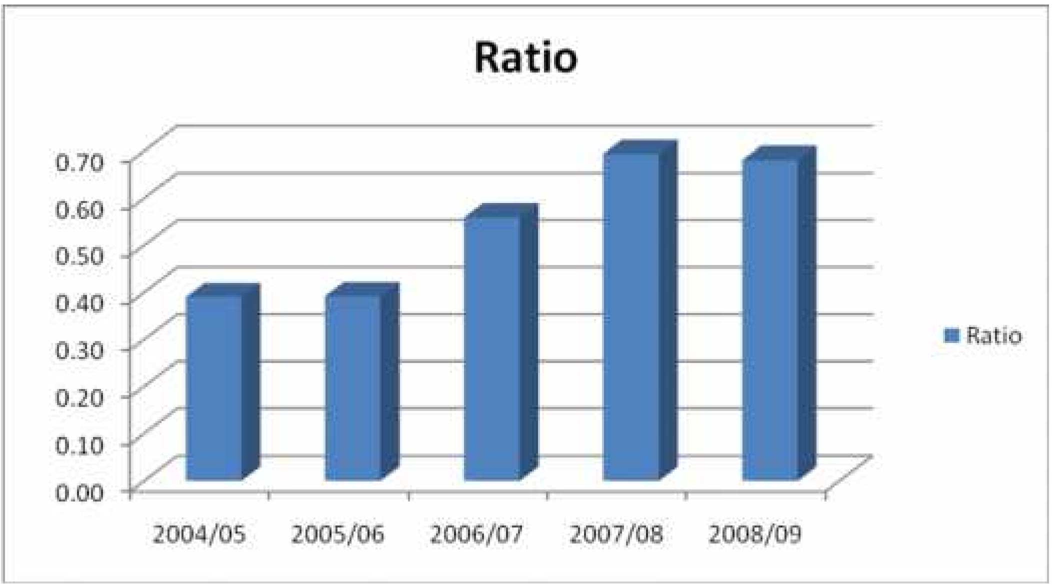
Table 4.20
Dividend Payout Ratio

Year	DPS	EPS	Ratio
2004/05	18.79	48.22	0.39
2005/06	21.85	55.84	0.39
2006/07	37.18	66.53	0.56
2007/08	53.42	77.08	0.69
2008/09	59.29	87.13	0.68

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.20

Dividend Payout Ratio



The above table and figure shows the dividend payout ratio of the NBL over the period 2004/05 to 2008/09. NBL has paid dividend in each year of study period with an increasing trend. Higher dividend shows the bank successful to pay dividend to the shareholders.

4.2 Statistical Tools

4.2.1 Correlation Analysis

Coefficient of correlation analysis is the mathematical method of measuring the degree of association between the two variables i.e. one dependent and on independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of none variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables:

- Correlation between Total Deposit and Net Profit
- Correlation between Investment and Net Profit
- Correlation between Deposit and Investment

To find out those relationships, the following formula is used:

$$\text{Coefficient of correlation (r)} = \boxed{\frac{xy}{\sqrt{x^2}\sqrt{y^2}}}$$

$$\text{P.Er. X}0.6745 \mid \frac{1\,\text{Z}\,r^2}{\sqrt{N}}$$

The result of coefficient is always between –1 to +1, when r = +1, it means there is significant relationship between two variables and when –1, it means there is no significant relationship between two variables.

A. Correlation Analysis between Total Deposit and Net Profit

Coefficient of correlation between total deposit and net profit measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether deposit and net profit is significantly correlated or not.

Table 4.21

Correlation between Total Deposit and Net Profit

(Rs. In Thousand)

Year	Total Deposit (X)	Net Profit (Y)
2004/05	10,197,981.00	170,813.00
2005/06	13,921,476.00	237,290.00
2006/07	18,216,276.00	296,409.00
2007/08	23,996,389.00	451,218.00
2008/09	36,919,551.00	638,732.00
Correlation Coefficient (r)		1
Probable Error (P.E)		0
6 × P. E.		0

Source: Annual Reports of NBL (2004/05 to 2008/09 and Appendix 1)

The above table 4.21 shows correlation coefficient (r) between total deposits and net profit of the bank is 1 i.e. perfectly positive and probable error multiplied by six found to be 0. Since r > 6 * PE r, it is significant and there is significant correlation between total deposits and net profit of NBL. This shows the net profit of NBL increases almost to the same degree with increase in the same amount of deposit.

B. Correlation Analysis between Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of relationship between these two variables. In this analysis, total investment is independent variable (X) and net profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether investment and net profit us significantly correlated or not.

Table 4.22

Correlation between Investment and Net Profit

(Rs. In Thousand)

Year	Investment (X)	Net Profit (Y)
2004/05	2,159,870.00	170,813.00
2005/06	4,190,550.00	237,290.00
2006/07	4,893,414.00	296,409.00
2007/08	5,061,655.00	451,218.00
2008/09	5,950,480.00	638,732.00
Correlation Coefficient (r)		0.97
Probable Error (P.E)		0.01814
6 × P. E.		0.11

Source: Annual Reports of NBL (2004/05 to 2008/09 and Appendix 2)

Its correlation and probable error remained 0.97 and 0.01814 respectively. Correlation coefficient appeared greater than six times of probable error i.e. 0.97> 0.11, which means that the investment and net profit are highly positive correlated. This ratio shows that NBL is able to invest its deposit in the profitable sectors.

C. Correlation Analysis between Deposit and Investment

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 investment is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as investment in a proper way or not. The table 4.23 shows the correlation between total deposits and total investment.

Table 4.23

Correlation between Deposit and Investment

(Rs. In Thousand)

Year	Total Deposit (X)	Investment (Y)
2004/05	10,197,981.00	2,159,870.00
2005/06	13,921,476.00	4,190,550.00
2006/07	18,216,276.00	4,893,414.00
2007/08	23,996,389.00	5,061,655.00
2008/09	36,919,551.00	5,950,480.00
Correlation Coefficient (r)		0.97
Probable Error (P.E)		0.01814
6 × P. E.		0.11

Source: Annual Reports of NBL (2004/05 to 2008/09 and Appendix 3)

The above table 4.23 shows correlation coefficient (r) between total deposits and total investment of the bank is 0.97 i.e. positive and probable error multiplied by six times found to be 0.11. Since r > 6 * PE r, it is significant and there is positive correlation between total deposits and investment in NBL.

4.2.2 Trend Analysis

Under this topic, we analyze and interpret the trend of deposits and net profit of NBL that helps to make forecasting for next five years. The following tend value analysis have been used in this study.

A. Trend Analysis of Total Deposit

Here, an effort has been made to calculate the trend values of total deposits of NBL for five years from FY 2004/05 to 2008/09 and forecasted for next five years till 2013/2014. The following table 4.24 shows the trend values total deposits of NBL for 10 years from 2004/05 to 2013/14.

Table 4.24

Trend values of Total Deposit of NBL

(Rs. In Thousand)

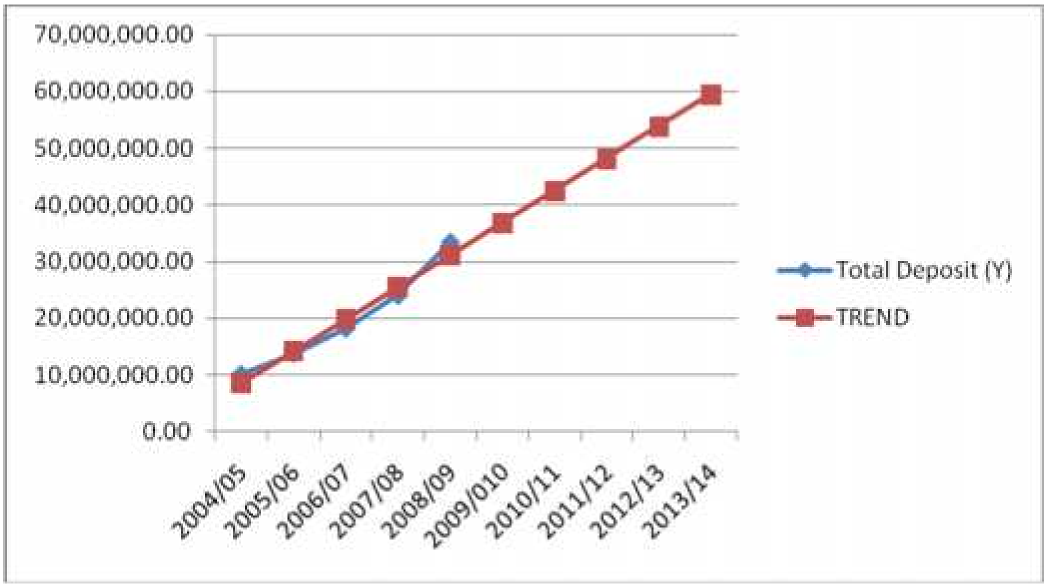
Year (t)	Total Deposit (Y)	Y= a + bX
2004/05	10,097,691.00	8,552,254.00
2005/06	13,802,445.00	14,214,690.30
2006/07	18,186,253.00	19,877,126.60
2007/08	23,976,298.00	25,539,562.90
2008/09	33,322,946.00	31,201,999.20
2009/10		36,864,435.50
2010/11		42,526,871.80
2011/12		48,189,308.10
2012/13		53,851,744.40
2013/14		59,514,180.70

Source: Annual Reports of NBL (2004/05 to 2008/09 and Appendix 4)

From the above table 4.24, it is clear that the total deposit of NBL is in increasing trend. On the basis of the above trend equation forecasted total deposit for the coming five years would be Rs 36864435.5, 42526871.8, 48189308.1, 53851744.4 and 59514180.7 thousand. The table can be presented in the following figure also.

Figure 4.21

Trend values of Total Deposit of NBL



B. Trend Analysis of Total Profit

Here, an attempt has been made to analyze the trend values of total net profit of NBL for five years from FY 2004/05 to 2008/09 and forecasted for next five years till 2013/2014.

Table 4.25

Trend Values of Net Profit of NBL

(Rs. In Thousand)

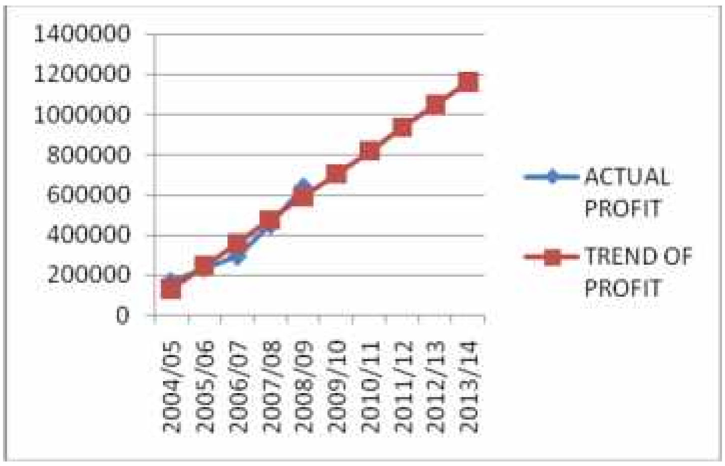
Year (t)	Total Profit (Y)	Y= a + bX
2004/05	170,813.00	128,939.20
2005/06	237,290.00	243,915.80
2006/07	296,409.00	358,892.40
2007/08	451,218.00	473,869.00
2008/09	638,732.00	588,845.60
2009/10		703,822.20
2010/11		818,798.80
2011/12		933,775.40
2012/13		1,048,752.00
2013/14		1,163,728.60

Source: Annual Reports of NBL (2004/05 to 2008/09 and Appendix 5)

From the above table 4.25, it is clear that the net profit of NBL is in increasing trend. Other things remaining same, the net profit of NBL will be Rs. 1,163,728.6 thousand in 2013/14, which is the highest under the study period. Trend analysis shows that its profit will increase in coming five years.

Figure 4.22

Trend Values of Net Profit of NBL



4.3 Major Findings

- NBL didn't meet current ratio 2:1 over the five years of the study period; it is not a satisfactory because it in increasing trends.
- The cash and bank balance position of NBL with the respect to total deposits is better against the readiness to serve its customers deposits. The calculation of cash and bank balance to total deposit ratio indicates that payment of deposits and liquidity of NBL.
- Cash and bank balance to current & saving deposit ratio was fluctuated over the five year period.
- It is found that the NRB balance to fixed deposit ratio of NBL is rise and fall and the amount of fixed deposit in the last year has decreased substantially and increased in the year 2008/09.
- The Fixed deposits to total deposits ratio over the period is in decreasing trends. This indicates the decreasing creditworthiness of the bank in the market.
- The average investment portion out of total deposit in the NBL is 23.07% which mean that in average the bank is investing 23.07% of its deposit in different sectors.
- The mean loan and advances to total deposit ratio of NBL is 72.20 which mean that in average the bank is lending more than 72% of its deposit.
- The loan and advance to total assets ratio is fluctuating over the period which means the bank may have ideal cash or investing its money in marketable securities.
- Loan and advances to saving deposit ratio of NBL is 153.37 in an average and the ratio is increasing from beginning.
- The average net worth to total deposit ratio of NBL is 5.47 and in increasing over the period which shows the bank's profitability over the period is increasing.
- The debt to total assets ratio of the NBL is in increasing trends this shows that the risk is increasing in NBL.
- Interest coverage ratio shows the interest paying ability of banks, the average ratio of NBL is 0.61.
- Return on assets ratio indicates the profitability position over the total assets, which is in increasing trends with an average of 1.54.
- The return on total assets ratios of the NBL are 1.43, 1.53, 1.39, 1.67 and 1.68 respectively. The average ratio is 1.54. NBL has the highest profit ratio in the fiscal year 2008/09 and lowest in the fiscal year 2006/07.

- Return on net worth ratio of NBL over the period is fluctuating and highest in 2005/06 and lowest in 2004/05. The average ratio of the bank is 28.20 percent. This ratio shows that how much the bank is able to generate return on equity to the shareholders.
- Total interest expenses to total income ratio of NBL is in fluctuating trend over the five years of study period. The mean ratio of NBL is 49.03. It indicates that the bank is not able to earned more interest.
- The average return on total deposit ratio of NBL is 1.72 which indicates that NBL is successful to earn almost constant profit over the study period.
- The EPS ratio is in increasing trend it indicates that NBL is able to earn more profit per share to the common share holders which reflects sound profitability position of the bank.
- Over the study period NBL has paid dividend each year with an average 38.11 per share. The ratio is in increasing trend it indicates that NBL is able to earn more profit per share and it also reflects the better performance of the company.
- The correlation coefficient between total deposits and net profit of the bank is 1 i.e. perfectly positive relationship and there is significant correlation between total deposits and net profit of NBL. This shows the net profit of NBL increases almost to the same degree with increase in the same amount of deposit.
- The investment and net profit are highly positive correlated. This ratio shows that NBL is able to invest its deposit in the profitable sectors.
- The correlation coefficient between total deposits and total investment of the bank is 0.97 i.e., it is significant and there is correlation between total deposits and investment in NBL.
- The total deposit of NBL is in increasing trend. On the basis of the above trend equation forecasted total deposit for the coming five years would be Rs 36,864,435.5, 42,526,871.8, 48,189,308.1, 53,851,744.4 and 59,514,180.7 thousand.
- The net profit of NBL is in increasing trend. Other things remaining same, the net profit of NBL will be Rs. 1,163,728.6 thousand in 2013/14, which is the highest under the study period.

CHAPTER - V
SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter deals with the summary, conclusion and recommendation. The first part of the chapter is summary, second conclusion and third recommendation.

5.1 Summary

Commercial banks have played significant role in the economic development of country. They have introduced new technology in the banking system mobilized the saving of community. They have focused their services on commerce, tread and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the bank. Therefore the study has been conducted to evaluate the performance of bank especially, that of Nepal Bank in order to find out their strengths and weakness.

To avoid the chances of duplication in the study and confirm whether the study is in accordance with the principles and doctrines, supportive text and the previous dissertation have been reviewed. For analyzing the financial data of the sampled bank the financial tools-ratio analysis, income and expenditure analysis and the statically tool-mean, CV correlation, and least square liner trend analysis have been used.

The first chapter of the study explains the background and statement of the problem and objective of the study and limitation. The second chapter includes the review of literature from the conceptual frame work and past studies. The third chapters explain the research methodology followed in this study. In this study only one commercial bank has been selected from twenty six commercial banks. Different financial as well as statistical tools have been used to analyze the collected data to achieve the stated objective. Five year financial data have been used to analyze the financial performance of the selected bank.

5.2 Conclusion

Nepal bank limited is one of the growing banks of Nepal. It has been steadily growing in its size and operation ever since its inspection and it has established itself as a leading private sector bank of nation reckoned as a one of the fastest growing commercial bank of country.

The main objective of the study is to analyze financial performance of the Nepal Bank Limited. Liquidity position of the bank is not seems satisfactory. The cash and bank balance position of NBL with the respect to total deposits is better against the readiness to serve its customers deposits. The creditworthiness of the bank in the market is in the decreasing trends. The loan and advance to total assets ratio is fluctuating over the period which means the bank may have ideal cash or investing its money in marketable securities. The profitability of the bank is also increasing trends.

The debt to total assets ratio of the bank is in increasing trends this shows that the risk is increasing in NBL. The profitability position over the total assets is better. Return on net worth ratio of bank over the period is increasing so the bank is able to generate return on equity to the shareholders. The bank is not able to earned more interest with respect to expenses. It is successful to earn almost constant profit over the study period. NBL is able to earn more profit per share to the common share holder which reflects sound profitability position of the bank.

Correlation analysis reveals that the coefficient of correlation between total deposit and net profit; performing assets and net profit; net worth and net profit, total deposit and investment; total deposits and loans and advances remained highly significant in NBL. It signifies that NBL is successful to utilize its resources efficiently. The total deposit and net profit shows rising trend of the NBL. Interest seems to occupy major part of the both income and expenses.

5.3 Recommendation

On the basis of major findings some important suggestions have been forwarded so that they will help the sampled banks to strengthen weaker aspects of financial activities.

- The bank has maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by NRB. The fund tied up in NRB balance cannot yield good return. So, the bank suggested lowering this ratio and investing the surplus fund in other current assets such as loans and advances, bills purchase and discount, money at call and short notice.
- It is suggestive that bank should hold the fund in form of cash or cash equivalent items only to the extent of requirement. Though it is difficult to know the exactly suitable liquidity ratio, estimation can be done on the basis of past experience, nature of depositors, situation of financial market and nature of competition.
- The bank has employed considerably greater portion of debt in their capital therefore, the bank should be aware of the possible risk that may arise due to slackness in the business activities.
- Debt servicing capacity of NBL appears poor. So, it is better to search for the profitable sectors for investment and utilization of the deposits collected.
- Turnover of the fund raised form the outsiders appears less satisfactory in NBL. So, NBL has a challenge to allocate the deposit in income generating sectors. It will be better for NBL to open the branches in other cities and rural areas in order to find the profitable opportunities.
- NBL in the last years has given more priority to increase in government security. Though the government securities are free of risk, they yield lower risk. It is recommended not to give all attention to government sectors and diversify investment policy
- NBL is suggested to review their investment ponies to see if there is any better mix than the present one.
- Although, profit needs to be earned for survival and growth of any institution, it should not be the one and only one goal. The country has expected services from the financial sectors in such a way that it encompasses the balanced development. Economic level of the country can be raised only when the level of the people depending upon the agriculture increases. So the bank is suggested to diversify their loans in priority and deprived sectors as per the directive of NRB.

CHAPTER - II
REVIEW OF LITERATURE

This chapter focuses with literature in the selected field and research related to the present studies. Review of literature is a way to discover what other research in the area of our problem has uncovered. Scientific research must be based on the past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study *(Wolf and Pant; 1999:3).*

Review of literature means reviewing research studies of other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. This part of the study highlights available literature related to this research which makes base of knowledge for the study. Review of literature is stock thinking of available literature in one's field of research. It comprises conceptual review, review of related studies and concept of financial analysis.

2.1 Conceptual Framework

2.1.1 Concept of Banking

The writers on the banking are divided regarding the origin of the word "Bank". Some authors feel that the word bank is derived from the words "Banco". "Bancus"or "Banque"which all means a bench.

A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credit and transfer funds by written order of depositors *(The Encyclopedia America; 1984:234).*

Bank is an institution, which deals with money & credit. It accepts deposits from public, makes fund available to those who need them and helps in remittance of fund from one place to another. “A bank seeks optimum combination of earning liquidity and safety. While formulating investment policy" *(Chandler; 1973:138).* The more developed financial system of the world characteristically falls into three parts, the central bank, the commercial bank and other financial institutions *(Sayer; 1976:16).*

2.1.2 Function of Commercial Bank

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

A) Accepting Deposit

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

f. Current Account

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

g. Fixed Account

When account holders want to deposit their fund for certain time period, they have to open fixed account in banks. Money in these accounts is deposited for fixed period of time. It may range from one month, three months, six months, one year and up to five years. The money deposited into fixed account cannot be withdrawn before the expiry of that period. So the rate of interest on this account is higher than that on other types of accounts *(Bhandari; 2003: 23).*

h. Saving Account

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

i. Home Saving Account

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

j. Recurring Deposit Account

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

B) Advancing of Loan

Commercial bank is a profit oriented business organization. So banks have to advance loans to public and generate interest from them as profit. After keeping certain cash reserves, bank provide short, medium and long-term loan to needy borrowers. For security, banks generally provide loan on mortgage. General loans for individual are provided on the mortgage of gold, silver, fixed deposit receipts, treasury bills, development bonds etc whereas business loan are advanced on the mortgage of negotiable instrument such as land, buildings, store room etc. According to the needs of the borrowers, banks provide different types of loan for different time period as given below: *(Dahal; 2004: 386)*

e. Term Loans

Banks provides medium-term and long-term loans on the basis of loan proposal. The maturity period of such loan is more than one year. Generally, the amount sanctioned is created to the account of the borrowers. However, banks pay the amount in cash to the borrowers in some case *(Dahal; 2004: 386)*

f. Cash Credit

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

g. Overdraft

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

h. Money at call

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

C) Discounting of Bills of Exchange

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

D) Payment of Cheque

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

E) Collection and Payment of Credit Instruments

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

F) Remittance

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

G) Exchange Foreign Currencies

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

H) Consultancy

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

I) Bank Guarantee

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

J) Agency Functions

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

f. Period Collection

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

g. Period Payment

Banks can execute the standing order or instruction of customers for making periodic payment on behalf of their customers. Under this function, banks pay subscription, income tax, rents, etc. for their respective customers and earn appropriate service charge.

h. Purchase and Sale of Securities

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

i. Representative

Banks can act as representative of their customers. They can proceed for passports, travelers tickets, book, vehicles, plots of lands etc for their customers.

j. Trustee or Executor

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

L) Others

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

2.1.3 Financial Statement Analysis

Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable condition of a business concern; therefore, financial analysis reflects the financial position of a firm which is the process of determining the operational and financial characteristics of a firm.

Financial statements analysis is largely a study of relationship among the various financial factors in a business as disclosed by the statement and a study of the trend of their factors as shown in a series of statement *(Pandey; 1989:46).*

Local commercial banks have been found relatively higher leveraged compared to other joint venture banks. Loans and advances has been the main form of the investment. Two third of the assts have been used for earning purpose *(Joshi, 1989:56).*

Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firms to identify problems, if any in the past or present and/or likely to be in the future and to provide recommendation to solve the problems *(Pradhan; 1991:71).*

Financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statement by making comparison of various components and by examining. Their context, this can be used by financial managers as the basis to plan future financial requirements by means of forecasting and budgeting procedures *(Van Horne, J.C.;2000:144).*

It is both the analytical and judgmental process that helps answer and question that have been posed. Therefore, it is means to end. A part from the specific analytical answer, the solutions to financial problems and issues depend significantly. On the view of the issue and on the nature and reliability of the information available.

Objective of Financial Analysis

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

- To understand the solvency of short term and long term of a firms.
- To know the present and future profitability of the firm.
- To compare with different firms.
- For cast the future & preparing budgets.
- The financial stability of business firm.
- The long term liquidity of its fund.

- **Need of Financial Analysis**

The analysis of financial statement is mainly focus with the some questions.

- What is the present performance of the firm?
- Which are the problem existing areas?
- What is the present performance of the firm? What will be the position of the firm in future? What are the projections?
- Is there any likely problems are the way in the future?
- What are the recommendations?

2.2 Review of Journals and Articles

Shrestha (1990) in his article *"Commercial Banks' comparative Performance Evaluation"* published in **Nepal Bank Patrika** stresses on a proper risk management with appropriate classification of loans under performing and non performing category. He further clarifies that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income.

Regarding the risk management of the bank Shrestha suggests that:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio related to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

Shrestha (1990) in his article *"Capital Adequacy of Bank"* published in **Nepal Bank Patrika** said that banks deal with in highly risky transactions to maintain strong capital base. He suggested that capital should be optimum level to keep the standard ratio of capital for each bank.

Shrestha (1995) made a study *"Portfolio Behavior of Commercial Banks in Nepal"* in Economic Review analyzed the financial performance of the commercial banks through ratios and management achievement index. She also analyzed the investment and lending operations of commercial banks and their contribution to the national economy. She used data from 1975 to 1990 and analyzed the portfolio composition of the commercial banks and their behavior by testing the relationship with economic and fiscal variables of the country.
Some of her conclusions relevant to this thesis are:

- Per capita deposits as well as per capita credit in commercial banks have increased tremendously. The contribution of deposit in GDP has also been increasing.
- Structural ratios show 75% of their total deposits invested in the government securities and the shares.
- Reserve position shows quite high percentage of deposit as cash reserve.
- The commercial banks are highly leverage and highly risky.
- By risk and return JBVs are aggressive.
- BY comparative total management achievement index JBVs are better.
- Among the commercial banks, Standard Chartered Bank seems to have highest growth rate of EPS.

Poudel (1996) in his article *"Financial Statement Analysis": "An Approach to Evaluate Banks Performance"* published in Business Age has indicated that balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank's balance sheet and P/L account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations which are generally contingent in nature are considered as off balance sheet item.

Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decision. The requirements of bank's financial statement have been expressly laid down in the concerned act. The Commercial Banking Act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

The principle objectives of analyzing financial statement are to identify: liquidity, profitability and solvency. Most of users of the financial statements are interested in assessing the bank's overall performances which are affected by the following factors:

- The structure of balance sheet and profit and loss account.
- Operating efficiency and internal management system
- Managerial decision taken by top management regarding rate, exchange rate, lending policies etc.
- Environmental changes (technology, government, competition and economy)

The other factors to be considered in analyzing the financial statements of a bank are to assess the capital adequacy ratio and liquidity position. In the line of adequacy, a bank is assessed on the basis of risk weighted assets. It indicates a bank's strength and solvency. Bank 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 to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

Shrestha (1997) in his article *"Nepalma Banijya Bank Haruko Bhumika: Ek Paridrist"* published in Banking Samachar pointed out some important activities, seen in the banking sector, that deserve reviews:

- Possibility of capital flight: The unstable political situations caused the possibility of capital flight soaring high. Joint venture banks can become the main source of capital flight. It should be seriously considered and analyzed and corrective actions to be taken in time.
- Minimum deposit amount: Commercial banks and financial institutions have increased the minimum deposit amounts (threshold). This policy harasses depositors. Therefore this policy deserves review.
- Debt recovery and its effectiveness: Debt recovery has become a problem to the banks. Therefore, effective evaluation of collateral and monitoring of loans use should be done effectively.

Poudel (1997) in his article *"An Overview of Financial Companies of Nepal"* published in Business Age observed that the finance companies violating the directives regarding deposits mobilization. He found companies mobilize the deposits by more than ten times their capital base. Credit to deposit ratio remained high. The loan diversification is improved. Hire purchase and housing loan consumed greater amount of loans. He found due to increasing number of companies sources of funds declined. He suggested that the regulatory and supervisory authority to keep close eyes on the activities of the financial companies.

Sharma (1998) in his article *"Joint Venture Banks in Nepal Co-Existing and crowding Out"* published in Business Age opined that the government should favor domestic banking sector in order to build competence against JVBs. He said that both should coalesce and co-exist complimenting each other and contributing for the development.

Pant (2001) in an interview to *"Business Age"* monthly said that due to slow down in the world economy and poor law and order situation in the country many economic sectors of Nepal are sick. He said when a sector of economy catches cold, banking sector sneezes. From this perspective, the banking industry as a whole is not healthy. However, JVBs for example NABIL with its strong risk management system, sound capital adequacy provision, quality staff can survive in the difficult times.

K.C (2003) in his article *Financial Sector Reforms Still a Long Way to Go*. Published in **"***The Rising Nepal"* on June 6, 2003, he concludes that the financial sector has a direct impact in the national economy. It is oblivious that any change in the financial sector brings a significant change in the national economy. Following the implementation of the financial sector reform policy, the country's economy has seen a great change.

Rana (2003) in his interview to *"Business Age"* monthly said that though JVBs have short term threats they are operating efficiently and earning and paying handsome dividends. Hence the share prices have gone up. If the law and order situations do not improve in the country, in two three years time top ranked banks are expected to survive somehow but others may find harder time.

Roy (2006) in his article, *"Micro Finance in Nepal"* published in **Business Age** said that the micro-credit programmers, which began in Nepal in 1975, have become a powerful tool for poverty alleviation. Micro finance has enabled the poor to utilize opportunities, generate self-employment and be enterprising. It enhanced self-confidence and self-esteem and purchasing power. It empowered the poor people economically and socially. It contributes at overall economic growth.

Thapa (2005), in his article "*Deficit Financing: Implementations and Management*" published in Business Age said that developing countries use internal borrowing and outside loans for financing development activities. This in turn soars the debts and demands more financing from the debts. It’s a vicious circle that drains out the resources of the developing countries. Liquidity is also involved while borrowing and servicing. Thus debt management should be effective and the country is in a comfortable position with regard to the liquidity.

Grönlund and Ponni (2007), in their article, *"Financial Performance of Commercial Radio in Sweden"*, published in Stockholm City Business Journals have stated despite slowing median growth of turnover, the profitability of Swedish commercial radio companies improved slightly in 2005. Both operating margin and net result have improved and are now positive. After the recession in 2001 the profitability of Swedish radio companies sank fairly badly, with the net result being almost -11 percent in 2002. Since then profitability has improved steadily. Median growth of turnover was only 0.1 percent in 2005, down from 5.1 percent in 2004. The total advertising investments in different Swedish media increased around 7 percent in 2005 and advertising investments in Swedish commercial radio grew by 4.5 percent, being now SEK 513 million. Despite the overall growth, slowing median growth of turnover suggests that growth in advertising investments has not been distributed evenly. Clearly it has been concentrated in the bigger companies in radio business.

The solidity of the Swedish commercial radio companies has improved slightly. Equity ratio was 36.4 percent in 2005 (35.8% in 2004) and relative indebtedness was 31.5 percent (32.7% in 2004). Both of these key figures are on fairly good levels for the radio business. Current ratio (1,4) remained on the same level in 2005 as it was in the previous year, at the moderate level. It is quite obvious that an industry that has created losses for many years, must be financed from outside. In Sweden most of the commercial radio companies are owned by large media houses that are paying the losses as a price for participating in the marketplace. The productivity of the Swedish commercial radio companies has improved steadily during the past three years. Value added per personnel was 290,400 SEK compared to 286,000 SEK in 2004. This is, of course, a good development, but when compared to commercial radio companies in Finland, Swedes are still clearly behind. In other key figures Swedish commercial radio companies are slightly ahead of Finnish counterparts. Although the economic performance of Swedish commercial radio companies has improved in 2005, it is still not at a good level. The radio business is still fighting with profitability and the industry losses are seen as a cost for establishment and thus an investment into a future (hopefully more profitable) presence on the radio market. The consolidation and forming of radio networks, cost-cutting and synergy seeking are all a part of the attempts to improve the profitability of companies.

Abraham (2007), in his article, *“A Model of Financial Performance Analysis Adapted for Nonprofit Organizations”*, published in Australian Accounting Business and Finance Journal has stated that measurement of financial performance by ratio analysis helps identify organizational strengths and weaknesses by detecting financial anomalies and focusing attention on issues of organizational importance. Given that the mission of a nonprofit organization is the reason its existence, it is appropriate to focus on financial resources in their relationship to mission. The application of this financial performance model to an individual organization will indicate a number of issues which need to be grasped. However it must be realized that these issues will not be purely financial, but bear direct relationships to the culture and traditions of the organization - for mission is central to the heart of every NPO.

This view is consistent with the challenge for nonprofit organizations to explore new ways of raising the operating revenue and capital they need to pursue their mission. To continue as a viable organization into the future, an NPO may have to deal with some difficult issues, issues that may very well move people out of their comfort zones. The organization's management team may need to consider advice on how to say goodbye to services, programs and assets that have outlived their time because It's vitally important in a changing environment, as your customers' or clients' needs change, that you adapt your services to meet their current and future needs.

Pille (2008), in his article, "*Financial Performance Analysis of Ontario (Canada) Credit Unions: An Application of DEA in the Regulatory Environment*" published in Canadian Journal of Business has stated that the equity/asset ratio and some DEA models appear to be equally competent in predicting the failure of Credit Unions. However, DEA Model 1 offers indicators of where the problems are and how to address them. Hence it should be the preferred tool for the regulator. Each of the models shows that failures, on average, have lower scores than healthy units, for up to three years before failure, thus our Hypothesis is proven. Prediction of failure is most reliable at one year prior to failure, and declines as we go further out.

Prediction improves when only larger asset sized DMUs are included, and also when failures due to plant closure or fraud are excluded. Catastrophic failures due to the latter two causes cannot be predicted and should be excluded from all analyses. DICO management believes that many cases of mismanagement are actually fraud but that cannot be proven. If this belief is true, then prediction of failure is more difficult than it would otherwise be. The models in this work do not consider the risk involved if a Credit Union has a large proportion of its assets in a single large loan or investment. Yet, this may be the most serious potential problem because a large loan default may well wipe out the entire equity of the Credit Union. Hence, size matters because the relative size between the firm's equity and the largest loan or investment is a crucial survival issue.

McGrann and Richardson (2009), in their article, *"Measuring Producer Level Beef Cattle Alliance Financial Performance"* published in Journal of Small Business Management, have stated that there has been a movement toward developing production and marketing alliances in the beef cattle sector in the United States to improve communications and ultimately provide higher priced branded products that are more consistent with consumer demand. Beef cattle producers do not employ a consistent methodology to measure the financial performance of participating in an alliance. Nor do they have the information to negotiate agreements that are financially sustainable at the producer level. Given the concentration of packer and retail sector there is little reason to expect them to share cost and financial returns information beyond the general corporate total business performance required by public traded corporations. Described is a methodology to measure financial performance from breeding, growing and finishing segments to measure return on assets from an alliance. Application of the methodology is demonstrated in an example from cow-calf to finishing phase.

The methodology uses cost accounting and economic analysis to calculate ROA as a measure of alliance's financial sustainability. Questions of profitability, competitiveness and the opportunity cost of participation can be addressed. This information can be used to inform the margin sectors, feed yards, packers and retailers to provide them insights into what share of increased revenue from branded product sales must be passed to the cow-calf segment. The cow-calf segment must absorb the added costs and cyclical financial loss to participate in alliances. Increased revenue is required to make branded products a more profitable marketing option for beef producers. The return can be compared to ROA in the other segments of the alliance to establish the criteria for net margin sharing or to evaluate alternative production or marketing systems irrespective to the information shared by the concentrated packer and retail sectors. Further studies to employ this methodology with producer members of an alliance could provide valuable decision information for participants to negotiate alliance arrangements.

2.3 Review of Thesis

Prior to this study several research works have been done by the students on the performance of commercial banks of Nepal. For review purpose relevant studies have been gone through. Some of the conclusion drowns by them are cited below:

Lamsal (1999) made *"A Comparative Financial Statements Analysis of HBL and NGBL"*. His main objective to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. He found that liquidity position of HBL is better than NGBL. HBL has sufficient cash and bank balance to meet its current and fixed deposits. HBL has better turnover than NGBL in terms of loan and advances to total deposits ratio. Investment to total deposit ratio of NGBL is better than HBL. NGBL pays higher dividend per share than HBL.

Maharjan (2000) made *"A Comparative Analysis of Financial Performance of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd."* His main objective was to analyze and evaluate the financial position of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd in order to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, Hypothesis tests. He used the data of five years till the year 2000. At liquidity position NGBL don‟t meet the required standard but it is consistent. At fund utilization NBBL is better. NBBL is more aggressive at fund mobilization bearing higher risk. At profitability NBBL has increasing trend till 1997. NGBL has higher fluctuation at profitability. Overall capital position is better at NGBL.

Oli (2003) made *"A Comparative Study on Financial Performance of HBL, NSBIBL, and NBBL"*. His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And he observed that NSBIBL and NBBL are always above the normal standard, HBL always below the normal at liquidity position. Liquidity position of NBBL is better than NSBIBL and NSBIBL is better than HBL. And they are suggested to utilize the excess of resources for income generation. Total debt to equity and total assets is higher for HBL than both. NBBL has been able to mobilize total deposits in loan and advances than HBL and NSBIBL. NSBIBL is better than HBL at this. HBL has better utilization of fixed deposits in earning. NSBIBL has better used of saving deposits than other two net profit to total assets of HBL is better. The profit level is lower in all.

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

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

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

His major findings are;

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

Joshi (2004) has made a study on, *"Financial Analysis of Nepalese Commercial Banks."* The main objective of the study is to find the comparative financial strength and weakness of various commercial banks.

The other specific objectives are;

d. To trace out the credit position of the commercial banks.
e. To analyze the earning capacity of the banks.
f. To measure the investors' degree of satisfaction on the banks.

His major findings are;

e. The lending condition of commercial banks is in decreasing trend. However, the outstanding loan is in increasing trend.
f. Strong banks are holding good customers and discoursing low rated and less amounted loans. Instead of that they are initiated towards remittance, bank guarantees and other commission generating activities.

g. Many banks are showing aggressive and are spontaneously increasing loan loss provision. Deposit in the banks is also decreasing while some banks are holding enough funds.
h. The earning capacity of SCBNL and NABIL is comparatively higher than that of other banks. Also, the dividend payout ratio of these banks is higher than other banks.

Deoja (2004) made "*A Comparative Study of the Financial Performance Between Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd*"**.** His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And after having studied the performance of five consecutive years till 2000 he concludes a sound liquidity position in both banks. NBBL has better utilization of resources to generate income than NSBIBL. Profitability of NBBL is better than NSBIBL. Interest earned to total assets and return on net worth of NBBL is higher than NSBIBL. Both are highly leveraged.

Pyakurel (2005) has conducted a study on, "*A Comparative Appraisal on Financial Performance of Nepal Bangladesh Bank and Bank of Kathmandu.*" The main objective of the study is to show the causes of changes in cash position of the two banks. The other objectives are;

d. To evaluate the liquidity position of NBB and BOK.
e. To analyze the profitability ratios of NBB and BOK.
f. To examine the marketability position of NBB and BOK.

His major findings are;

e. NBB is more efficient than BOK in all respect and the study found the current ratio of NBBL was high.
f. NBBL is utilizing its deposits more effectively than BOK, all the profitability rates were found to be higher in case of NBBL than BOK.
g. Since BOK is suffering losses in three fiscal years, thus showing its operational deficiencies in mobilizing the resources in production sectors. On the other hand, NBBL has always been increasing its profit from the outset.

h. On average, BOK was generating more cash from financial activity than NBBL. However, the contribution of financial activity in the final cash and bank balance of the bank was not as significant that of operating activities.

Kapadi (2006) made *"A Comparative Study of Financial Performance of NABIL and SCBNL"*. His main objective was to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors from his findings. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, coefficient correlation, probable error, hypothesis tests in his study. He used the data from 1994 to 2000 and used most of the ratios and extensively used statistical tools. And he concluded that both have lower liquidity position, both are highly leveraged, performing assets to total assets ratio satisfactory in both ,unsatisfactory profitability in both , threat of solvency being high, recommends to increase equity base, improve operational profit ,and to decrease operating expenses, expand services to rural areas.

K.C. (2006) has conducted a study on, "*Comparative Study of Financial Performance Between Nepal Bank Limited and Bank of Kathmandu Limited."* The main objective of the study is to make a comparative financial analysis between NBL and BOK. The other specific objectives are;

e. To compare the liquidity position of NBL and BOK.
f. To examine the efficiency of NBL and BOK.
g. To analyze the solvency of NBL and BOK.
h. To trace out the financial strength and weakness.

His major findings are;

f. The current ratios of both banks are not satisfactory. Cash and bank balance to total deposits of NBL and BOK do not go outward equally. NBL has more secured credit position than BOK.
g. Loans and advances to total deposit ratio of BOK is better than NBL. But the ratio implies that NBL is utilizing its fixed deposit in loans and advance more efficiently.
h. Net profit to working found ratios on both banks is in poor condition but in latest years, it seems in positive way. Both banks have been improving or overcoming from the weak condition.

i. Average earning per share of NBL is seen well rather than BOK but both of them are not running in favor of investors. Market value per share of NBL is increasing slowly while in case of BOK, it has zero value in initial three years.
j. To sum up, it can be said that NBL has performed better than BOK during the study period. It seems that NBL will perform better than BOK in future too.

Joshi (2007) has conducted a study on, *"A Comparative Study on Financial Performance of NABIL Bank Ltd. and Nepal Bangladesh Bank Ltd."* The main objective of the study is to know the financial condition, financial performance and financial growth of NABIL and NBL. The other specific objectives are;

d. To examine the EPS and DPS of NABIL and NBL.
e. To analyze the efficiency of NABIL and NBL in utilizing the assets.
f. To evaluate the trend of net profit of the concerned banks.

His major findings are;

e. The overall liquidity position of NBBL was stronger than that of NABIL. Analyzing the activity or turnover of both banks, NBBL mobilized its deposits more on loan and advances whereas NABIL mobilized its deposits more prudently and efficiently in generating income.
f. Similarly, capital adequacy position of NABIL was found to be better than that of NBBL. Regarding the capital structure of the banks, NBBL was found to have adopted high risk, high return strategy as suggested by it's highly leveraged i.e. debt dominated.
g. According to profitability analysis, NABIL was found sound profitability due to its higher ratio. Also, other indictors as EPS, DPS, TPS were found sharply higher in NABIL which implies positive attitude of stakeholders toward NABIL.
h. NBBL should keep only the reasonable amount of liquidity, which will save the bank from creating low return; NBBL should improve its capital adequacy by investing the assets and deposits in highly returnable sector; NABIL should invest its deposit in profit generating sectors.

Dahal (2007) made *"A Comparative Study of Financial Performance of HBL and NBBL"*. His main objective was to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and statistical tools like average, CV, SD, hypothesis tests (F test) in his study. And he concludes that NBBL maintains above the standard liquidity ratio, NBBL is better at mobilizing the deposits, at mobilizing fixed deposits HBL is better, HBL is more leveraged and riskier, NBBL has been found better performed at utilizing overall resources, where as net profit to total deposit ratio is higher with HBL, HBL in better at mobilizing the equity. NBBL has higher fluctuation at net profit margin so it has high risk of solvency, NBBL is better at commission and discount whereas HBL is better at interest income, operational cost of HBL is higher.

Dangi (2008) made *"A Comparative Study of Financial Performance of SCBNL, NABIL and HBL"*. His main objective to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools excessively but did not use any statistical tools in his study. And he concludes all have unsatisfactory liquidity position, all are highly leveraged, all have low coverage ratio due to excessive use of debts, and SCBNL is better at mobilizing assets, SCBNL is better at EPS suggesting effective utilization of owners‟ equity. DPR higher with SCBNL, HBL is better at lending and SCBL better at service giving, SCBNL has higher expenditure at staff, HBL at interest payment, NABIL at general expenditure, all borrowed but SCBNL is continuously borrowing throughout the period, suggests to improve quality of current assets structure, to increase equity base, and EBT.

Manandhar (2008) has conducted a study on, *"A Comparative Study on Performance Analysis of Top Five Commercial Banks of Nepal."* The main objective of the study is to analyze and compare liquidity, profitability, stability and market value position among the top five commercial banks. The other specific objectives are;

d. To trace out the trend of loan and advances.
e. To find out the relationship between deposits and loans & advances, and deposits and net profit.
f. To analyze the trend of profit and dividend distribution.

His major findings are;

f. NBL and NIBL have been getting lower net profit out of total income with comparison to all the banks.
g. NBL comparatively fails to maintain operating ratio on total assets whereas NIBL did best. HBL, NBL and NIBL have been suffering from ineffectively using the total fund. So, they are getting lower return than SCBNL and NABIL.
h. All top five commercial banks have been earning sufficient interest income on loan and advances. It means they have been high utilizing the loan and advances.
i. NABIL has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NIBL have been providing lower cash dividend in inconsistency manner. SCBNL has been providing dividend on share capital comparatively greater than other banks in a consistency manner.
j. NABIL has also been providing better dividend in a consistency manner to some extent too. As a lower average, NIBL has not provided dividend on share capital. NABIL shows greater inconsistency too.

Rai (2009), has made a study on, *"A Comparative Study on Financial Performance Between the Commercial Banks"*. The main objective of the study is to examine the financial performance of SBI bank and NBBL bank. The other objective are;

d. To study the liquidity position of both the banks.
e. To analyze the lending position of both the banks.
f. To examine marketability position and the efficiency ratio of SBI and NBBL.

His major findings are;

d. The analysis of liquidity position of these commercial banks shows different position. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities, i.e. it indicates the availability of current assets in rupees for every one rupee of current assets than current liabilities. The average current ratio of SBI (1.05) is greater than that of NBBL (0.98) Therefore, the liquidity position of SBI bank is in normal standard and NBBL is also trying to gain that position.
e. From the analysis of turnover of these two banks, NBBL has better turnover than SBI bank in terms of loans and advances to total deposit ratio. Thus, NBB has better utilization of resources in income generating activities, than SBI bank.
f. The analysis of profitability of these two commercial banks is also different. The overall calculation seems to be better for NBBL. Though certain ratio like dividend per

share, dividend payout ratio etc better for SBI Bank. The writer has also conduced that earning per share of NBBL is better than that of SBI bank.

Research Gap

After reviewing the researches done throughout the past, the present researcher has found that the study of the financial performances of the Nepal Bank Ltd has not been long analyzed. The past studies have recommended some of the remedial references like to increase profit and reduce negative net worth, inject required capital, increase the liquidity, to limit the operating cost. It's been time to check how far the differences have occurred in the bank. The present study explores the financial performances of the Nepal Bank as sample bank.

CHAPTER - III

RESEARCH METHODOLOGY

Research Methodology is the process of arriving at the solution of a problem through a planned and systematic dealing with the collection, analysis and interpretation of the facts and figures. It presents research methodology adopted in achieving the objective stated in the earlier chapter. It contains research design, sources of data, data gathering procedure and data analysis tools.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure *(Wolff & Pant; 2000:68).*

Research design is plan, structure and strategy of investigation conceived. So as to obtain answer to research question and to control variances to achieve of the study, descriptive and analytical research design have been used.

3.2 Population and Sample

All the commercial banks operating i.e. out of 31 banks in the country is the population of the country among them one commercial bank Nepal Bank Limited is selected as sample of the study.

3.3 Sources and Collection of Data

For the purpose of study only the secondary data are used. The required data and information for analysis are directly collected from the annual reports of the respective banks. The supplementary data are collected from number of institution like Nepal Commerce Campus Library and documentation section of T.U. Library, company office etc. Similarly related books magazine Journals articles reports bulletins and data from security board Nepal. Further the secondary data have been collected from reports and financial statement of the company, published and unpublished officials record, books, articles magazine, annual report etc.

3.4 Method of Data Analysis

For the purpose of analysis, financial statements, profit and loss account and Balance Sheet of the concerned banks have taken financial as well as statistical tools have been used.

3.4.1 Financial Tools

a) Ratio Analysis

Ratio analysis is such a powerful tool of financial analysis that through it economic and financial position of a business unit can be fully *(Kothari; 1992:34)*. Ratio analysis is a widely used tool of financial analysis it is defined as the systematic use of ratio to interpret the financial analysis statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined *(Khan and Jain; 2003:49)*.

The following financial ratios are used in this research.

1) Liquidity Ratio

These ratios mainly used to evaluate the liquidity position of the banks. This ratio includes cash, bank balance, total deposits, NRB Balance, Current and saving deposits, money at call and short notice and investment in government securities.

VII) Liquid assets to short term liabilities

This ratio shows the liquidity position of bank to meet its short term liabilities, so that bank can manage its liquid position timely.

$$\text{Liquid Assets to short term liabilities} = \frac{\text{Liquid Assets}}{\text{Short term liabilities}}$$

VIII) Current Ratio

The current ratio is the ratio of total current assets to total liabilities. It is calculated by dividing current assets to current liabilities which presented as follows

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

Where,

Current assets include cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivable and miscellaneous current assets or (Total asset - Fixed assets- other long term investments and assets) whereas current liabilities include deposits and other accounts short term loan, bill payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities or (Liabilities- shares, reserves, bond debenture and other long term liabilities).

IX) Cash and Bank Balance to Total Deposit Ratio

This ratio measures the percentage of most liquid current with the bank to make immediate payment to the depositors. A high ratio indicates the sound ability to meet their daily cash requirement of their customer and vice versa. This ratio can be presented as follows

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

X) Cash and Bank Balance to Current and Saving Deposit Ratio

It measures the ability of the bank to meet its immediate obligations. Current and saving deposits consist of all type of deposit excluding fixed deposits. The ratio can be calculated by dividing cash and bank balance by current and saving deposits as follows.

$$\text{Cash \& Bank Balance to Current and Saving Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current \& Saving Deposit}}$$

XI) C/D Ratio

This ratio called credit to deposit ratio, which is derived by dividing total loans and advances by total deposits.

$$\text{C/D Ratio} = \frac{\text{Credit}}{\text{Deposit}}$$

XII) Fixed Deposit to Total Deposit Ratio

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

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

Apart from above we can too calculate other ratio like cash reserve ratio, structured liquidity ratio, net liquid assets to deposit ratio to observe the liquidity position of bank.

2) Activity Ratio

Activity ratio measure the effectiveness of the employment of resources in a business concern. Through these ratios we can know whether the funds have been used efficiently in the business activities or not.

vi) Investment to Total Deposit Ratio

This ratio is calculated investment dividing by total deposits. This ratio presents how efficiently the resources the banks have been mobilized high ratio shows managerial efficiency regarding the utilization of deposits and vice-versa.

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

vii) Loan and Advance to Total Deposit Ratio

This ratio shows the banks how they invested of total deposits in loans and advances.
This ratio can be calculated in this way.

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

viii) Loan and Advances to Total Assets Ratio

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

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

3) Capital Adequacy Ratio

Capital adequacy ratio is used for to measure whether bank has adequate capital or not to meet the stress condition. As per the capital adequacy framework 2007 bank shall maintain their capital as per the risk of their assets portfolio, so that it bank can tackle the stress condition.

4) Capital Structure Ratio

Capital structure ratio measures bank's capacity of borrowings as a means of capital accumulation. It measures the long term solvency of a bank. The combination of capital structure is debt and equity of banks. The ratio indicates the long term financial position. The following ratios are calculated to defined capital structure ratio of NBL.

i) Debt to Equity Ratio

This ratio represents the relationship between the both debt capital and equity capital. The ratio indicates the high debt and equity both are risky to the banks. This ratio is calculated in this way

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholders Equity}}$$

ii) Debt to Total Capital Ratio

This ratio determines the relationship between total debt and total capital of the banks.
This ratio is calculated in this way

$$\text{Debt to Total Capital Ratio} = \frac{\text{Total Debt}}{\text{Total Capital}}$$

iii) Total Debt to Total Assets Ratio

This ratio shows the portion of capital assets that are financed by outside funds on total assets. A high ratio implies a bank's success in exploiting debt to more profitable and riskier capital structure. It is calculated by dividing total debts by total assets.

ix) Interest Coverage Ratio

The interest coverage ratio is a measure of the number of times a company could make the interest payments on its debt with its earnings before interest and taxes, also known as EBIT. The lower the interest coverage ratio, the higher the company's debt burden and the greater the possibility of bankruptcy or default.

This ratio is calculated by dividing earnings before interest and tax by interest. This ratio shows the bank can pay the interest easily.

$$\text{Interest Coverage Ratio} = \frac{\text{Earning Before Interest \& Tax}}{\text{Interest}} *100$$

5) Profitability Ratio

Profitability ratio rated is designed to provide answer to questions such as: Does the firm adequate earn the profit? What rate of return does it represent? What is firm? What is the rate? Return to equity holders?

The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors.

i) Return on Total Assets Ratio

This ratio can be calculated as

$$\text{Return on Total Assets Ratio} = \frac{\text{NPAT}}{\text{Total Assets}} * 100$$

It shows that the relationship of company in terms of net profit and total assets. This ratio indicates that if the bank RTAR is higher bank could well manage their operations.

ii) Return on Net Worth Ratio

This ratio also represents the relationship of net profit and net worth as net profit is directly related to net worth. The ratio can be calculated in this way

$$\text{Return on Net worth Ratio} = \frac{\text{NPAT}}{\text{Net Worth}} * 100$$

iii) Staff Expresses to Total Income Ratio

Staff Expenses refers to staff salary, allowance, personnel expenses, medical expense, and staff training expenses are involved. This ratio is calculated by staff expresses dividing by total income.

$$\text{Staff Expresses to Total Income Ratio} = \frac{\text{Staff Expenses}}{\text{Total Income}}$$

x) Interest expenses to interest income

This ratio is calculated using following formula:

$$\text{Interest expenses to interest income: } \frac{\text{Interest Expenses}}{\text{Interest Income}}$$

A total interest expense consists of interest paid on deposits and borrowings and total interest income consists of interest earned in loans and advances and government securities.

v) Return on Total Deposit Ratio

This ratio is computed by net profit after tax dividing by total deposits. This ratio indicates the portion of net profit in terms of total deposits.

$$\text{Return on Total Deposit Ratio} = \frac{\text{NPAT}}{\text{Total Deposit}}$$

vi) Office Operation Expenses to Total Income Ratio

It is calculated in this way

$$\text{Office Operation Expenses to Total Income Ratio} = \frac{\text{Office Operating Expenses}}{\text{Total Income}}$$

This ratio shows what portion of income spends in daily operation.

6) Invisibility Ratio

i) Earning Per Share

Share holders are concerned about the earning that will eventually be available to pay them dividends of that are used to expand their interest in the firm because the firm retains the earning. There earning may be express on a per share banks is an EPS.

This ratio is calculated the following formula

$$\text{EPS} = \frac{\text{Earning Available to Common Shareholders}}{\text{No of Outstanding Share of Common Stock}}$$

ii) Dividend Per Share

Dividend means that portion of net profit, which is allocated to share holders as their return in term of their capital investment.

This ratio is calculated in this way

$$\text{DPS} = \frac{\text{Earning to Shareholders}}{\text{No of common share outstanding}}$$

iii) Tax per share

This ratio is computed by dividing tax paid to government by company divide by number of common share outstanding

$$\text{TPS} = \frac{\text{Tax paid to Government}}{\text{No of Common Share Outstanding}}$$

iv) Dividend Pays out Ratio

Dividend payout ratio (DPR) indicates the dividend paying ratio of organization out of total earning. It is the ratio distributed to share holder out of the earnings during the fiscal year.

Dividend payout ratio (DPR) is calculated by dividing dividend per share by earning per share.

$$DPR = \frac{DPS}{EPS}$$

7) Other Ratios

i) Non Performing Assets

This ratio represents that out of total lending, how much loan is performing and how much loans are low performing and non performing. If bank has high NPA then its yield on loans and advances will be low due to which it has direct impact on profitability of a Bank. This ratio is derived by dividing Non performing loan by Total Loan. Non Performing loan represents, substandard loan, doubtful loans and bad loans.

ii) **Non Banking Assets to Total Assets**

Non Banking Assets are the assets of bad loan clients which are later converted to bank assets when it is not sold in the market through auction for to recover the loan of bank. This ratio of Non Banking Assets to Total assets is calculated to know the composition of banks acquired assets and non banking assets. Higher the non banking assets to total assets lower the performance of bank. This is because when there is risky loan, there will be high NPA and when the quality of mortgaged assets are not good that assets should be accepted by bank. So, higher non banking assets represent management disability and low performance.

3.4.2 Statistical Tools

To analyze the data, we take various statistical tools are used. Therefore every researcher has chosen the most important and suitable tools to reach the financial decision.

iv) Karl Pearson's Coefficient of Correlation

v) Probable error of correlation

vi) Trend Analysis

Karl Pearson's Coefficient of Correlation (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. This tools is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by 'r' can be obtained as:

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

Where,

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

Probable Error of Correlation

The probable error of the co-coefficient of correlation helps in interpreting its value; it is obtained the following formula.

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

It is used in interpretation whether calculated value of 'r' is significant or not.

4. If r < P.E., it is insignificant. So, perhaps there is no evidence of correlation.
5. If r > P.E., it is significant.
6. In other cases nothing can be concluded.

Trend Analysis

Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. The linear trend values from a series in arithmetic progression.

Mathematically,

Y = a + bX

Where,

Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the dependent variable i. e. time

Normal equation of the above are

$\sum Y = Na + \sum X$

$\sum XY = a\sum X + \sum X^2$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

In this chapter, various elements and variables related with financial performance of NBL are analyzed. During analysis, data are gathered from various sources have been inserted in tabular form. The analysis of data consists of organizing, tabulating and evaluating the collected data. The data have been analyzed by using financial and statistical tools.

4.1Ratio Analysis

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

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of a firm to meet its short-term obligations and reflects the short-term financial solvency of a firm. Sales factory liquidation position is one of the distinguishing characteristics of a sound banking system. Liquidity position of NBL is analyzed using the following relevant liquidity ratio.

f) Current Ratio

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

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

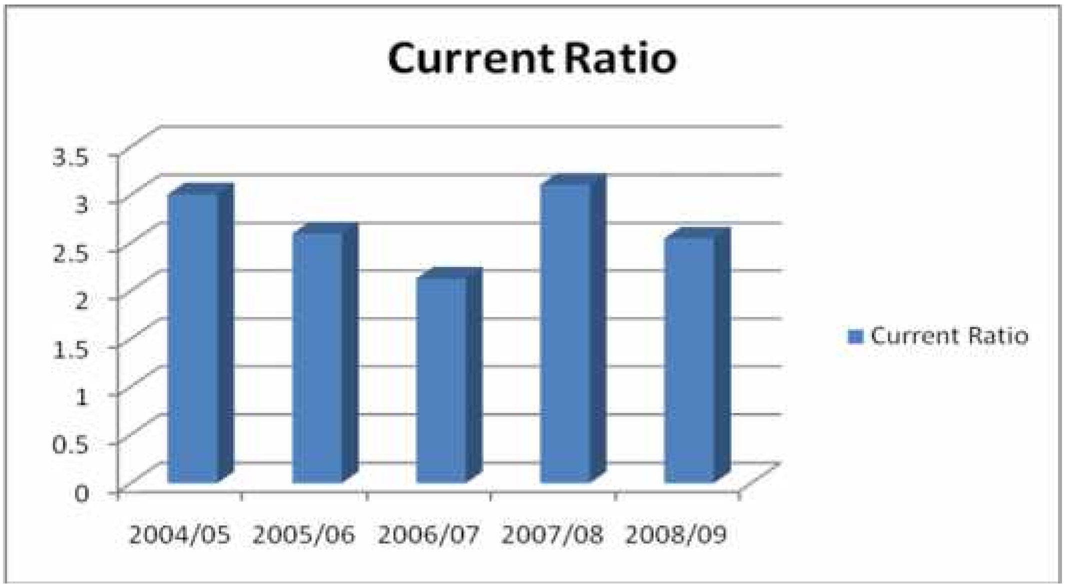
Table 4.1
Current Ratio

(Rs. In Thousand)

Year	Current Assets	Current liabilities	Current Ratio
2004/05	2,52,35,82,299	83,93,15,319	3.01
2005/06	2,38,14,19,027	91,51,12,220	2.60
2006/07	1,97,16,92,244	92,50,21,121	2.13
2007/08	2,90,98,08,670	93,43,75,511	3.11
2008/09	2,47,54,08,487	97,14,85,466	2.55

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.1
Current Ratio



The above analysis shows the relation of current ratio and current liabilities. Current assets consists cash balance, Balance with NRB, Balance with others institutions, Loan advances & Bills purchased, Money at calls and others assets. Current liabilities includes borrowing, deposits, bills payable, income tax liabilities and others liabilities.

The above calculated ratios of NBL show current ratio is above the standard 2:1. Hence, looking at the nature of assets and liabilities of the commercial banks the ratio, this may be accepted as satisfactory. But it signifies bank have poor liquidity position. The bank may face the problem of working capital if they need to pay current liabilities at demand. Bank may lose their goodwill in case of delay in the payment of liabilities. Bank will have the problem in winning the confidence of current depositor and short term lenders.

g) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio of NBL different year have been presented in table 4.2.

Table 4.2

Cash and Bank Balance to Total Deposits Ratio

(Rs. In Thousand)

Year	Cash and Bank Balance	Total Deposits	Ratio (%)
2004/05	3,985,733.00	10,197,981.00	39.08
2005/06	1,625,987.00	13,921,476.00	11.68
2006/07	2,191,550.00	18,216,276.00	12.03
2007/08	2,557,891.00	23,996,389.00	10.66
2008/09	6,171,371.00	36,919,551.00	16.72
Average			18.03

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.2
Cash and Bank Balance to Total Deposits Ratio

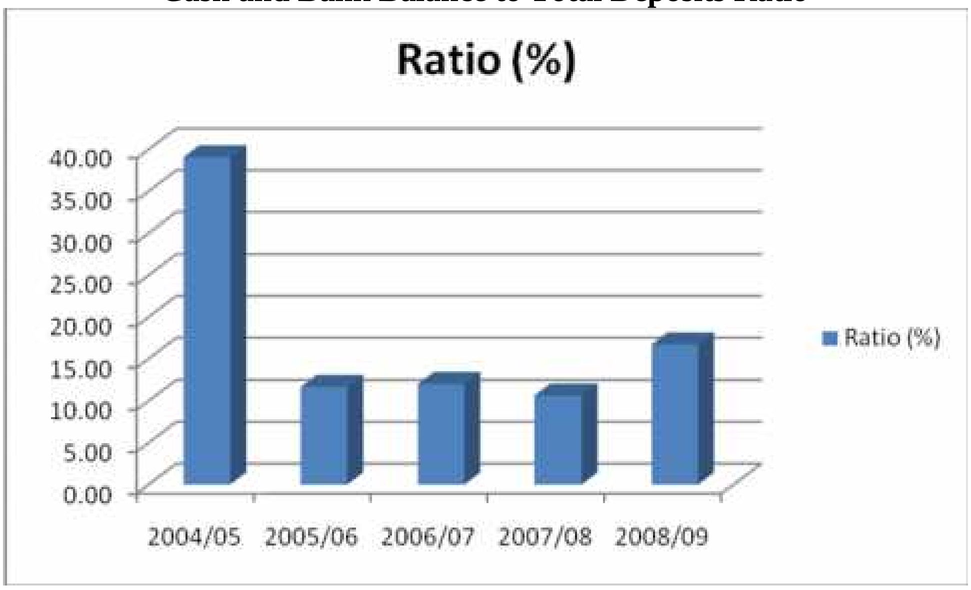


Table 4.2 and figure 4.2 show that the cash and bank balance to total deposit ratio of the NBL is 39.08, 11.68, 12.03, 10.66 and 16.72 respectively in the selected year. It has highest in the year 2004/05 and lowest in 2007/08. The above analysis helps to conclude that the cash and

bank balance position of NBL with the respect to deposits is better against the readiness to serve its customers deposits. The calculation of cash and bank balance to total deposit ratio indicates that payment of deposits and liquidity of NBL. Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa.

h) Cash and Bank Balance to Current and Saving Deposit Ratio

Cash and Bank Balance to current and saving deposit Ratio measures the ability of the bank to meet its immediate obligations. Current and saving deposits consist of all type of deposit excluding fixed deposits.

Table 4.3

Cash and Bank Balance to Current and Saving Deposit Ratio

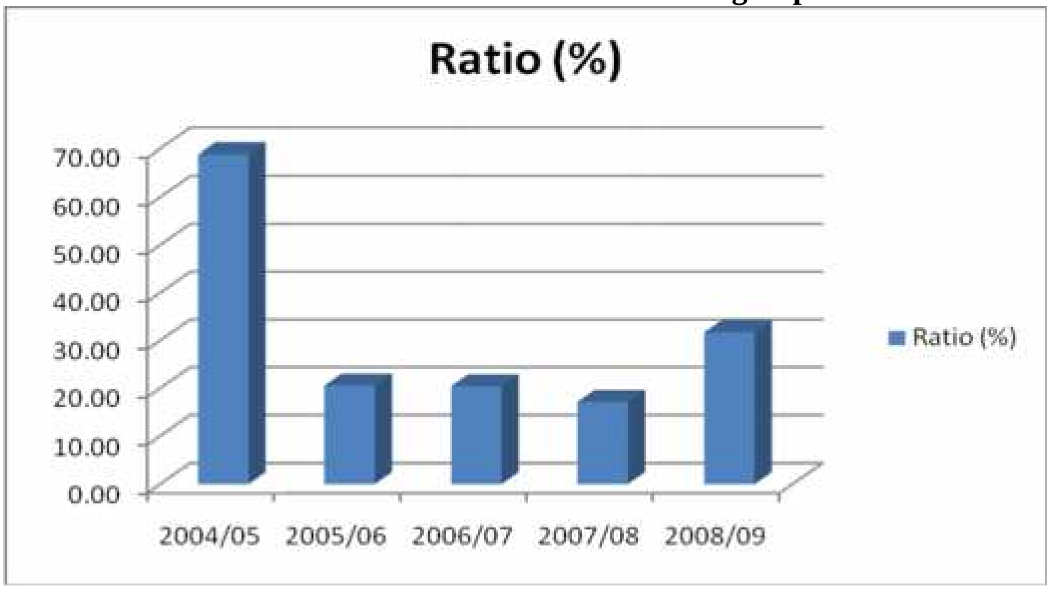
(Rs. In Thousand)

Year	Cash & Bank Balance	Current & Saving Deposit	Ratio (%)
2004/05	3,985,733.00	5,792,745.00	68.81
2005/06	1,625,987.00	7,905,012.00	20.57
2006/07	2,191,550.00	10,725,710.00	20.43
2007/08	2,557,891.00	14,923,819.00	17.14
2008/09	6,171,371.00	19,467,280.00	31.70
Average			31.73

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.3

Cash and Bank Balance to Current and Saving Deposit Ratio



Above calculated ratio shoes Cash and bank balance to current & saving deposit ratio. Cash and bank balance to current & saving deposit ratio remained 68.81, 20.57, 20.43, 17.14 and 31.70 respectively over the five year of study period. It was fluctuated over the five year period. The bank should maintain suitable cash and bank balance in current and saving deposit.

i) NRB Balance to Fixed Deposit Ratio

This ratio shows the portion of fixed deposit deposited in the Nepal Rastra Bank. The ratio for both banks has been presented in table 4.4.

Table 4.4
NRB Balance to Fixed Deposit Ratio

(Rs. In Thousand)

Year	NRB Balance	Fixed Deposits	Ratio (%)
2004/05	1,012,980.00	2,799,623.00	36.18
2005/06	1,141,592.00	4,268,340.00	26.75
2006/07	1,198,998.00	5,728,660.00	20.93
2007/08	1,078,914.00	6,445,190.00	16.74
2008/09	4,781,955.00	7,118,800.00	67.17
Average			33.55

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.4

NRB Balance to Fixed Deposit Ratio

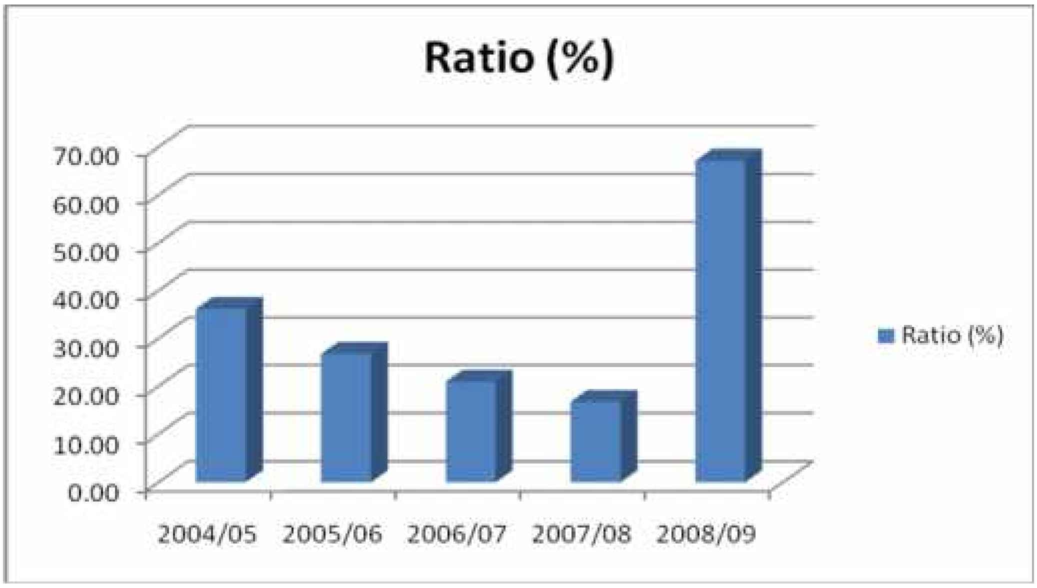


Table 4.4 shows that the average ratio of NBL over the period is 33.55. This ratio is highest in the year 2008/09 and lowest in the year 2007/08. This indicates the amount of fixed deposit in the last year has decreased substantially and increased in the year 2008/09.

j) Fixed Deposit to Total Deposit Ratio

Fixed deposits to total deposits ratio shows the portion of fixed deposit in total deposit. Higher the ratio more chances will be to earn higher return in the future.

Table 4.5

Fixed Deposit to Total Deposit Ratio

(Rs. In Thousand)

Year	Fixed Deposits	Total Deposit	Ratio (%)
2004/05	2,799,623.00	10,197,981.00	27.45
2005/06	4,268,340.00	13,921,476.00	30.66
2006/07	5,728,660.00	18,216,276.00	31.45
2007/08	6,445,190.00	23,996,389.00	26.86
2008/09	7,118,800.00	36,919,551.00	19.28
Average			27.14

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.5

Fixed Deposit to Total Deposit Ratio

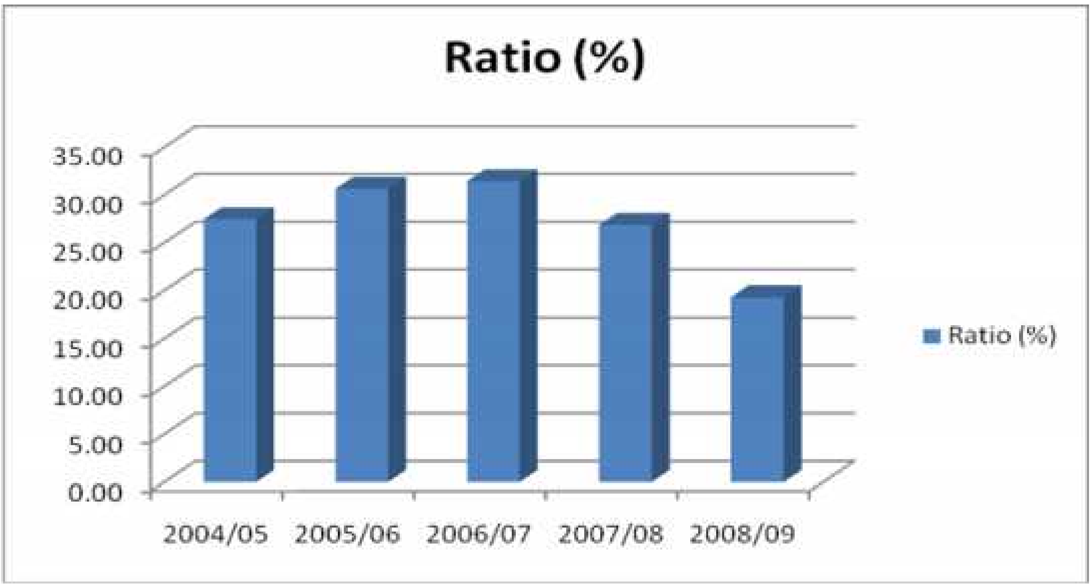


Table 4.5 shows that the mean ratio of NBL is 27.14. The ratio over the period is decreasing over the period. The deposit in the year 2004/05, 2005/06 and 2006/07 are higher than average and in other year lower than average. This indicates the decreasing creditworthiness

of the bank in the market. The decreasing trend of the banks also indicates the increasing competition in the market. So NBL can invest in short term loans and current assets so as to strength its liquidity position.

4.1.2 Activity Ratio

This ratio is used to measure the efficiency and proper utilization of assets. Investment to total deposit ratio, loan & advance to total deposit ratio, loan & advance to total assets ratio, loan & advances to total saving deposit ratio here are included in this ratio.

a) Investment to Total Deposit Ratio

Investment to total deposit ratio of NBL is presented in table 4.6

Table 4.6

Investment to Total Deposit Ratio

(Rs. In Thousand)

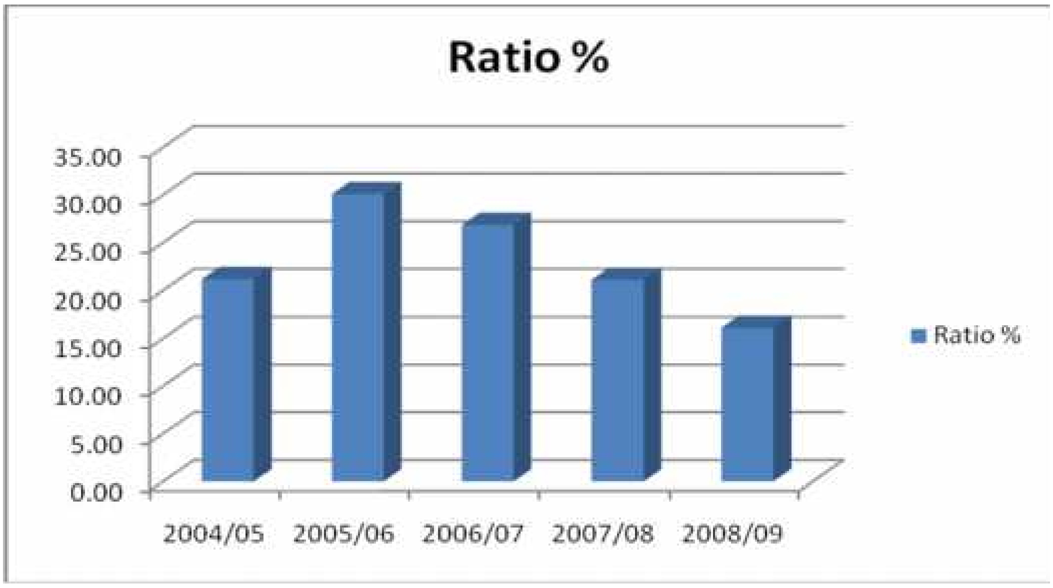
Year	Investment	Total Deposit	Ratio %
2004/05	2,159,870.00	10,197,981.00	21.18
2005/06	4,190,550.00	13,921,476.00	30.10
2006/07	4,893,414.00	18,216,276.00	26.86
2007/08	5,061,655.00	23,996,389.00	21.09
2008/09	5,950,480.00	36,919,551.00	16.12
Average			23.07

Source: Annual Reports of NBL (2004/05 to 2008/09)

Table 4.6 shows investment portion out of total deposit in the sampled year. The average ratio of NBL is 23.07% which mean that in average the bank is investing 23.07 percent of its deposit in different sectors. Greater average ratio indicates successful utilization of deposit.

Figure 4.6

Investment to Total Deposit Ratio



b) Loan and Advances to Total Deposit Ratio

This ratio is calculated by following formula.

$$\frac{\text{Loan and Advance}}{\text{Saving Deposit}}$$

Table 4.7

Loans and Advances to Total Deposit Ratio

(Rs. In Thousand)

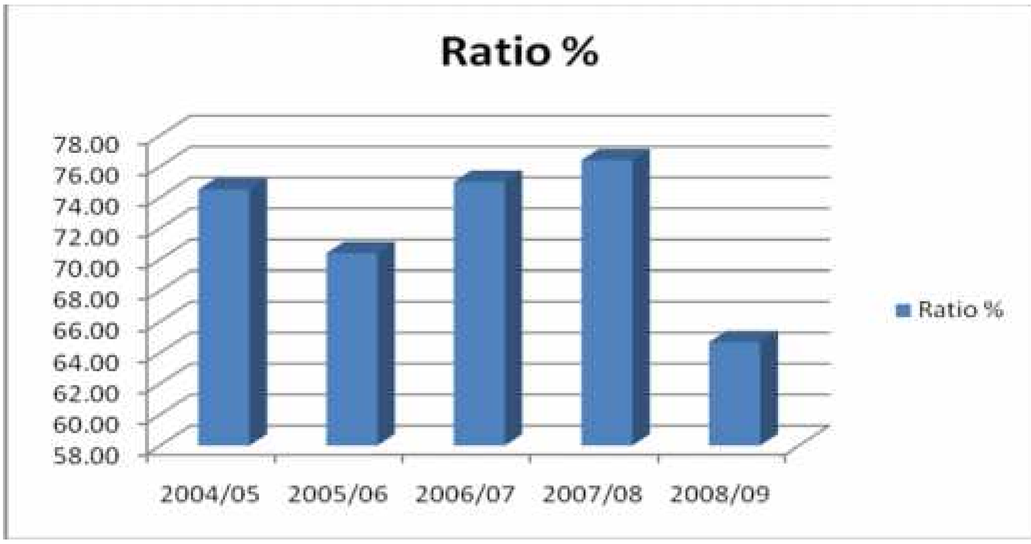
Year	Loans and Advances	Total Deposit	Ratio %
2004/05	7,598,570.00	10,197,981.00	74.51
2005/06	9,800,480.00	13,921,476.00	70.40
2006/07	13,664,081.00	18,216,276.00	75.01
2007/08	18,335,885.00	23,996,389.00	76.41
2008/09	23,880,671.00	36,919,551.00	64.68
Average			72.20

Source: Annual Reports of NBL (2004/05 to 2008/09)

This ratio shows to the extent of saving has been turnover to loans and advance. Table 4.7 shows loan and advances to total deposit ratio in the sampled year. The mean ratio of NBL is 72.20 which mean that in average the bank is lending more than 72% of its deposit. The ratio is fluctuated over the period. Greater the average ratio indicates successful utilization of deposit.

Figure 4.7

Loans and Advances to Total Deposit Ratio



c) Loan and Advances to Total Assets Ratio

Table 4.8

Loan and Advances to Total Assets Ratio

(Rs. In Thousand)

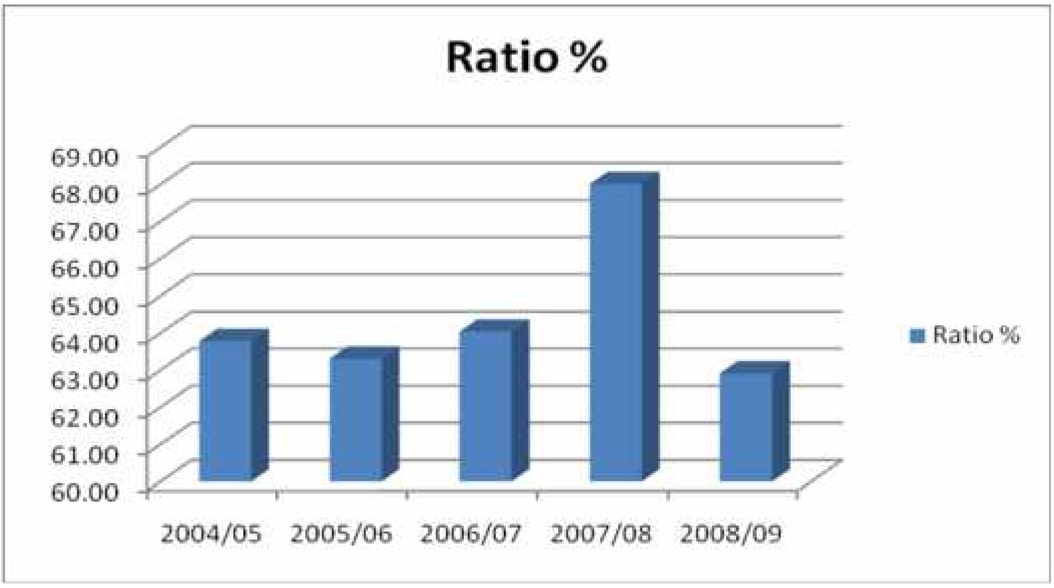
Year	Loans and Advances	Total Assets	Ratio %
2004/05	7,598,570.00	11,912,126.00	63.79
2005/06	9,800,480.00	15,479,285.00	63.31
2006/07	13,664,081.00	21,335,974.00	64.04
2007/08	18,335,885.00	26,958,248.00	68.02
2008/09	23,880,671.00	37,956,955.00	62.92
Average			64.42

Source: Annual Reports of NBL (2004/05 to 2008/09)

Table 4.8 shows loan and advances to total assets ratio in the sampled year. The average ratio of NBL is 64.42. This ratio is also fluctuating over the period which means the bank may have the idle cash or investing its money in marketable securities.

Figure 4.8

Loan and Advances to Total Assets



d) Loan and Advances to Saving Deposit Ratio

Table 4.9
Loan and Advances to Saving Deposit Ratio

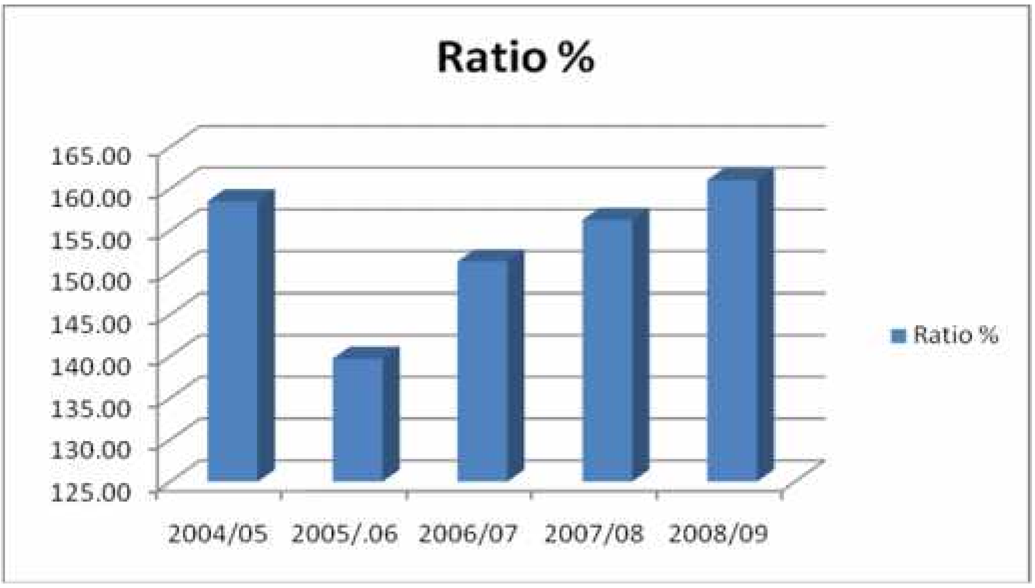
(Rs. In Thousand)

Year	Loans and Advances	Saving Deposit	Ratio %
2004/05	7,598,570.00	4,793,630.00	158.51
2005/06	9,800,480.00	7,014,200.00	139.72
2006/07	13,664,081.00	9,030,255.00	151.31
2007/08	18,335,885.00	11,732,896.00	156.28
2008/09	23,880,671.00	14,829,472.00	161.04
Average			153.37

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.9

Loan and Advances to Saving Deposit Ratio



The above table and figure shows loan and advances to saving deposit ratio in the sampled year. The average ratio of NBL is 153.37. This ratio is increasing from 2005/06 which means the bank investing its deposit properly and may not have idle cash or investing its money in marketable securities. Greater average ratio indicates successful utilization of deposit.

4.1.3 Capital Adequacy Ratio

Banks and financial institutions have to maintain a sufficient amount as capital fund as required by the NRB. Holding an excess amount of capital there required may have hither holding cost and lower return from their investment**.**

a) Net Worth to Total Assets Ratio

Table 4.10

Net Worth to Total Assets Ratio

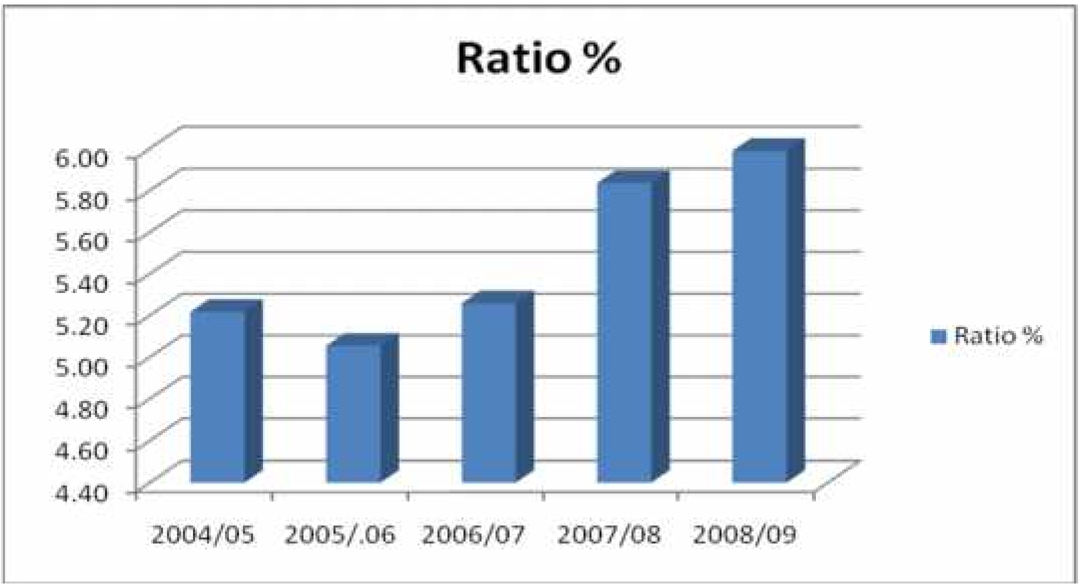
(Rs. In Thousand)

Year	Net Worth	Total Assets	Ratio %
2004/05	621,500.00	11,912,126.00	5.22
2005/06	782,500.00	15,479,285.00	5.06
2006/07	1,122,000.00	21,335,974.00	5.26
2007/08	1,573,400.00	26,958,248.00	5.84
2008/09	2,273,410.00	37,956,955.00	5.99
Average			5.47

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.10

Net Worth to Total Assets Ratio



The above table and figure illustrate net worth to total assets ratio of the bank over the selected period. The average ratio of NBL is 5.47. This ratio is increasing over the period which means the bank's profitability over the period is increasing. The higher average ratio indicates that bank has strong and highly capital adequacy position to contribution to investors.

b) Net Worth to Total Deposit Ratio

Table 4.11

Net Worth to Total Deposit Ratio

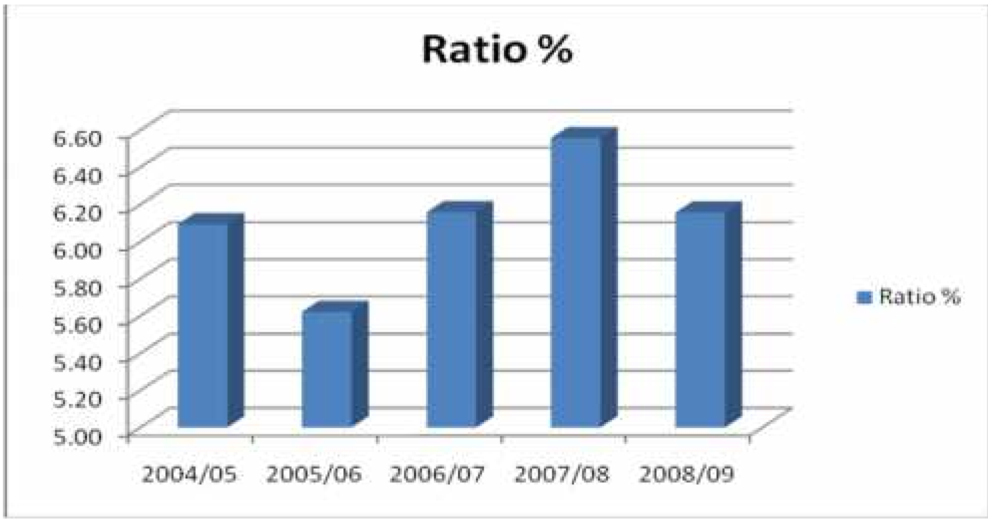
(Rs. In Thousand)

Year	Net Worth	Total Deposit	Ratio %
2004/05	621,500.00	10,197,981.00	6.09
2005/06	782,500.00	13,921,476.00	5.62
2006/07	1,122,000.00	18,216,276.00	6.16
2007/08	1,573,400.00	23,996,389.00	6.56
2008/09	2,273,410.00	36,919,551.00	6.16
Average			6.12

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.11

Net Worth to Total Deposit Ratio



The above table and figure shows Net Worth to Total Deposit Ratio. The ratios of NBL were 6.09, 5.62, 6.16, 6.56 and 6.16 in respective year. Greater the ratio shows the favorable capital adequacy ratio. So the capital adequacy ratio of the NBL was average in sampled year.

4.1.4 Capital Structure Ratio

Capital structure or leverage ratio is used to judge the long-term financial position of the firm. As short term creditors are interested to know the liquidity or short-term financial position of the firm, long-term creditors are interested to know the long-term financial position of the firm & this is reflected through capital structure or leverage ratio.

a) Total Debt to Total Assets Ratio

Table 4.12

Total Debt to Total Assets Ratio

(Rs. In Thousand)

Year	Total Debt	Total Assets	Ratio
2004/05	9,840,000.00	11,912,126.00	82.60
2005/06	11,980,000.00	15,479,285.00	77.39
2006/07	1,514,600.00	21,335,974.00	7.10
2007/08	2,112,600.00	26,958,248.00	7.84
2008/09	3,322,500.00	37,956,955.00	8.75
Average			36.74

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.12

Total Debt to Total Assets Ratio

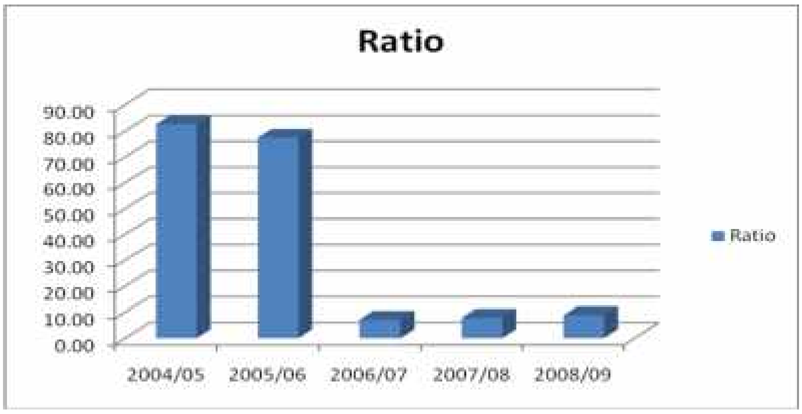


Table 4.12 and figure shows total debt to total assets ratio. The ratios of NBL over the fiscal year 2004/05 to 2008/09 are 82.60, 77.39, 7.10, 7.84 and 8.75 percent respectively. The average ratio is 36.74. Higher debt ratio indicates the higher risk. This indicates that the risk is increasing in NBL.

b) Interest Coverage Ratio

Table 4.13
Interest Coverage Ratio

(Rs. In Thousand)

Year	EBIT	Interest Expenses	Ratio (Times)
2004/05	169,844.00	298,523.00	0.57
2005/06	236,980.00	402,696.00	0.59
2006/07	298,450.00	519,220.00	0.57
2007/08	450,418.00	632,770.00	0.71
2008/09	638,992.00	1,021,985.00	0.63
Average			0.61

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.13

Interest Coverage Ratio

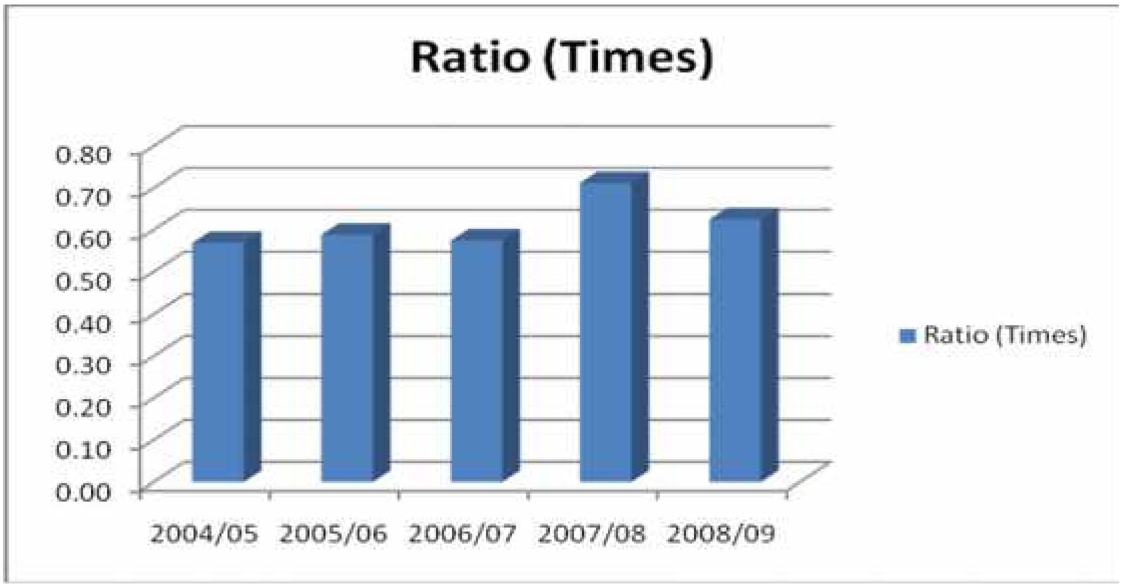


Table 4.13 shows the interest coverage ratio of the NBL for sampled years. The ratio over the period of NBL is 0.57, 0.59, 0.57, 0.71 and 0.63 respectively. The average ratio of the bank is 0.61. This ratio shows that the interest paying ability of NBL.

4.1.5 Profitability Ratios

Profit is the difference between total revenue & total expense over a period of time. Profitability ratios are used to indicate the overall efficiency of the firm. There are many measures of profitability. Higher degree of profitability ratio shows better financial position & performance to the firms.

a) Return on Total Assets Ratio

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

Table 4.14

Return on Total Assets Ratio

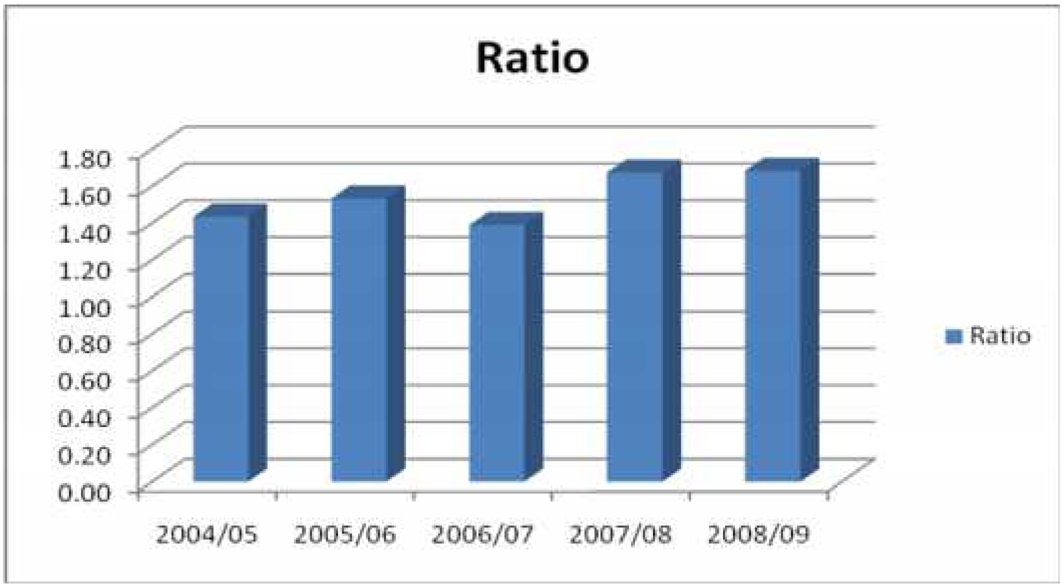
(Rs. In Thousand)

Year	NPAT	Total Assets	Ratio
2004/05	170,813.00	11,912,126.00	1.43
2005/06	237,290.00	15,479,285.00	1.53
2006/07	296,409.00	21,335,974.00	1.39
2007/08	451,218.00	26,958,248.00	1.67
2008/09	638,732.00	37,956,955.00	1.68
Average			1.54

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.14

Return on Total Assets Ratio



The above table and figure shows analysis of return on total assets of the NBL over the selected period. The ratios of the NBL are 1.43, 1.53, 1.39, 1.67 and 1.68 respectively. The average ratio is 1.54. NBL has the highest profit ratio in the fiscal year 2008/09 and lowest in the fiscal year 2006/07. This ratio shows the profitability position over the total assets.

b) Return on Net Worth Ratio

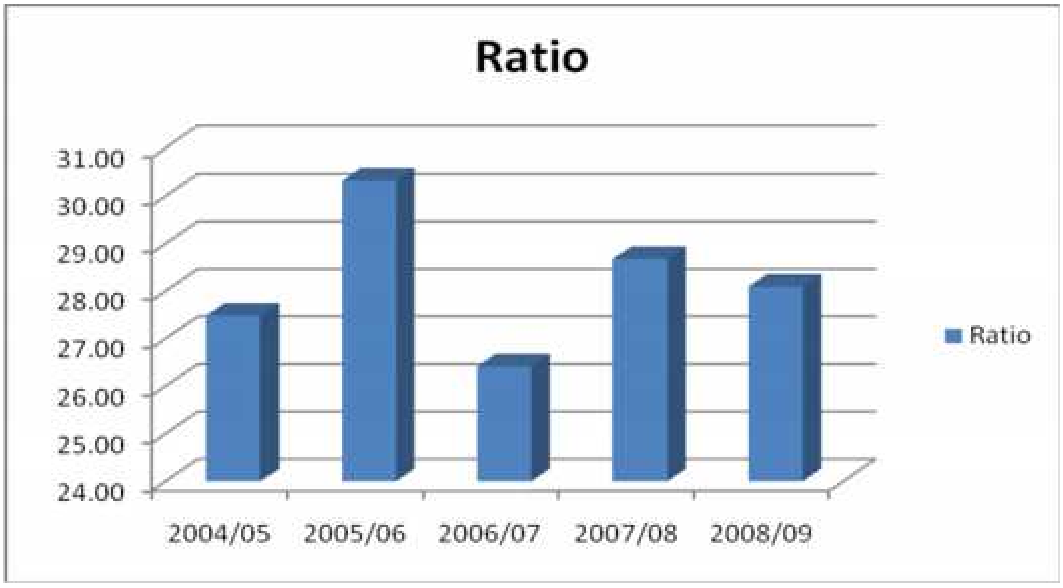
Table 4.15
Return on Net worth Ratio

(Rs. In Thousand)

Year	NPAT	Net Worth	Ratio
2004/05	170,813.00	621,500.00	27.48
2005/06	237,290.00	782,500.00	30.32
2006/07	296,409.00	1,122,000.00	26.42
2007/08	451,218.00	1,573,400.00	28.68
2008/09	638,732.00	2,273,410.00	28.10
Average			28.20

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.15
Return on Net Worth Ratio



The above table and figure shows the return on net worth. Return on net worth ratio of NBL over the period is fluctuating and highest in 2005/06 and lowest in 2006/07. The average ratio of the bank is 28.20 percent. This ratio shows that how much the bank is able to generate return on equity to the shareholders.

c) Total Interest Expenses to Total Interest Income

Table 4.16

Total Interest Expenses to Total Interest Income

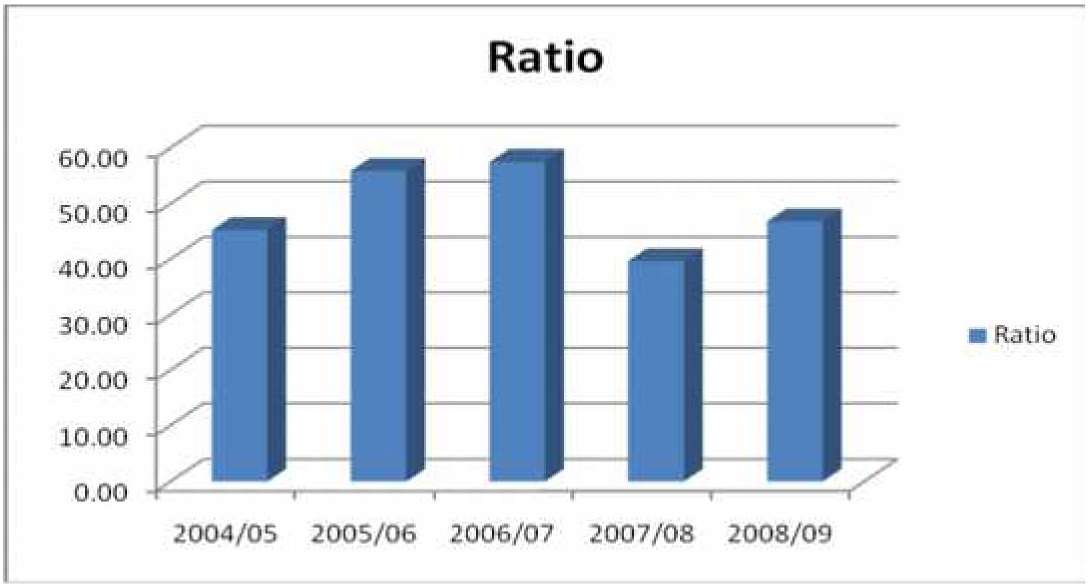
(Rs. In Thousand)

Year	Interest Expenses	Interest Income	Ratio
2004/05	298,523.00	659,550.00	45.26
2005/06	402,696.00	720,498.00	55.89
2006/07	519,220.00	902,733.00	57.52
2007/08	632,770.00	1,594,850.00	39.68
2008/09	1,021,985.00	2,182,894.00	46.82
Average			49.03

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.16

Total Interest Expenses to Total Interest Income



The main source of income of the bank is interest income. The above table and figure shows the interest expenses to total interest income ratio. The mean ratio of NBL is 49.03. Total interest expenses to total income ratio of NBL is in fluctuating trend over the five years of study period. It indicates that the bank is not able to earned more interest.

d) Return on Total Deposit Ratio

Table 4.17
Return on Total Deposit Ratio

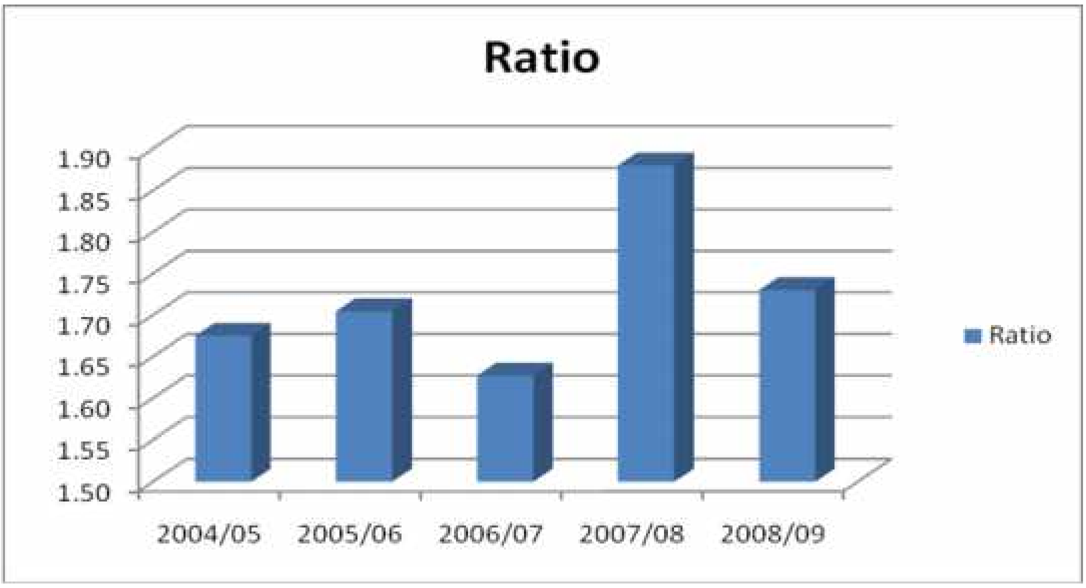
(Rs. In Thousand)

Year	NPAT	Total Deposit	Ratio
2004/05	170,813.00	10,197,981	1.67
2005/06	237,290.00	13,921,476	1.70
2006/07	296,409.00	18,216,276	1.63
2007/08	451,218.00	23,996,389	1.88
2008/09	638,732.00	36,919,551	1.73
Average			1.72

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.17

Return on Total Deposit Ratio



The above table and figure shows return on total deposit ratio of Bank. The ratios are 1.67, 1.70, 1.63, 1.88 and 1.73 in respective year. The average ratio of NBL is 1.72 which indicates that NBL is successful to earn almost constant profit over the study period.

4.1.6 Invisibility Ratio

a) Earning Per Share

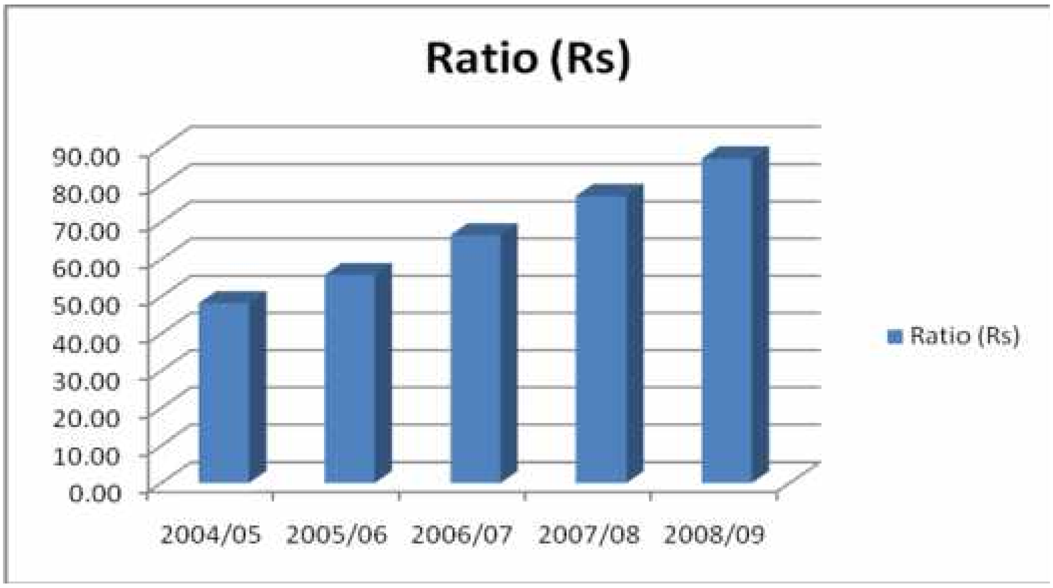
Table 4.18
Earnings per Share

Year	EAC	No of Ordinary Share	Ratio (Rs)
2004/05	238,701,000.00	4,950,000.00	48.22
2005/06	319,400,000.00	5,720,000.00	55.84
2006/07	415,820,000.00	6,250,000.00	66.53
2007/08	613,391,000.00	7,958,000.00	77.08
2008/09	724,738,000.00	8,318,000.00	87.13

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.18

Earnings per Share



EPS refers to the income available to the common shareholders. It is calculated by dividing earning available to equity shareholders by number of common share outstanding. The above table and figure analysis of five year period the ratio came of NBL were 48.22, 55.84, 66.53, 77.08 and 87.13. The ratio is in increasing trend it indicates that NBL is able to earn more profit per share to the common share holders which reflects sound profitability position of the bank.

b) Dividend per Share

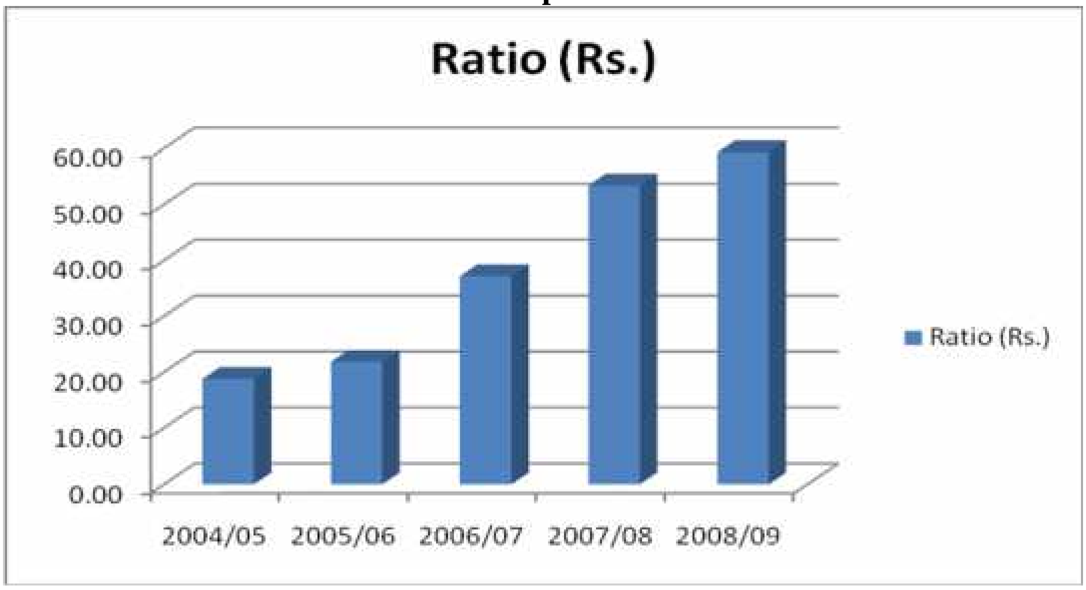
Table 4.19

Dividend per Share

Year	Paid to shareholders	No of Ordinary Share	Ratio (Rs.)
2004/05	93,000,000.00	4,950,000.00	18.79
2005/06	125,000,000.00	5,720,000.00	21.85
2006/07	232,400,000.00	6,250,000.00	37.18
2007/08	425,100,000.00	7,958,000.00	53.42
2008/09	493,210,000.00	8,318,000.00	59.29
Average			38.11

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.19
Dividend per Share



The above table and figure shows the dividend paid by the NBL over the period. Over the study period NBL has paid dividend each year with an average 38.11 per share. The ratio is in increasing trend it indicates that NBL is able to earn more profit per share and it also reflects the better performance of the company.

c) Dividend Payout Ratio

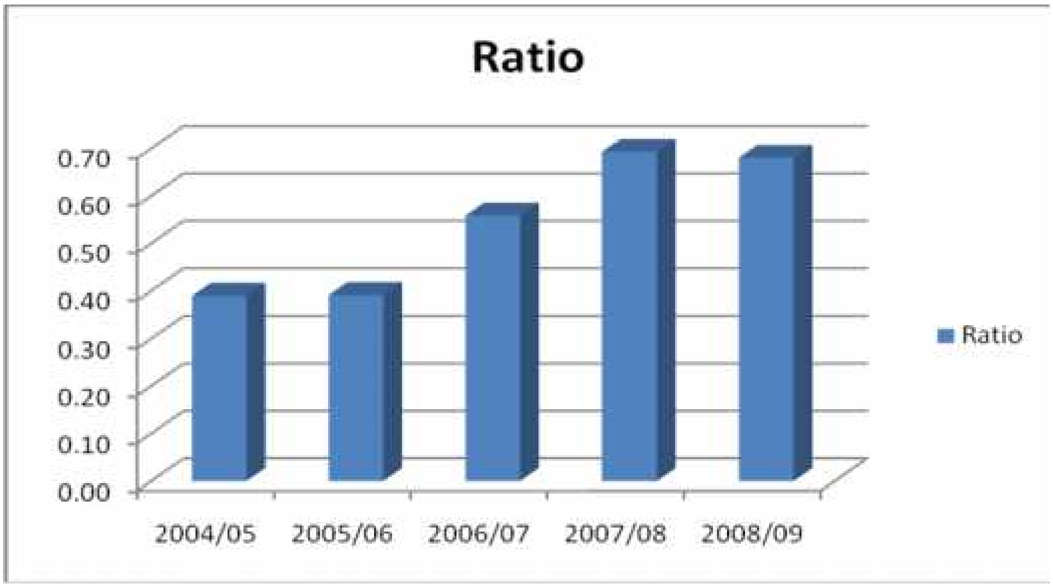
Table 4.20
Dividend Payout Ratio

Year	DPS	EPS	Ratio
2004/05	18.79	48.22	0.39
2005/06	21.85	55.84	0.39
2006/07	37.18	66.53	0.56
2007/08	53.42	77.08	0.69
2008/09	59.29	87.13	0.68

Source: Annual Reports of NBL (2004/05 to 2008/09)

Figure 4.20

Dividend Payout Ratio



The above table and figure shows the dividend payout ratio of the NBL over the period 2004/05 to 2008/09. NBL has paid dividend in each year of study period with an increasing trend. Higher dividend shows the bank successful to pay dividend to the shareholders.

4.2 Statistical Tools

4.2.1 Correlation Analysis

Coefficient of correlation analysis is the mathematical method of measuring the degree of association between the two variables i.e. one dependent and on independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of none variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables:

- Correlation between Total Deposit and Net Profit
- Correlation between Investment and Net Profit
- Correlation between Deposit and Investment

To find out those relationships, the following formula is used:

$$\text{Coefficient of correlation (r)} = \boxed{\frac{xy}{\sqrt{x^2}\sqrt{y^2}}}$$

$$P.Er. = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

The result of coefficient is always between –1 to +1, when r = +1, it means there is significant relationship between two variables and when –1, it means there is no significant relationship between two variables.

D. Correlation Analysis between Total Deposit and Net Profit

Coefficient of correlation between total deposit and net profit measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether deposit and net profit is significantly correlated or not.

Table 4.21

Correlation between Total Deposit and Net Profit

(Rs. In Thousand)

Year	Total Deposit (X)	Net Profit (Y)
2004/05	10,197,981.00	170,813.00
2005/06	13,921,476.00	237,290.00
2006/07	18,216,276.00	296,409.00
2007/08	23,996,389.00	451,218.00
2008/09	36,919,551.00	638,732.00
Correlation Coefficient (r)		1
Probable Error (P.E)		0
6 × P. E.		0

Source: Annual Reports of NBL (2004/05 to 2008/09 and Appendix 1)

The above table 4.21 shows correlation coefficient (r) between total deposits and net profit of the bank is 1 i.e. perfectly positive and probable error multiplied by six found to be 0. Since r > 6 * PE r, it is significant and there is significant correlation between total deposits and net profit of NBL. This shows the net profit of NBL increases almost to the same degree with increase in the same amount of deposit.

E. Correlation Analysis between Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of relationship between these two variables. In this analysis, total investment is independent variable (X) and net profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether investment and net profit us significantly correlated or not.

Table 4.22

Correlation between Investment and Net Profit

(Rs. In Thousand)

Year	Investment (X)	Net Profit (Y)
2004/05	2,159,870.00	170,813.00
2005/06	4,190,550.00	237,290.00
2006/07	4,893,414.00	296,409.00
2007/08	5,061,655.00	451,218.00
2008/09	5,950,480.00	638,732.00
Correlation Coefficient (r)		0.97
Probable Error (P.E)		0.01814
6 × P. E.		0.11

Source: Annual Reports of NBL (2004/05 to 2008/09 and Appendix 2)

Its correlation and probable error remained 0.97 and 0.01814 respectively. Correlation coefficient appeared greater than six times of probable error i.e. 0.97> 0.11, which means that the investment and net profit are highly positive correlated. This ratio shows that NBL is able to invest its deposit in the profitable sectors.

F. Correlation Analysis between Deposit and Investment

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 investment is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as investment in a proper way or not. The table 4.23 shows the correlation between total deposits and total investment.

Table 4.23

Correlation between Deposit and Investment

(Rs. In Thousand)

Year	Total Deposit (X)	Investment (Y)
2004/05	10,197,981.00	2,159,870.00
2005/06	13,921,476.00	4,190,550.00
2006/07	18,216,276.00	4,893,414.00
2007/08	23,996,389.00	5,061,655.00
2008/09	36,919,551.00	5,950,480.00
Correlation Coefficient (r)		0.97

Probable Error (P.E)	0.01814
6 × P. E.	0.11

Source: Annual Reports of NBL (2004/05 to 2008/09 and Appendix 3)

The above table 4.23 shows correlation coefficient (r) between total deposits and total investment of the bank is 0.97 i.e. positive and probable error multiplied by six times found to be 0.11. Since r > 6 * PE r, it is significant and there is positive correlation between total deposits and investment in NBL.

4.3.2 Trend Analysis

Under this topic, we analyze and interpret the trend of deposits and net profit of NBL that helps to make forecasting for next five years. The following tend value analysis have been used in this study.

C. Trend Analysis of Total Deposit

Here, an effort has been made to calculate the trend values of total deposits of NBL for five years from FY 2004/05 to 2008/09 and forecasted for next five years till 2013/2014. The following table 4.24 shows the trend values total deposits of NBL for 10 years from 2004/05 to 2013/14.

Table 4.24

Trend values of Total Deposit of NBL

(Rs. In Thousand)

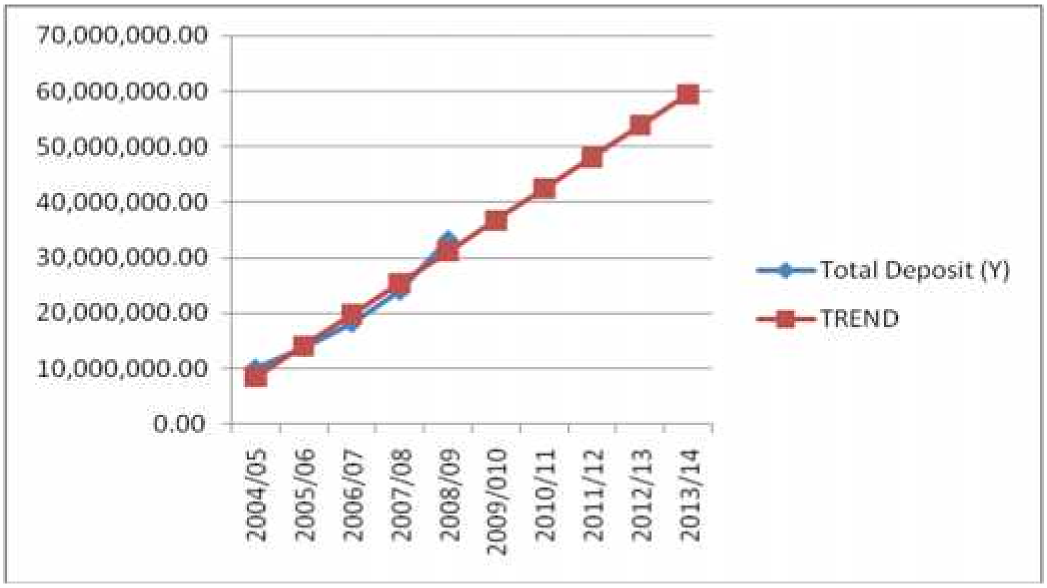
Year (t)	Total Deposit (Y)	Y= a + bX
2004/05	10,097,691.00	8,552,254.00
2005/06	13,802,445.00	14,214,690.30
2006/07	18,186,253.00	19,877,126.60
2007/08	23,976,298.00	25,539,562.90
2008/09	33,322,946.00	31,201,999.20
2009/10		36,864,435.50
2010/11		42,526,871.80
2011/12		48,189,308.10
2012/13		53,851,744.40
2013/14		59,514,180.70

Source: Annual Reports of NBL (2004/05 to 2008/09 and Appendix 4)

From the above table 4.24, it is clear that the total deposit of NBL is in increasing trend. On the basis of the above trend equation forecasted total deposit for the coming five years would be Rs 36864435.5, 42526871.8, 48189308.1, 53851744.4 and 59514180.7 thousand. The table can be presented in the following figure also.

Figure 4.21

Trend values of Total Deposit of NBL



D. Trend Analysis of Total Profit

Here, an attempt has been made to analyze the trend values of total net profit of NBL for five years from FY 2004/05 to 2008/09 and forecasted for next five years till 2013/2014.

Table 4.25
Trend Values of Net Profit of NBL

(Rs. In Thousand)

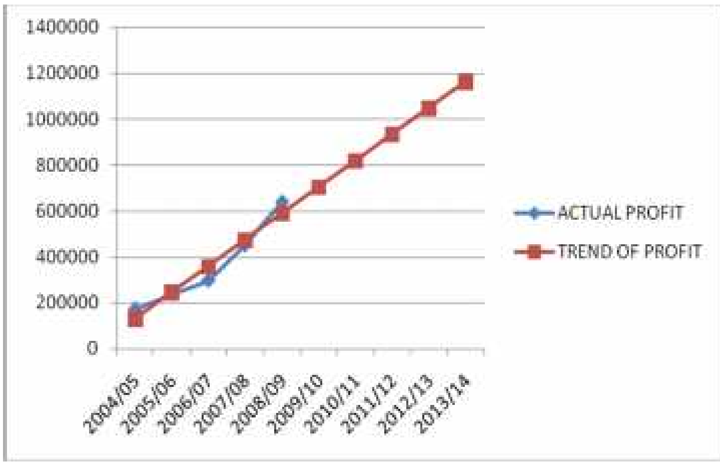
Year (t)	Total Profit (Y)	Y= a + bX
2004/05	170,813.00	128,939.20
2005/06	237,290.00	243,915.80
2006/07	296,409.00	358,892.40
2007/08	451,218.00	473,869.00
2008/09	638,732.00	588,845.60
2009/10		703,822.20
2010/11		818,798.80
2011/12		933,775.40
2012/13		1,048,752.00
2013/14		1,163,728.60

Source: Annual Reports of NBL (2004/05 to 2008/09 and Appendix 5)

From the above table 4.25, it is clear that the net profit of NBL is in increasing trend. Other things remaining same, the net profit of NBL will be Rs. 1,163,728.6 thousand in 2013/14, which is the highest under the study period. Trend analysis shows that its profit will increase in coming five years.

Figure 4.22

Trend Values of Net Profit of NBL



4.4 Major Findings

- NBL didn't meet current ratio 2:1 over the five years of the study period; it is not a satisfactory because it in increasing trends.
- The cash and bank balance position of NBL with the respect to total deposits is better against the readiness to serve its customers deposits. The calculation of cash and bank balance to total deposit ratio indicates that payment of deposits and liquidity of NBL.
- Cash and bank balance to current & saving deposit ratio was fluctuated over the five year period.
- It is found that the NRB balance to fixed deposit ratio of NBL is rise and fall and the amount of fixed deposit in the last year has decreased substantially and increased in the year 2008/09.
- The Fixed deposits to total deposits ratio over the period is in decreasing trends. This indicates the decreasing creditworthiness of the bank in the market.
- The average investment portion out of total deposit in the NBL is 23.07% which mean that in average the bank is investing 23.07% of its deposit in different sectors.
- The mean loan and advances to total deposit ratio of NBL is 72.20 which mean that in average the bank is lending more than 72% of its deposit.

- The loan and advance to total assets ratio is fluctuating over the period which means the bank may have ideal cash or investing its money in marketable securities.
- Loan and advances to saving deposit ratio of NBL is 153.37 in an average and the ratio is increasing from beginning.
- The average net worth to total deposit ratio of NBL is 5.47 and in increasing over the period which shows the bank's profitability over the period is increasing.
- The debt to total assets ratio of the NBL is in increasing trends this shows that the risk is increasing in NBL.
- Interest coverage ratio shows the interest paying ability of banks, the average ratio of NBL is 0.61.
- Return on assets ratio indicates the profitability position over the total assets, which is in increasing trends with an average of 1.54.
- The return on total assets ratios of the NBL are 1.43, 1.53, 1.39, 1.67 and 1.68 respectively. The average ratio is 1.54. NBL has the highest profit ratio in the fiscal year 2008/09 and lowest in the fiscal year 2006/07.
- Return on net worth ratio of NBL over the period is fluctuating and highest in 2005/06 and lowest in 2004/05. The average ratio of the bank is 28.20 percent. This ratio shows that how much the bank is able to generate return on equity to the shareholders.
- Total interest expenses to total income ratio of NBL is in fluctuating trend over the five years of study period. The mean ratio of NBL is 49.03. It indicates that the bank is not able to earned more interest.
- The average return on total deposit ratio of NBL is 1.72 which indicates that NBL is successful to earn almost constant profit over the study period.
- The EPS ratio is in increasing trend it indicates that NBL is able to earn more profit per share to the common share holders which reflects sound profitability position of the bank.
- Over the study period NBL has paid dividend each year with an average 38.11 per share. The ratio is in increasing trend it indicates that NBL is able to earn more profit per share and it also reflects the better performance of the company.
- The correlation coefficient between total deposits and net profit of the bank is 1 i.e. perfectly positive relationship and there is significant correlation between total deposits and net profit of NBL. This shows the net profit of NBL increases almost to the same degree with increase in the same amount of deposit.

- The investment and net profit are highly positive correlated. This ratio shows that NBL is able to invest its deposit in the profitable sectors.
- The correlation coefficient between total deposits and total investment of the bank is 0.97 i.e., it is significant and there is correlation between total deposits and investment in NBL.
- The total deposit of NBL is in increasing trend. On the basis of the above trend equation forecasted total deposit for the coming five years would be Rs 36,864,435.5, 42,526,871.8, 48,189,308.1, 53,851,744.4 and 59,514,180.7 thousand.
- The net profit of NBL is in increasing trend. Other things remaining same, the net profit of NBL will be Rs. 1,163,728.6 thousand in 2013/14, which is the highest under the study period.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter deals with the summary, conclusion and recommendation. The first part of the chapter is summary, second conclusion and third recommendation.

5.1 Summary

Commercial banks have played significant role in the economic development of country. They have introduced new technology in the banking system mobilized the saving of community. They have focused their services on commerce, tread and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the bank. Therefore the study has been conducted to evaluate the performance of bank especially, that of Nepal Bank in order to find out their strengths and weakness.

To avoid the chances of duplication in the study and confirm whether the study is in accordance with the principles and doctrines, supportive text and the previous dissertation have been reviewed. For analyzing the financial data of the sampled bank the financial tools-ratio analysis, income and expenditure analysis and the statically tool-mean, CV correlation, and least square liner trend analysis have been used.

The first chapter of the study explains the background and statement of the problem and objective of the study and limitation. The second chapter includes the review of literature from the conceptual frame work and past studies. The third chapters explain the research methodology followed in this study. In this study only one commercial bank has been selected from twenty six commercial banks. Different financial as well as statistical tools have been used to analyze the collected data to achieve the stated objective. Five year financial data have been used to analyze the financial performance of the selected bank.

5.2 Conclusion

Nepal bank limited is one of the growing banks of Nepal. It has been steadily growing in its size and operation ever since its inspection and it has established itself as a leading private sector bank of nation reckoned as a one of the fastest growing commercial bank of country.

The main objective of the study is to analyze financial performance of the Nepal Bank Limited. Liquidity position of the bank is not seems satisfactory. The cash and bank balance position of NBL with the respect to total deposits is better against the readiness to serve its customers deposits. The creditworthiness of the bank in the market is in the decreasing trends. The loan and advance to total assets ratio is fluctuating over the period which means the bank may have ideal cash or investing its money in marketable securities. The profitability of the bank is also increasing trends.

The debt to total assets ratio of the bank is in increasing trends this shows that the risk is increasing in NBL. The profitability position over the total assets is better. Return on net worth ratio of bank over the period is increasing so the bank is able to generate return on equity to the shareholders. The bank is not able to earned more interest with respect to expenses. It is successful to earn almost constant profit over the study period. NBL is able to earn more profit per share to the common share holder which reflects sound profitability position of the bank.

Correlation analysis reveals that the coefficient of correlation between total deposit and net profit; performing assets and net profit; net worth and net profit, total deposit and investment; total deposits and loans and advances remained highly significant in NBL. It signifies that NBL is successful to utilize its resources efficiently. The total deposit and net profit shows rising trend of the NBL. Interest seems to occupy major part of the both income and expenses.

5.3 Recommendation

On the basis of major findings some important suggestions have been forwarded so that they will help the sampled banks to strengthen weaker aspects of financial activities.

- The bank has maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by NRB. The fund tied up in NRB balance cannot yield good return. So, the bank suggested lowering this ratio and investing the surplus fund in other current assets such as loans and advances, bills purchase and discount, money at call and short notice.
- It is suggestive that bank should hold the fund in form of cash or cash equivalent items only to the extent of requirement. Though it is difficult to know the exactly suitable liquidity ratio, estimation can be done on the basis of past experience, nature of depositors, situation of financial market and nature of competition.
- The bank has employed considerably greater portion of debt in their capital therefore, the bank should be aware of the possible risk that may arise due to slackness in the business activities.
- Debt servicing capacity of NBL appears poor. So, it is better to search for the profitable sectors for investment and utilization of the deposits collected.
- Turnover of the fund raised form the outsiders appears less satisfactory in NBL. So, NBL has a challenge to allocate the deposit in income generating sectors. It will be better for NBL to open the branches in other cities and rural areas in order to find the profitable opportunities.
- NBL in the last years has given more priority to increase in government security. Though the government securities are free of risk, they yield lower risk. It is recommended not to give all attention to government sectors and diversify investment policy
- NBL is suggested to review their investment ponies to see if there is any better mix than the present one.
- Although, profit needs to be earned for survival and growth of any institution, it should not be the one and only one goal. The country has expected services from the financial sectors in such a way that it encompasses the balanced development. Economic level of the country can be raised only when the level of the people depending upon the agriculture increases. So the bank is suggested to diversify their loans in priority and deprived sectors as per the directive of NRB.

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