Financial Performance in the Banking Sector and Application of NRB Directives: A comparative Study of Nabil Bank Ltd. and Nepal Investment Bank Ltd.

Submitted by:

Bina Shrestha

Shanker Dev Campus

T. U. Registration No.: **7-**1-241-55-98

Campus Roll No.: 1219/062

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RECOMMENDATION

This is to certify that the thesis

Submitted by:

Bina Shrestha

Entitled:

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

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Prof. Dr. Kamal Deep Dhakal	**Prof. Bishweshor Man Shrestha**	**Asso. Prof. Ruchila Pandey**
(Thesis Supervisor)	**(Head, Research Department)**	**(Acting Campus Chief)**

………………………

Ghanendra Fago

(Thesis Supervisor)

DECLARATION

I hereby declare that the work reported in this thesis entitled **"Financial Performance in the Banking Sector and Application of NRB Directives: A comparative Study of Nabil Bank Ltd. And Nepal Investment Bank Ltd."** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Kamal Deep Dhakal** and **Mr. Ghanendra Fago** of Shanker Dev Campus, T.U.

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Bina Shrestha

Shanker Dev Campus

Campus Roll No.: 1219/062

T.U. Regd. No.: 7-1-241-55-98

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LIST OF ABBREVIATION

BAFI	:	Bank and Financial Institution
EPS	:	Earnings Per Share
GI	:	Gross Income
IAS	:	International Accounting Standards
NAS	:	Nepal Accounting Standards
NIBL	:	Nepal Investment Bank Limited
NPAT	:	Net Profit After Tax
NRB	:	Nepal Rastra Bank
P/E Ratio	:	Price Earnings Ratio
ROA	:	Return on Assets

Chapter I
INTRODUCTION

1.1 Background of the Study

Bank is an organization whose primary functions are concentrated with accumulation of idle money from general public and advancing loan to individuals, traders industries and business houses for expenditure. Generally the bank collects money from those who have spare of it from their income on which it pays interest regularly. The money thus accumulated can be invested different sectors such as business, foreign trades, agriculture's industry and social works for which it charges certain percentages of interest which is higher than interest paid by the bank to accumulated fund. Such charges on advancing loan is the major revenue sources of the bank by which it can bear administration expenses incurring in the process of operating its activities. Thus the bank is a good mediator between depositors and loan takers.

In this regard, bank is a financial institution, which collects deposits and in turn provides loans by creating credit. Today banking is such a vague tern, it does a lot more then deposits and credit like remitting money, issue of money guarantee, letter of credit, controlling, payment, other agency functions, monetary activity of country etc. are also the major function of bank. This multiplicity of bank service and function has led to a bank being labeled financial supermarket.

The banking sector is considered to be an important source of financing for most businesses. The common assumption, which supports much of the financial performance research and discussion, is that increasing financial performance will lead to improved functions and activities of the organizations. The subject of financial performance and research into its measurement is well advanced within finance and management fields. It can be argued that there are three principal factors to improve financial performance for financial institutions; the institution size, its asset management, and the operational efficiency.

Generally, the financial performance of banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies, Avkiran, 1995. The financial statements in Nepalese banking sector that published commonly contain a variety of financial ratios designed to give an indication of the bank's performance. As it known in accounting literature, there are limitations associated with use of some financial ratios. In this research, however, Return on Assets ratio with interest income size is used to measure the performance of selected commercial banks. Asset management, the bank size, and operational efficiency are used together to investigate the relationships among them and the financial performance.

1.2 Statement of the Problem

During the past decade, the financial service sector has undergone drastic changes, resulting in a market place which is characterized by intense competition, little growth in primary demand and increased deregulation. Capital plays and important role in the banking sector. It requires form the promotional stage up to the end of a banking sector. No banking transactions can be operated without capital.

The fund received from public should be secured. Generally financial performance is measured by various financial ratios. But the actual performance of the banks can't be measured merely on the basis of ratio analysis; the analysis conducted solely based on ratio analysis may not give the objective result. Therefore, in addition to ratio analysis Horizontal, Vertical and Benchmark analysis have been used as financial tools to measure the financial position as well as financial performance of the banks. Thus this study has raised the following research questions based on research gap of previous study:

- What does each of Horizontal, Vertical, Ratio and Benchmark analysis show the financial position and performance of the banks?
- How is the difference between two related banks based on financial position and performance?
- Have they followed NRB Directives?

1.3 Objectives of the Study

The main objective of this study is to compare the financial performance of Nabil Bank Limited (NABIL) and Nepal Investment Bank Limited (NIBL). The specific objectives of the study are as follows:

- To assess the financial performance and position of each bank from Horizontal, Vertical, Ratio and Benchmark analysis perspective.
- To compare the two banks on the basis of above four perspectives and identify the one bank stronger than another's based on position and performance.
- To compare the banks ratios with the standard set by NRB.

1.4 Rational of the Study

Primarily, findings of the study will be useful to the bank on which this study is conducted. In the other hand, for the potential researcher who wants to study on the topic, it will be guided material and may be a valuable contribution to fill an important gap in literature. On the practical dimension, this study may help the decision makers of the banks to focus on the major banking activities that may increase the bank ranking and financial performance positions comparing with other banks.

1.5 Limitation of the Study

The following are the limitations of this study:

- This research is based on comparative study of two banks that can't represent the whole banking sectors. Therefore, the findings and conclusions of this study can't be generalized.
- For the purpose of any numerical calculation, only six years data are taken that is a major limitation that affects the conclusions.

1.6 Organization of the Study

This study is divided into five different chapters:

Chapter one consists of the introduction of the study, statement of the problem, objectives of the study, rational of the study and limitation of the study.

Chapter two is concerned with conceptual review, review of related studies and research gap.

Chapter three deals with research design, population and sample, nature and sources of data and data analysis tools.

Chapter four is concerned with presentation and analysis of data. Horizontal, Vertical, Ratio and Benchmark analysis of the banks and major findings are the main contents of the chapter.

Chapter five consists of summary, conclusion and recommendation of the study.

Chapter II
LITERATURE REVIEW

This chapter has been divided into two sections. Section one deals with conceptual framework and deals with related studies and section two deals with research gap.

2.1 Conceptual Review

2.1.1 Background of the Study

Every business entity should be able to enhance their competitive strength through achieving the financial goals. Financial statement analysis should be adopted to appraise the financial performance of the concerned companies. Information and results obtained from financial analysis are important to all stakeholders. Interest of the different stakeholders is conflicting. Out of different stakeholders, managements of the companies worry about their financial performance. So, in this paper, an attempt to analyze the financial performance of NIBL and NABIL has been made.

A financial system is of vital in nature for the economic development as it provides relieve in funds mobilization. Today's volatile economic environment requires efficient financial system for specialize in production, to retain investors' friendly relationship and competitive market to assist economic transaction. A stable and efficient financial system represents efficient allocation of resources and becomes the foundation of rising of financial performance of an organization which leads to enhance actions and functions of the organization. Investment banks, as a component of financial system, serve as stakeholder in the economy and work for development of the economy of a country. Investment banks provide a backup to all capital market in the economy through trading in shares, investment holdings, and merchant banking activities. They also support the credit market in the country through short term and medium term loans. For the enhancement of financial performance three principal factors can be argued; its asset management (AM), institution size (IS), and operating efficiency (OE). (Tarawneh; 2006)

2.1.2 Concept of Financial statement

Of the various reports corporations issue to their stockholders, the annual report is probably the most important. Two types of information are provided in an annual report. First, there is a verbal section, often presented as a letter from the chairman that describes the firm's operating results during the past year and then discusses that will affect future operations. Second, the annual report presents four basic financial statements – the balance sheet, the income statement, the statement of retained earnings, and the statement of cash flows. Taken together, these statements give an accounting picture of the firm's operations and financial position.

General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. General purpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus. (Nepal Accounting Standard; 2008)

Financial statement is a written report which quantitatively describes the financial health of a company. This includes an income statement and a balance sheet, and often also includes a cash flow statement. Financial statements are usually compiled on a quarterly and annual basis.

Financial statements are records that provide an indication of an individual's, organizations, or business' financial status. There are four basic types of financial statements: balance sheets, income statements, cash-flow statements, and statements of retained earnings. Typically, financial statements are used in relation to business endeavors.

2.1.3 Objectives of financial statements

The basic objectives of financial statements are as follows:

- To judge the financial health of the firm
- To evaluate the profitability of the enterprise
- To gauge the debt servicing capacity of the firm
- To understand the long- term and short term solvency of the firm
- To know the return on capital employed or invested (Kishore; 2007)

The objective of financial statements is to provide information about the financial position (balance sheet), performance (income statement), and changes in financial position (cash flow statement) of an entity. This information should be useful for making economic decisions by the users of the financial statements, who cannot dictate the information they should be getting. (Greuning; 2009)

The objective of financial statements is to provide information about the financial position, financial performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. (Gosh; 2009)

The real value of financial statements lies in the fact that they can be used to help predict future earnings, dividends, and free cash flow. Financial statement analysis is useful both to help anticipate future conditions and, more important, as a starting point for planning actions that will improve the firm's future performance. (Brigham and Ehrhardt; 2008)

2.1.4 Components of Financial statement

A complete set of financial statements includes the following components:

- a balance sheet;

- an income statement;
- a statement of changes in equity showing either:
    a. all changes in equity, or
    b. changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;
- a cash flow statement; and
- notes, comprising a summary of significant accounting policies and other explanatory notes. (Nepal Accounting Standard; 2008)

Financial statement includes; an income statement, a balance sheet, statement of retained earnings, funds flow statement, cash flow statement and schedules (Kishore; 2007)

The elements of financial statement are assets, liabilities, equity, income and expense. Assets, liabilities and equity show the financial position and income and expenses show the financial performance. (Greuning; 2009)

2.1.5 Concept of Financial statement Analysis

Financial statement analysis means study of relationship among various factors in a business as disclosed by financial statements of a firm. The analysis shows the trend of the factors and will help in evaluation of component parts. The analysis of financial statements is done to obtain a better insight into a firm's position and performance. (Kishore; 2007)

Financial analysis is a set of tools and techniques, including fiscal indicators and forecasting, that allow you to measure the current fiscal condition of a government or business and predict trends in its future fiscal condition. Financial analysis helps your municipality decide how much it can afford to spend and how it will fund new priorities. (Kovács; 2007)

Financial statement analysis is defined as the process of identifying financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account.

Financial analysis applies analytical tools to financial statements and other financial data to interpret trends and relationships in a consistent and disciplined manner. In essence, the analyst is in the business of converting data into information, thereby assisting in a diagnostic process that has as its objective the screening and forecasting of information. (Greuning; 2009)

Financial analysis is the process of using financial statements to enable the users to take economic and investment decisions. (Gupta and Radhaswamy; 2009)

Financial statement analysis involves (1) comparing the firm's performance with that of other firms in the same industry and (2) evaluating trends in the firm's financial position over time. This analysis helps managers identify deficiencies and take actions to improve performance. (Brigham and Ehrahardt; 2008)

2.1.6 Benefits of Financial Analysis

Financial analysis benefits your municipality by:

- Linking municipal policy with specific financial plans to achieve long-range goals.
- Developing a vision of your municipality's financial future and allowing you more time to respond to adverse events.
- Helping your municipality to better meet its responsibilities toward its citizens.
- Increasing the number of alternative strategies and improving the quality of financial decision making.
- Supporting borrowing and credit evaluation. (Kovács; 2007)

2.1.7 Limitations of Financial Statements

According to Kishore (2007), the financial statements are subject to the following limitations:

- In profit and loss account net profit is ascertained on the basis of historical costs.
- Profit arrived at by the profit and loss account is of interim nature. Actual profit can be ascertained only after the firm achieves its maximum capacity.
- The net income disclosed by the profit and loss account is not absolute but only relative.
- The profit and loss account does not disclose factors like quality of product, efficiency of the management etc.
- The net income is the result of personal judgment and bias of accountants can't be removed in the matters of depreciation, stock valuation etc.

2.1.8 Tools and Techniques of Financial Statement Analysis

There are four ways in which financial statements can be analyzed;

- Trend analysis or dynamic analysis

  For this purpose income statements or balance sheets are compared for a number of years, to find out the trends. Since such financial statements constitute a time series in the statistical sense, the analysis is also known as time series analysis.
- Vertical analysis

  This is also known as structural or statistical analysis. In this case a single set of financial statements for one period are taken and the relationship between various accounting variables such as sales and net income, equity and debt are compared.
- Cross sectional analysis

  This is the comparison of one firm to other similar firms in the same industry. Generally cross-sectional analysis is carried out with the help of calculating ratios, as absolute figures are incomparable due to difference in size, investment, etc.

- Ratio analysis

  Ratios are calculated with the help of accounting data and external data such as market prices of shares. Various ratios are calculated with a view to analyze and interpret financial statements.

For analysis of financial statements, they should be re-arranged to reveal the relative significance and effect of various items of data in relation to time period and for making inter-firm comparisons. The important methods used in analysis of financial statements are as follows:

- Comparative financial statements
- Common size statements
- Trend ratios
- Funds flow analysis
- Cash flow analysis
- Break-even and Cost –volume profit analysis
- Value added analysis

The financial tools that can be used to analyze the financial statements are:

- Ratio analysis
- Trend analysis
- Common size analysis and percent change analysis
- Comparative ratios and Benchmarking

2.1.9 Horizontal Analysis or Trend Analysis

Trend analysis usually involves choosing one fiscal period as a base period and then expressing subsequent quantities as a percentage of the data associated with this base period. In the case of an income statement, changes in all items could be assessed in relation to the base period. Significant changes can then be investigated further. Note that trend analysis can be performed to determine changes in the number of physical units as well as dollar amounts.

Comparison of two or more year's financial data is known as horizontal analysis, or trend analysis. Horizontal analysis is facilitated by showing changes between years in both rupees and percentage form. Showing changes in rupees form helps the analyst focus on key factors that have affected profitability or financial position. Showing changes between years in percentage form helps the analyst to gain perspective and to gain a feel for the significance of the changes that are taking place. Trend percentage states several years' financial data in terms of a base year. The base year equals 100%, with all other years stated in some percentage of this base.

Trend analysis, where one plots a ratio over time, is important, because it reveals whether the firm's condition has been improving or deteriorating over time. (Brigham and Ehrahardt; 2008)

When evaluation is done for several years simultaneously at a time for making conclusions, it is called horizontal analysis. This based on the data from year to year, rather than one time available information. Horizontal analysis is done for finding the trend ratios and in comparative financial statements.

2.1.10 Advantages of Trend Analysis

Trend analysis can:

- reveal potentially fruitful areas of audit investigation
- detect significant variations over time
- be easily understood and communicated
- be readily accepted due to its widespread use

2.1.11 Disadvantages of Trend Analysis

Trend analysis can:

- provide little insight into the root causes of variations
- fail to indicate what the entity’s normal or benchmark position is
- be undermined by frequent changes in financial reporting formats
- be heavily influenced by the choice of the base fiscal period (Texas State Auditor's Office)

2.1.12 Vertical Analysis and Common Size Statements

Vertical analysis is the procedure of preparing and presenting common size statements. Common size statement is one that shows the items appearing on it in percentage form as well as in rupees form. Each item is stated as a percentage of some total of which that item is a part. Key financial changes and trends can be highlighted by the use of common size statements. Common size statements are particularly useful when comparing data from different companies.

Common size analysis and percent change analysis are two other techniques that can be used to identify trends in financial statements. Common size analysis is also useful in comparative analysis, and some sources of industry data. In a common size analysis, all income statement items are divided by sales, and al balance sheet items are divided by total assets. (Brigham. and Ehrahardt; 2008)

Common-size statements analysis expresses balance sheet components as a percentage of total assets and income statement components as a percentage of total revenue. This approach facilitates identifying deviations in the components of statements by focusing on relative differences through time. (Texas State Auditor's Office)

It is the study of quantitative relationship of one financial item to another based on financial statement on a particular date. Common size statements and ratio analysis are the examples for vertical analysis. (Kishore; 2007)

2.1.13 Ratios Analysis

The relationship between two accounting figures expressed mathematically is known as financial ratio.

One widely accepted method of assessing financial statements is ratio analysis, which uses data from the balance sheet and income statement to produce values that have easily interpreted financial meaning. Most hospitals, health systems and other healthcare organizations routinely evaluate their financial condition by calculating various ratios and comparing the values to those for previous periods, looking for differences that could indicate a meaningful change in financial condition.

The ratios analysis is the most powerful tool of financial statement analysis. Ratios simply mean one number expressed in terms of another. A ratio is a statistical yardstick by means of which relationship between two or various figures can be compared or measured. Ratios can be found out by dividing one number by another number. Ratios show how one number is related to another.

2.1.14 Advantages of Ratios Analysis

Ratio analysis is an important and age-old technique of financial analysis. The following are some of the advantages / Benefits of ratio analysis:

- Simplifies financial statements: It simplifies the comprehension of financial statements. Ratios tell the whole story of changes in the financial condition of the business
- Facilitates inter-firm comparison: It provides data for inter-firm comparison. Ratios highlight the factors associated with successful and unsuccessful firm. They also reveal strong firms and weak firms, overvalued and undervalued firms.

- Helps in planning: It helps in planning and forecasting. Ratios can assist management in its basic functions of forecasting. Planning, co-ordination, control and communications.
- Makes inter-firm comparison possible: Ratios analysis also makes possible comparison of the performance of different divisions of the firm. The ratios are helpful in deciding about their efficiency or otherwise in the past and likely performance in the future.
- Help in investment decisions: It helps in investment decisions in the case of investors and lending decisions in the case of bankers etc.

2.1.15 Limitation of ratio analysis

Ratio analysis is useful, but analysts should be aware of these problems and make adjustments as necessary. Ratio analysis conducted in a mechanical, unthinking manner is dangerous, but used intelligently and with good judgment, it can provide useful insights into a firm's operations. (Brigham and Ehrahardt2; 2008)

2.1.16 Benchmark analysis

Benchmarking is the process of comparing a particular company with a group of similar, successful companies. (Brigham and Ehrahardt; 2008)

Ratios, even when well specified, may suffer from a lack of an appropriate benchmark to indicate an optimal level. Using an industry average as the benchmark may be useful for an intra-industry analysis but not for an inter-industry analysis. (Bajracharya; 2005)

Benchmarking is the process of comparing one's business processes and performance metrics to industry bests and/or best practices from other industries. Dimensions typically measured are quality, time and cost. In the process of benchmarking, management identifies the best firms in their industry, or in another industry where similar processes exist, and compare the results and processes of those studied (the "targets") to one's own results and processes. In this way, they learn how well the targets perform and, more importantly, the business processes that explain why these firms are successful.

A standard against which the performance of a security, mutual fund or investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.

Benchmarking is the systematic process of comparing business processes and performance metrics to industry best practices in terms of quality, time, and cost dimensions, and making such comparisons the basis to do things better, faster, and cheaper. (Nayab; 2010)

2.1.17 Pros of Benchmarking

Benchmarking help place organizational focus on change and provides the direction for the change process. Benchmark heralds change by:

- Making explicit the competitors' standards that provide the organization with minimum standards of excellence.
- Providing new ideas and better ways of doing things.

Benchmarking opens minds to new ideas, heralding a process of continuous learning that leads to a learning organization. (Nayab; 2010)

2.1.18 Cons of Benchmarking

A major limitation of benchmarking is that while it helps organizations in measuring the efficiency of their operational metrics, it remains inadequate to measure the overall effectiveness of such metrics. Benchmarking reveals the standards attained by competitors but does not consider the circumstances under which the competitors attained such standards. If the competitor’s goals and visions were flawed or severely restricted due to some specific factor, an organization by benchmarking such standards runs the risk of trying to ape such flawed standards or settling for extremely low standards.

2.1.19 Financial Statement Components as per NRB Directives

According to NRB Directives No. 4 on "Provisions Relating to Accounting Policies and Format of Financial Statements", licensed institutions shall prepare the Balance Sheet, Profit and Loss Account, Cash-flow Statement and other Schedules and Statements according to the format and procedures prescribed by NRB. The directives has also stated that financial statements shall be prepared according to Nepalese Accounting Standard (NAS) except prescribed by NRB otherwise. With respect to the areas not covered by the NAS, International Accounting Standard (IAS) shall be taken to the base. (Directives No. 4/068, NRB Directives)

NAS 01 and IAS 01 on "Preparation of Financial Statements" have listed Statement of Changes in Equity as a component of financial statements in addition to that prescribed by NRB Directives. So the following statements constitute the components of banks' financial statements:

- Balance Sheet
- Income Statement
- Statement of changes in equity
- Cash flow statement
- Notes, comprising a summary of significant accounting policies and other explanatory notes

Share capital, Reserves and Funds, Treasury bills and bonds, Loan/advance due to be paid, Deposit Liabilities, Bills to be paid, Proposed Dividend, Income tax liabilities, Other liabilities constitute the Capital and Liabilities side of the Balance Sheet. Similarly, Cash deposit, Deposit with Nepal Rastra Bank, Deposit with

Banks/financial Institutions, Amount to be received on demand and in short notice, Investment, Lending and bills purchase, Fixed assets, Non-banking assets, Other assets are shown in the Assets side (Directives No. 4/068, NRB Directives).

Similarly, Interests income, Interests expenses, Commission and discounts, Other operational income, Exchange fluctuation income, Staff expenses, Other operational expenses, Exchange fluctuation loss, Provisions for possible loss, Non-operational income/expenses, Withdrawal from provision for Possible loss, Income/expenses from non-regular Transactions, Staff bonus provision, Income tax provision (Tax provision of current Year, Tax provision until the last Year, Deferred Tax income/ expenses of current year) are presented in the Income Statement (Directives No. 4/068, NRB Directives).

2.1.20 Major Mandatory Provisions by NRB Directives for BAFI

Provisions Relating to Capital Adequacy Ratio

Based on its risk-weight assets, a licensed institution shall have to maintain the following capital adequacy ratio: -

Institution	Minimum capital fund to be maintained based on the risk-weight assets (percent)	
	Core Capital Fund	Supplementary Capital Fund
"A" Class	6.00	4.00
"B" and "C" Class	5.50	5.50
"D" class	4.00	8.00

(Directives 1/068; NRB Directives)

Provisions Relating to Compulsory Reserve

It shall be mandatory for class "A" institutions licensed by this bank and for the "B" and "C" classes institutions licensed by this Bank and accepting the current/calls accounts to maintain a deposit of 5.5 percent of the total deposit liabilities at this Bank (Directives 13/068; NRB Directives).

Provisions Relating to Classification of Loans/advances

Entire loans and advances extended by a licensed institution have to be classified as follows based on expiry of the deadline of repayment of the principal and interest of such loans/advances:-

a) Pass: Loans/advances which have not overdue and which are overdue by a period up to three months.
b) Sub-standard: Loans/advances which are overdue by a period from three months to a maximum period of six months.
c) Doubtful: Loans/advances which are overdue by a period from six-months to a maximum period of one year.
d) Loss: Loans/advances which are overdue by a period of more than one year. (Directives 13/068; NRB Directives).

2.2 Review of Related Studies

In this segment it has tried to present the major conclusions of the various related articles, journals and dissertations.

2.2.1 Review of Research Reports and Articles

In this section effort has been made to examine and review of some connected articles to this study. Some of them are presented as:

An article named, "*A Financial Performance Comparison of Public Vs Private Banks: The Case of Commercial Banking Sector of Pakistan*" written by Alam , Raza and Akram (2011) had published in International Journal of Business and Social Science. On the basis of results and analysis of that research, public and private banks had different ranking based on bank size and each financial ratio categories such as efficiency / profitability ratios, capital / leverage ratio, liquidity ratios, and asset quality ratios. Based on bank size, private banks are at first than public. Based on asset quality ratios, public banks are at first than private. Based on efficiency / profitability ratios, public banks are at first on the base of return on total assets (ROA) and return on owners' equity (ROE). Whereas, private banks are at first on the base of spread ratio, non-interest expenses to total income ratio and net interest margin ratio. Based on liquidity ratios, public banks are at first on the base of cash & cash equivalents to total assets ratio of bank and investments to total assets ratio.

Another study titled by *"Bank Performance And Credit Risk Management"* was conducted by Achou and Tenguh (2008). The study showed that there is a significant relationship between bank performance (in terms of profitability) and credit risk management (in terms of loan performance). The study summarizes that banks used different credit risk management tools, techniques and assessment models to manage their credit risk, and that they all have one main objective, i.e. to reduce the amount of loan default which is a principal cause of bank failure. The study also reveals that banks with good or sound credit risk management policies have lower loan default ratios (bad loans) and higher interest income (profitability). The study also reveals banks with higher profit potentials can better absorb credit losses whenever they crop up and therefore record better performances.

An article published by European Central Bank (2010) entitled "*Beyond ROE – How to Measure Bank Performance"*. This articled concluded three major points that should be considered while measuring bank performance. First, ROE may be less of a performance measure than an element of incentive in the relationship between banks and markets. Second, desirable features for banks' performance measures should encompass more aspects of the performance than just profitability embedded in a pure market-oriented indicator such as ROE. Third, governance and banks' risk management processes should be further enhanced.

2.2.2 Review of Related Dissertations

Und this segment, it has tried to find out the major conclusion and recommendation of the previous study.

Joshi (1989) in his thesis work, "*A study of financial performance of CB's*" concluded that liquidity position of CBs is satisfactory, local CBs have higher deposit investment. Assets utilization for earning purpose is two third of total assets. The main sources of these banks are interested from loan and advances, the fund that the profitability position of NABIL is stronger than that of other CBs. He compares all CBs i.e. local CBs with joint venture banks. Local CBs are operating under government regulation and limitation, so they cannot operate freely and are not able to provide different facilities and services like other joint venture banks which are operating independently with help of foreign investors who provide them good management as well as technical and business support.

Paudyal (2004), "*Funds mobilization of commercial banks in Nepal*" has tried to examine the funds mobilizations of the commercial banks and he had concluded that the efficient mobilization of fund is more important than collection of one deposit. Also he said lower is the Investment lower will be the capital formation. If there is high ratio of investment of the available fund this will create huge capital formation is important to the economic growth of the nation and development of nation there to. At last he recommended that the commercial banks should concern their behavior in the efficient mobilization of the resources to get the profit.

2.3 Research Gap

There are various studies done in the topic of financial performance of the banks. But this study has analyzed not only the financial performance but also the compliance of NRB Directives. This study has used six years' data i.e. form the FY 2005/06 to FY 2010/11. No studies have been done taking the data of this period earlier on this topic. So, there is a gap in subject matter as well as time frame. Hence, this study differs from others'.

Chapter - III
RESEARCH METHODOLOGY

A practical research study needs to follow a proper methodology in order to achieve predetermined objectives. Research methodology is a sequential procedure and methods to achieve the objectives of the study. To meet the objectives determined in the first chapter, the appropriate research methodology has followed, which will explain in later. Thus, this chapter deals with the research design, population and sample, data collection procedure and methods of data analysis.

3.1 Research Design

Research design includes important procedure and techniques for guiding and evaluating the study. It describes the research route to be followed, the instruments to be used, universe and sample of the study for the data to be collected, the tools of analysis used and pattern of deducing conclusions. Descriptive research is used to assess the qualitative measures. For quantitative measures, an analytical approach has carried out to make it reliable and significant.

3.2 Population and Sample

The present study seeks to evaluate the financial position and performance of the two banks representing Nabil bank Ltd. and Investment bank Ltd. These two banks were purposely selected for the study, keeping in view their role and involvement in shaping the economic conditions of Nepal. There are 32 commercial banks (including Sanima Bank) in Nepal during last Falgun 2068. To select these bank, judgmental sampling techniques has been applied.

3.3 Nature and Sources of Data

This study is based on both primary and secondary data. Data has drawn from the annual reports of the respective banks. This data is related to five years (2005/06 to 2010/11).

3.4 Methods of Data Analysis

As per the nature of data, this study has applied the following tools and techniques for data analysis.

3.4.1 Horizontal Analysis or Trend Analysis

In this analysis; five years data are compared. Since we are measuring the change between 2005/06 to 2010/11, the rupees amounts for 2005/06 become the base figure for expressing these changes in percentage form. Trend percent has been calculated by the following formula:

$$\text{Trend percent} = \frac{\text{Next year's figure - Preceding year's figure}}{\text{Base year's figure}} \times 100$$

3.4.2 Vertical Analysis and Common Size Statements

Common size statement is one that shows the items appearing on it in percentage form as well as in rupees form. Each item is stated as a percentage of some total of which that item is a part. In this study; percentage of each balance sheet item has calculated based on total assets. Similarly; percentage of each income statement has calculated based on total interest income. The following formula has used to calculate such percent:

$$\text{Percent of each balance sheet item} = \frac{\text{Individual balance sheet item}}{\text{Total assets}} \times 100$$

$$\text{Percent of each income statement item} = \frac{\text{Individual income statement item}}{\text{Total interest income}} \times 100$$

3.4.3 Ratios Analysis

Ratios have been used to interpret the financial position and performance of banks. The ratios used to measure the performance of banks are as given below:

Earnings per Share

It simply shows the profitability of the firm of a per share basis. It is calculated from the point of view of the ordinary shareholder. It is calculated by dividing the profit after tax by the total number of ordinary share outstanding.

$$\text{Earnings per Share (EPS)} = \frac{\text{Net profit after tax}}{\text{No. of common share}}$$

The earnings per share (EPS) is a good measure of profitability and when compared with EPS of similar companies, it gives a view of the comparative earnings or earnings power of the firm. EPS ratio calculated for a number of years indicates whether or not the earning power of the company has increased.

Return on Asset

Return on Assets (ROA) is an indicator of how profitable company's assets are in generating profit. Return on Assets shows how many dollars of earnings result from each dollar of assets the company controls. Return on Assets ratio gives an idea of how efficient management is at using its assets to generate profit. The only common rule is that the higher return on assets is, the better, because the company is earning more money on its assets. A low return on assets compared with the industry average indicates inefficient use of company's assets. It is calculated by dividing the profit after tax by the total assets.

$$ROA = \frac{\text{Net profit after tax}}{\text{Total Assets}} \times 100$$

Price Earnings Ratio

Price earnings ratio (P/E ratio) is the ratio between market price per equity share and earning per share. The ratio is calculated to make an estimate of appreciation in the value of a share of a company and is widely used by investors to decide whether or not to buy shares in a particular company. Generally, higher the price earnings ratio the better it is. If the P/E ratio falls, the management should look into the causes that have resulted into the fall of this ratio.

Following formula is used to calculate price earnings ratio:

$$P/E\ ratio = \frac{\text{Market price per equity share}}{\text{Earnings per share}}$$

Net Profit to Gross Income Ratio

Net profit to gross income ratio is the relation between a bank's net profit after tax (NPAT) and gross income (GI), expressed as a percentage. The higher the percentage, the more the bank is able to convert its gross income to net profit. Gross income includes interest income, discount &commission, other operating income and exchange income.

$$NPAT/GI = \frac{NPAT}{GI} \times 100$$

Interest Income to Loan and Advances Ratio

This ratio measures the income earned by each unit of loan and advances supplies by the bank. Interest income includes interest from loan & advances and overdraft. And the amount of loan and advances directly has taken from the balance sheet.

$$\text{Interest income to loan and advances} = \frac{\text{Interest income}}{\text{Loan and advance}} \times 100$$

Net Profit to Loan and Advance Ratio

Net profit to loan and advance ratio is the ratio that shows net profit earned by each unit of loan and advance supplied by the banks.

$$\text{Net profit to loan and advances} = \frac{\text{Net profit}}{\text{Loan and advance}} \times 100$$

3.4.4 Benchmark Analysis

Benchmarking is the process of comparing one's business processes and performance metrics to industry bests and/or best practices from other industries. Dimensions typically measured are quality, time and cost. In the process of benchmarking, management identifies the best firms in their industry, or in another industry where similar processes exist, and compare the results and processes of those studied to one's own results and processes. In this study, the following financial indicators have been taken directly from the annual report of the banks:

- Market Value per Share
- Dividend (including bonus) on share capital
- Employee Expense/Total Operating Expense
- Interest Expense on Total Deposit and Borrowings
- Exchange Gain/Total Income
- Total Credit/Deposit
- Capital Adequacy Ratio (Total Capital Fund)
- Liquidity

- Non-Performing Loans/Total Loans
- Weighted Average Interest Rate Spread

Chapter – IV

DATA PRESENTATION AND ANALYSIS

The discussion and analysis section is the heart of the report. This is the section in which data are presented and analyzed. This chapter is related to presentation and analysis of data, which is divided and explained in four different topics: Horizontal Analysis, Vertical Analysis, Ratio Analysis and Benchmark Analysis. In this chapter the effort had been made to evaluate the performance and position of Nabil Bank Limited and Nepal Investment Bank Limited.

4.1 Horizontal Analysis or Trend Analysis

Comparison of two or more year's financial data is known as horizontal analysis, or trend analysis. Horizontal analysis is facilitated by showing changes between years in both rupees and percentage form. Showing changes in rupees form helps the analyst focus on key factors that have affected profitability or financial position. Showing changes between years in percentage form helps the analyst to gain perspective and to gain a feel for the significance of the changes that are taking place. Trend percentage states several years' financial data in terms of a base year. The base year equals 100%, with all other years stated in some percentage of this base.

Since we are measuring the change between 2005/06 to 2010/11, the rupees amounts for 2005/06 become the base figure for expressing these changes in percentage form. The increases in one variable over other variable can be put into better perspective by stating them in terms of trend percentages rather than showing the changes in rupees form. Therefore in this study, Horizontal analysis is facilitated by showing changes between years in percentage form only.

Balance Sheet shows the status of the assets, liabilities, and owners' equity (and their interrelationships) of an organization, as reflected in its financial statements. In this study all the contents of Balance Sheet has been presented in a table with its corresponding values as shown below:

Table: 4.1 Balance Sheet [NABIL]

	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
CAPITAL & LIABILITIES						
Share Capital	491,654,400	491,654,400	689,216,000	965,747,000	2,028,773,600	2,029,769,400
% change		0.00	40.18	96.42	312.64	312.84
Reserves and Surplus	1,383,340,017	1,565,395,315	1,747,982,989	2,164,493,637	1,805,452,329	2,536,747,621
% change		13.16	26.35	56.46	30.51	83.37
Debentures & Bonds	-	-	240,000,000	300,000,000	300,000,000	300,000,000
% change				25.00	25.00	25.00
Borrowings	173,201,710	882,572,500	1,360,000,000	1,681,305,000	74,900,000	1,650,599,178
% change		409.56	685.21	870.72	(56.75)	852.99
Deposits	19,347,399,440	23,342,285,327	31,915,047,467	37,348,255,840	46,340,700,628	49,696,112,934
% change		20.64	64.95	93.04	139.51	156.86
Bills Payable	92,536,853	83,514,820	238,421,890	463,138,615	425,443,908	415,767,753
% change		(9.74)	157.65	400.49	359.75	349.29
Proposed & Undistributed Dividends	435,084,062	509,417,925	437,373,004	361,325,024	434,737,200	608,930,820
% change		17.08	0.52	(16.95)	(0.07)	39.95
Income Tax Liabilities	34,604,855	-	38,776,869	80,232,454	24,904,405	44,104,071
% change		(100)	12.05	131.85	(28.03)	27.45
Other Liabilities	372,149,741	378,552,721	465,940,930	502,899,934	644,813,627	859,405,624
% change		1.72	25.20	35.13	73.26	130.93
Total (capital & liabilities)	**22,329,971,078**	**27,253,393,008**	**37,132,759,149**	**43,867,397,504**	**52,079,725,697**	**58,141,437,401**
ASSETS						
Cash Balance	237,818,512	270,406,987	511,426,584	674,395,434	635,986,600	744,592,259
% change		13.70	115.04	183.57	167.42	213.09
Balance with Nepal Rastra Bank	318,358,771	1,113,415,436	1,829,470,769	2,648,596,348	549,454,618	1,473,986,400

% change		249.73	474.65	731.95	72.58	362.99
Balance with Banks/Financial Institutions	74,061,305	16,003,428	330,243,702	49,520,689	214,656,586	217,970,918
% change		(78.39)	345.90	(33.13)	189.83	194.31
Money at Call and Short Notice	1,734,901,943	563,532,632	1,952,360,700	552,888,297	3,118,144,000	2,452,511,778
% change		(67.51)	12.53	(68.13)	79.73	41.36
Investment	6,178,533,108	8,945,310,567	9,939,771,428	10,826,379,001	13,600,916,613	13,081,205,527
% change		44.78	60.87	75.22	120.13	111.72
Loans, Advances and Bills Purchased	12,922,543,153	15,545,778,730	21,365,053,318	27,589,933,041	32,268,873,283	38,034,097,554
% change		20.29	65.33	113.50	149.70	194.32
Fixed Assets	319,086,147	286,895,224	598,038,998	660,988,986	781,480,397	935,088,667
% change		(10.08)	87.42	107.15	144.91	193.05
Non-Banking Assets	-	-	-	-	-	–
% change		0.00	0.00	0.00	0.00	0.00
Other Assets	544,668,139	512,050,004	606,393,650	864,695,708	910,213,600	1,201,984,291
% change		(5.98)	11.33	58.75	67.11	120.68
Total (assets)	**22,329,971,078**	**27,253,393,008**	**37,132,759,149**	**43,867,397,504**	**52,079,725,697**	**58,141,437,401**

Source: Annual report of NABIL & NIBL (2005/06 to 2010/11)

Note: change in percentage calculated on the base year 2005/06

Table presenting balance sheets of NIBL of six years (i.e. from 2005/06 to 2010/11) have been presented below:

Table: 4.2 Balance Sheet [NIBL]

	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
CAPITAL & LIABILITIES						
Share Capital	590,586,000	801,352,600	1,203,915,400	2,407,068,900	2,409,097,700	3011372125
% change		35.68	103.85	307.57	307.91	409.89
Reserves and Surplus	824,853,715	1,076,770,938	1,482,870,648	1,500,770,808	2,176,295,392	2148387572
% change		30.54	79.77	81.94	163.84	160.45
Debentures & Bonds	550,000,000	800,000,000	1,050,000,000	1,050,000,000	1,050,000,000	1050000000
% change		45.45	90.90	90.90	90.90	90.90
Borrowings	-	-	-	38,800,000	37,314,826	280764000

% change					(3.82)	623.61
Deposits	18,927,305,974	24,488,855,696	34,451,726,191	46,698,100,065	50,094,725,497	50138122242
% change		29.38	82.02	146.72	164.66	164.89
Bills Payable	18,820,120	32,401,462	78,838,643	82,338,018	38,143,836	8250415
% change		72.16	318.90	337.50	102.67	(56.16)
Proposed & Undistributed Dividends	121,626,997	43,650,251	93,468,245	485,453,507	602,274,425	602,274,425
% change		(64.11)	(23.15)	299.13	395.18	395.18
Income Tax Liabilities	9,318,522	295,150	24,082,669	38,296,736	37,195,255	-
% change		(96.83)	158.43	310.97	299.15	(100)
Other Liabilities	287,626,214	347,518,664	488,404,288	709,975,092	860,366,551	1117656722
% change		20.82	69.80	146.83	199.12	288.57
Total (capital & liabilities)	**21,330,137,542**	**27,590,844,761**	**38,873,306,084**	**53,010,803,126**	**57,305,413,482**	58356827501
ASSETS						
Cash Balance	562,560,620	763,984,320	1,464,482,719	1,833,462,494	1,525,441,872	1,718,665,705
% change		35.80	160.32	225.91	171.16	205.50
Balance with Nepal Rastra Bank	1,526,066,660	1,381,351,556	1,820,006,035	4,411,133,083	3,237,217,030	4,009,459,910
% change		(9.48)	19.26	189.05	112.12	162.73
Balance with Banks/Financial Institutions	247,894,116	296,178,324	470,452,814	1,673,408,313	2,053,230,931	2,412,245,017
% change		19.47	89.77	575.04	728.26	873.09
Money at Call and Short Notice	70,000,000	362,970,000	-	-	-	150,000,000
% change		418.52	(100)	(100)	(100)	114.28
Investment	5,602,868,649	6,505,679,987	6,874,023,625	7,399,811,700	8,635,530,125	7,423,106,525
% change		16.11	22.68	32.07	54.12	32.48
Loans, Advances and Bills Purchased	12,776,208,037	17,286,427,389	26,996,652,258	36,241,206,558	40,318,308,062	41,095,514,519
% change		35.30	111.30	183.66	215.57	221.65
Fixed Assets	343,449,635	759,456,336	970,091,759	1,060,752,482	1,136,247,319	1,108,448,171
% change		121.12	182.45	208.85	230.83	222.73
Non-Banking Assets	-	1,125,000	750,000	375,000	-	-
% change			(33.33)	(66.66)	(100)	(100)
Other Assets	201,089,825	233,671,849	276,846,874	390,653,496	399,438,143	439387654
% change		16.20	37.67	94.26	98.63	118.50
Total (assets)	**21,330,137,542**	**27,590,844,761**	**38,873,306,084**	**53,010,803,126**	**57,305,413,482**	58356827501

Source: Annual report of NABIL & NIBL (2005/06 to 2010/11)

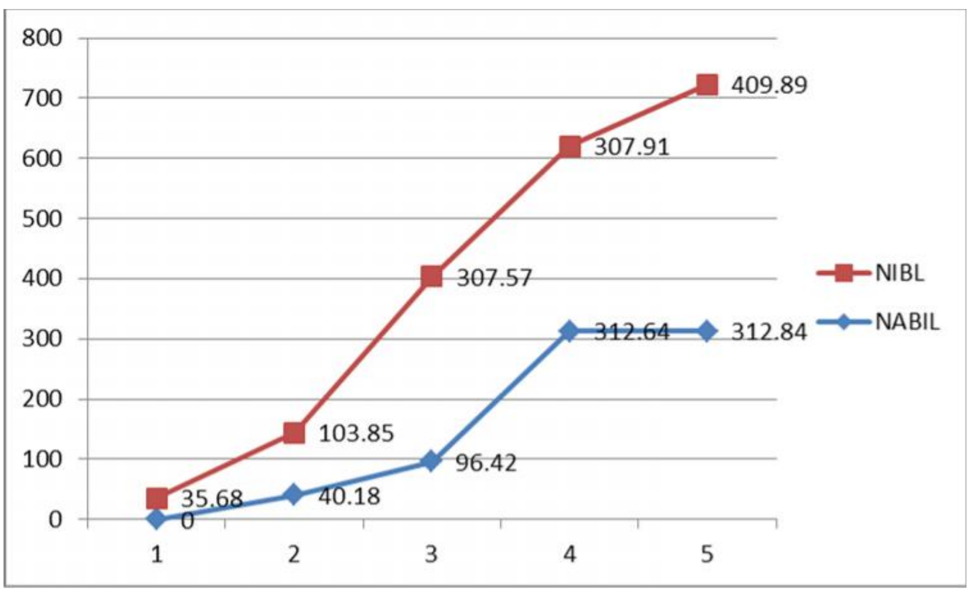
Note: change in percentage calculated on the base year 2005/06

Share Capital

Share capital of NABIL had not changed in the year 2006/07 taking the base year 2005/06. Then it has continuously increased from the year 2007/08 to 2010/11 by 40.18, 96.42, 312.64 and 312.84 percent. In the other hand, the same item was started to increase from the year 2005/06 to 2010/11 in the case of NIBL. The changed percent in respective years were 35.68, 103.85, 307.57, 307.91 and 409.89 percent.

The changed figures in the form of percent can also be presented in a figure and has shown in the following:

Figure: 4.1: Trend of Share Capital



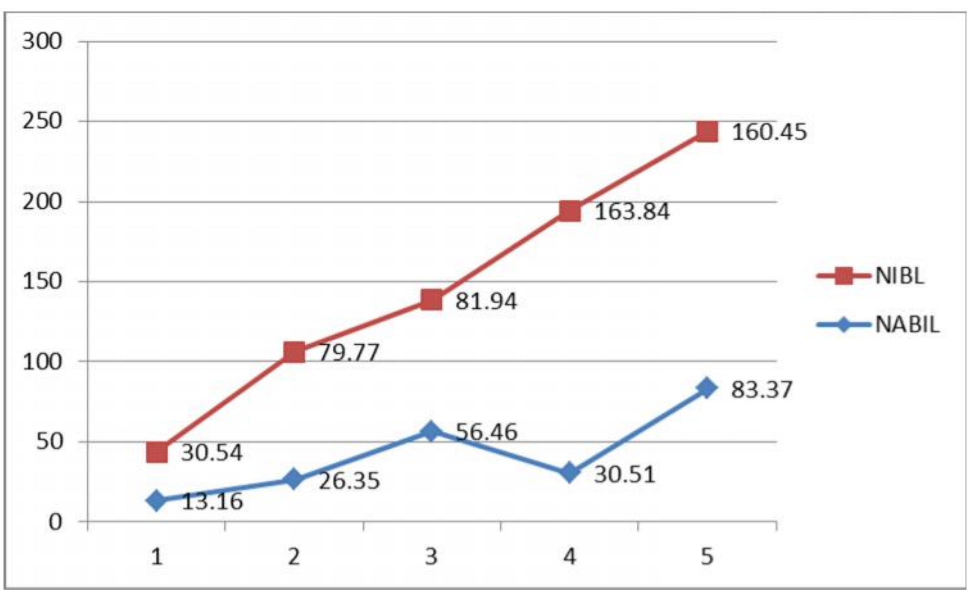
In figure 4.1, the percent change in share capital of both banks has been presented. Financial year has shown in X- axis and trend percent in Y- axis. As shown in X-axis, year 1 represents FY 2006/07. Simply it can be seen that both banks have increasing trend percent in share capital. But increasing rate of NIBL is greater than that of NABIL.

Reserves and Surplus

Reserve and surplus of NABIL bank increased in 2006/07 by 13.16 percent comparing the base year 2005/06. Then it was increased by 26.35, 56.46, 30.51 and 83.37 percent. It has seen that except in the year 2009/10, reserve and surplus of NABIL has continuously been increased. On the other side, the same item has seen continuously increased in the study period. And the increase percent during the study period comparing the base year 2005/06 were 30.54, 79.77, 81.94, 163.84 and 160.45 percent.

The changed figures in the form of percent can also be presented in a figure and has shown in the following**:**

Figure: 4.2: Trend of Reserve and Surplus



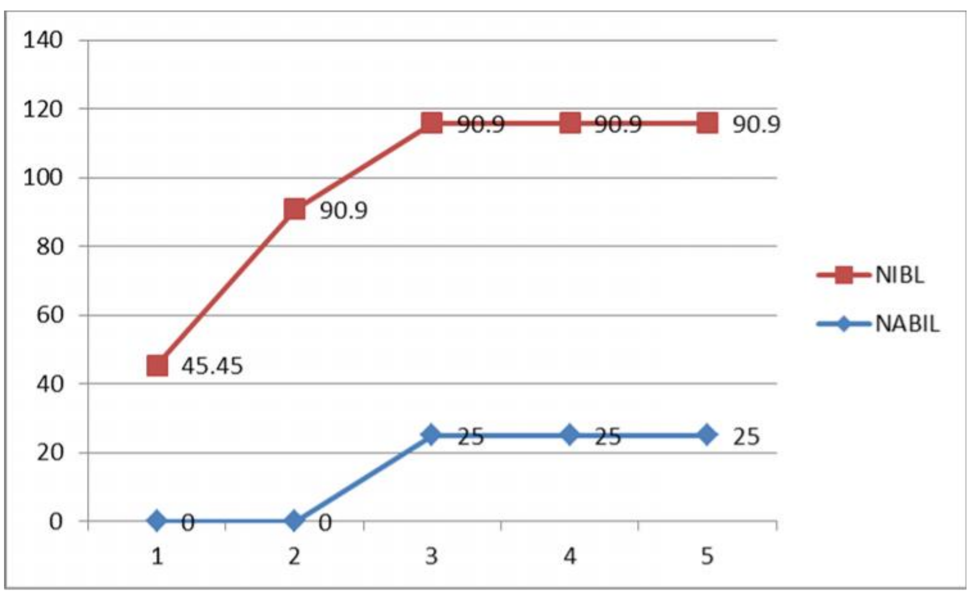
In the figure 4.2, the percent change in reserves and surplus of both banks has been presented. X- axis represents financial year and Y- axis represents trend percent. Simply it can be seen that both banks have increasing trend percent in reserve and surplus. But increasing rate of NIBL is greater than that of NABIL.

Debentures & Bonds

NABIL bank issued debentures and bonds only in the year 2007/08. Therefore the base year for the bank is 2007/08. And it was increased by 25 percent in the remaining years. In case of NIBL the base year is 2005/06 and the same balance sheet item was increased in succeeding years by 45.45 and 90.90 percent up to the last year of study.

The changed figures in the form of percent can also be presented in a figure as shown in the following**:**

Figure: 4.3: Trend of Debenture and Bonds



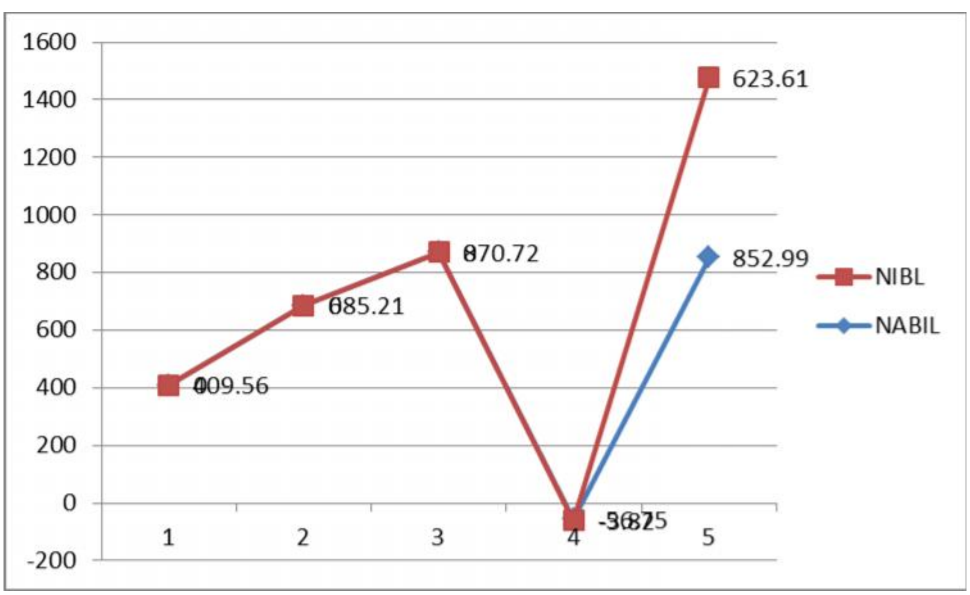
In the figure 4.3, the percent change in debenture and bonds of both banks has been presented. X- axis and Y- axis represent financial year and percent change respectively. From this figure it can be seen that NABIL bank has increased its debenture and bonds in the next year comparing with the base year 2005/06, and then it is stable in remaining years. In the case of NIBL, the same item has increased in the first two years comparing with the base year, after that there were no changes in remaining years. Hence the figures were constant. It is to be noted that increasing rate of NIBL is greater than that of NABIL.

Borrowings

Borrowings of NABIL had continuously increased till 2008/09 as compared with the base year 2005/06 and decreased in fiscal year 2009/10. Again it increased in 2010/11. The trend percent were 409.56, 685.21, 870.72, (56.75) and 852.99. Borrowings of NIBL have decreased by 3.82 percent in 2009/10 comparing base year 2008/09 and was increased by 623.61 in the last study year ie.2010/11.

The changed figures in the form of percent can also be presented in a figure and has shown in the following**:**

Figure: 4.4: Trend of Borrowings



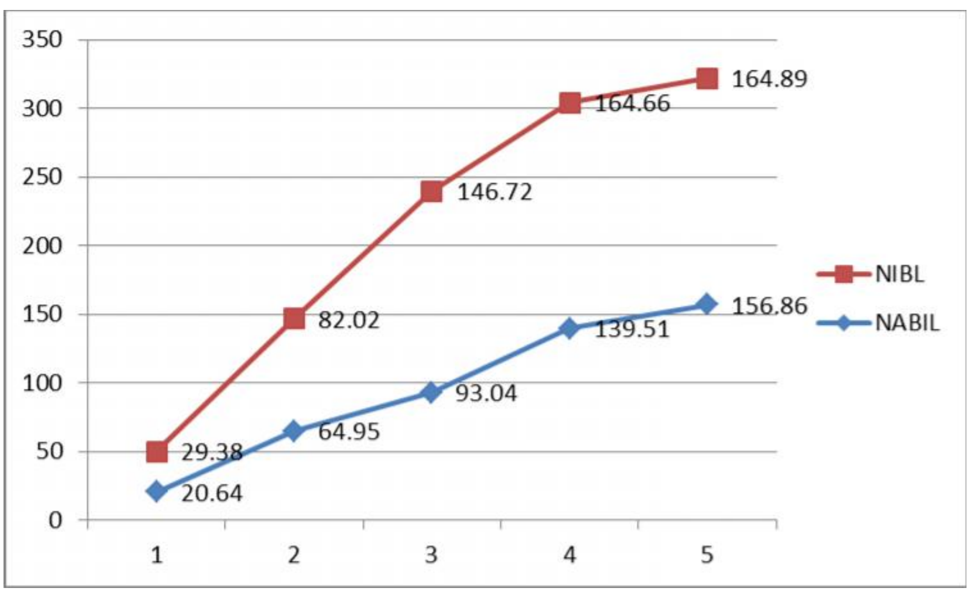
In figure 4.4, the percent change in borrowings has continuously increased except in the year 2009/10. In this period the bank had paid some part of its borrowing amounts. In the case on NIBL the borrowed amounts were paid in the first year comparing the base year then again it has increased in the final study year.

Deposits

Deposit of both banks has continuously risen comparing the base year during the study period. Trend percent of NABIL was 20.64, 64.95, 93.04, 139.51 and 156.86 percent. Similarly it was 29.38, 82.02, 146.72, 164.66 and 164.89 in the case of NIBL.

The changed figures in the form of percent can also be presented in a figure and has shown in the following**:**

Figure: 4.5: Deposit Trend



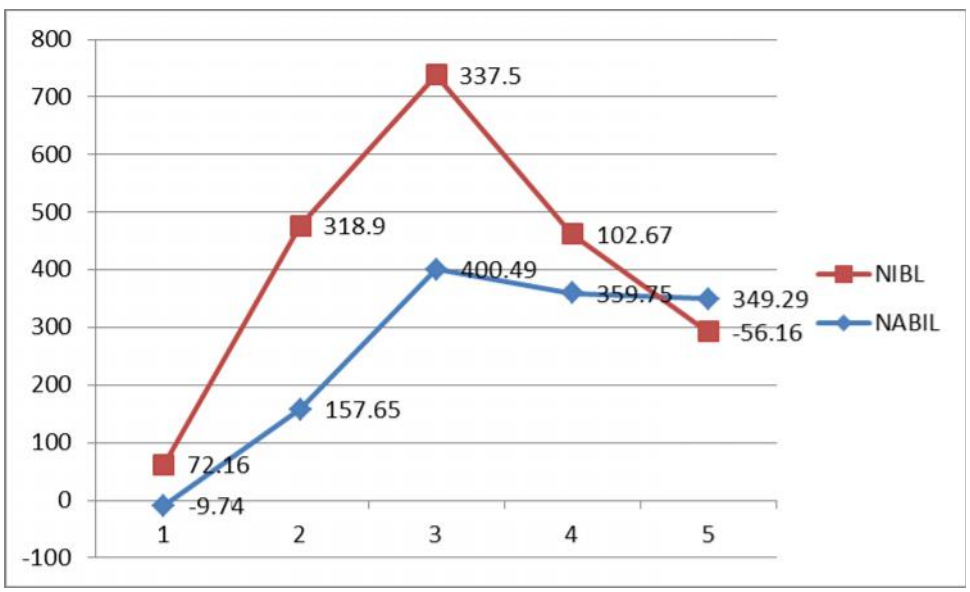
In figure 4.5, the percent change in deposits of both banks has continuously increased. But it looks like that increasing rate of NIBL is greater than that of NABIL.

Bills Payable

The bills were paid by NABIL bank and hence its percent change had decreased by 9.74 in the year 2006/07 as compared to the base year 2005/06. After that it has increased in the remaining years. In these years, increasing trend percent were 157.65, 400.49, 359.75 and 349.29. In case of NIBL the same liability item was continuously increased except in the final year. These changes were 72.16, 318.90, 337.50, 102.67 and (56.16) percent.

The changed figures in the form of percent can also be presented in a figure and has shown in the following**:**

Figure: 4.6: Bills Payable Trend



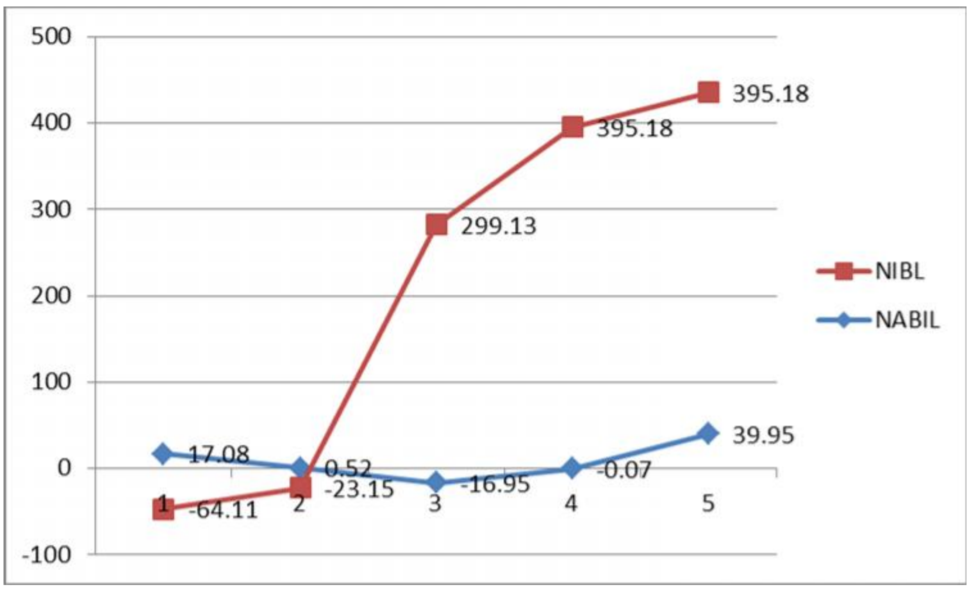
In figure 4.6, rise and fall trend percent can be seen.

Proposed and Undistributed Dividends

In the case of NABIL bank the first two years were good from the side of investors. In these years the dividend were increased by 17.08 and 0.52 percent. After these in the next two years it had decreased by 16.95 and 0.07 percent. Again in the last year it was increased by 39.95 percent. In the other hand the same item was decreased in the first two years comparing the base year 2005/06 and the percent were 64.11 and 23.15. After these it was remarkably increased by 299.13, 395.18 and 395.18 percent in the financial years 08/09,09/10 and 10/11.

The changed figures in the form of percent can also be presented in a figure as:

Figure: 4.7: Dividend Trend



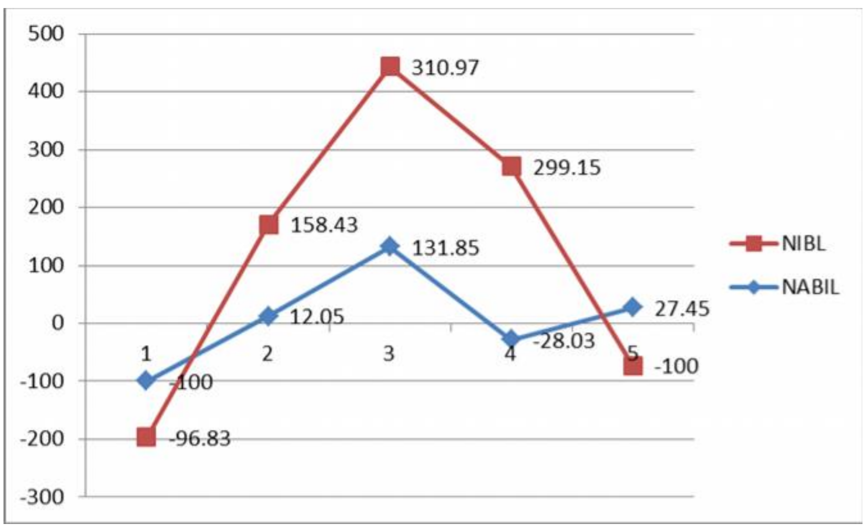
In the figure 4.7, the percent change in dividend has been presented. It can be observed that NIBL has better dividend growth rate than that of NABIL.

Income Tax Liabilities

Income tax liability of NABIL bank had decreased by 100 percent in the year 2006/07 comparing the base year 2005/06. It means bank had totally paid its tax liability to the government. Then it had increased by 12.05 and 131.85 percent for next two years. After this it decreased by 28.03 percent and increased in the last year by 27.45 percent. While in the case of NIBL income tax liability had decreased by 96.83 percent in the first year. And then started to increase in next three years but decreased in the last year. The changes on income tax liability representing by percent were 158.43, 310.97, 299.15 and (100.00) percent.

The changed figures in the form of percent can also be presented in a figure and has shown in the figure 4.8:

Figure: 4.8: Tax Liability Trend



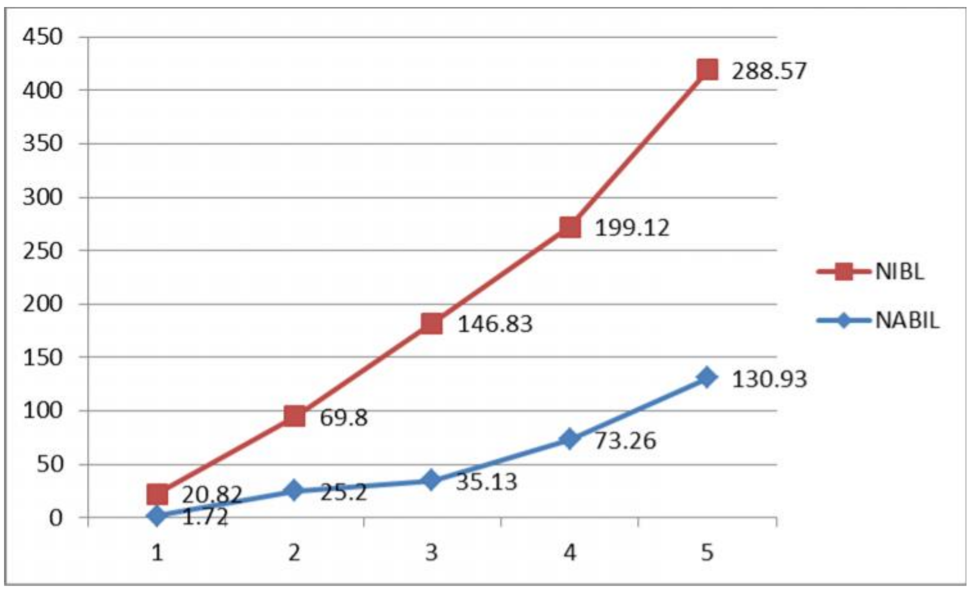
In above trend figure 4.8, there are some similarities like – in the first year both banks' tax liability had decreased and increased in next two years. However it can be noticed that increasing rate was high of NIBL than that of NABIL.

Other Liabilities

The trend of other liabilities of both banks has continuously increased comparing the base year 2005/06. In the case of NABIL these changes were 1.72, 25.20, 35.13, 73.26 and 130.93 percent. Whereas the same changes in the form of percent of NIBL were 20.82, 69.80, 146.83, 199.12 and 288.57 percent.

The changed figures in the form of percent can also be presented in a figure:

Figure: 4.9: Other Liability Trend



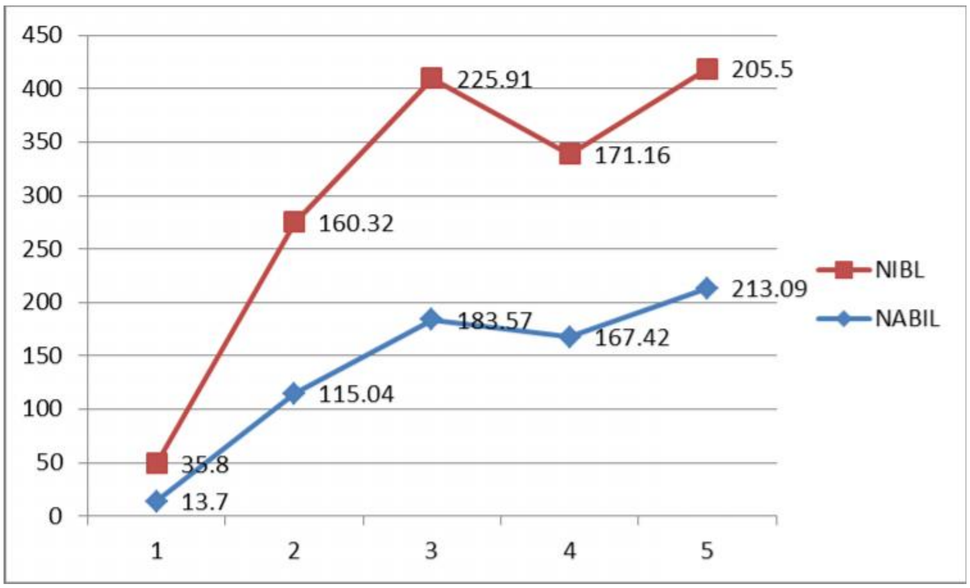
In the above figure 4.8, the continuous increasing trend can be seen. Both banks' other liability trend has increased but increasing rate of NIBL is larger than that of NABIL.

Cash Balance

The cash balance of both banks had increased consciously comparing the base year 2005/06. In the case of NABIL these percentages were 13.7, 115.04, 183.57, 167.42 and 213.09 percent. The same item in the case of NIBL was 35.8, 160.32, 225.91, 171.16 and 205.50 percent.

The changed figures in the form of percent can also be presented in the figure:

Figure: 4.10: Cash Balance Trend



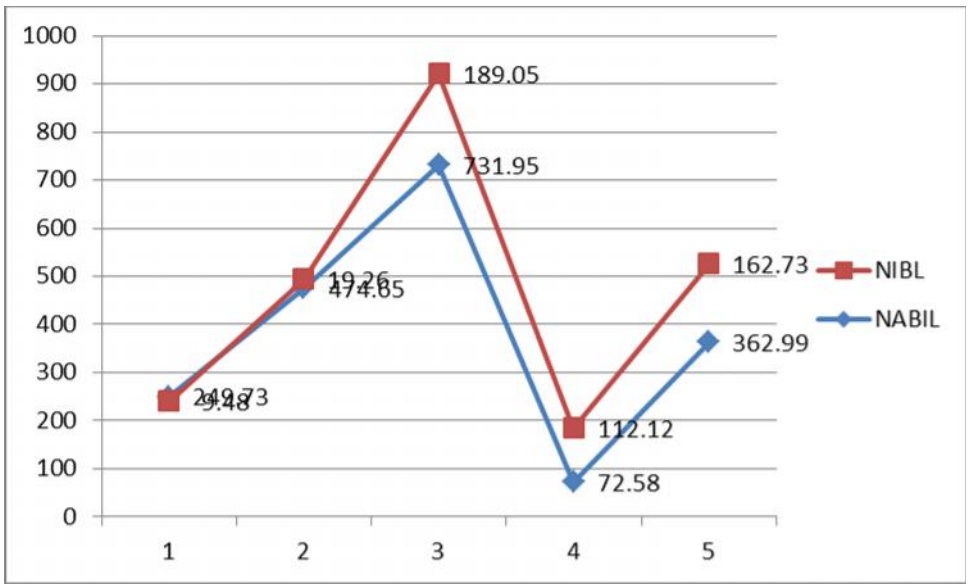
In the figure 4.9, both banks' cash trend is similar. It means while one bank's trend increased other bank's also increased and vice versa. Again it is to be noted that increasing rate of NIBL is greater than that of NABIL.

Balance with Nepal Rastra Bank

The balance with NRB of NABIL had increased during all the study period comparing the base year 2005/06. These changes in the form of percent were 249.73, 474.65, 731.95, 72.58 and 362.99 percent. The same assets item of NIBL was decreased in the year 2006/07 and had increased by 19.26, 189.05, 112.12 and 162.73 percent in the remaining years of the study.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.11: NRB Balance Trend



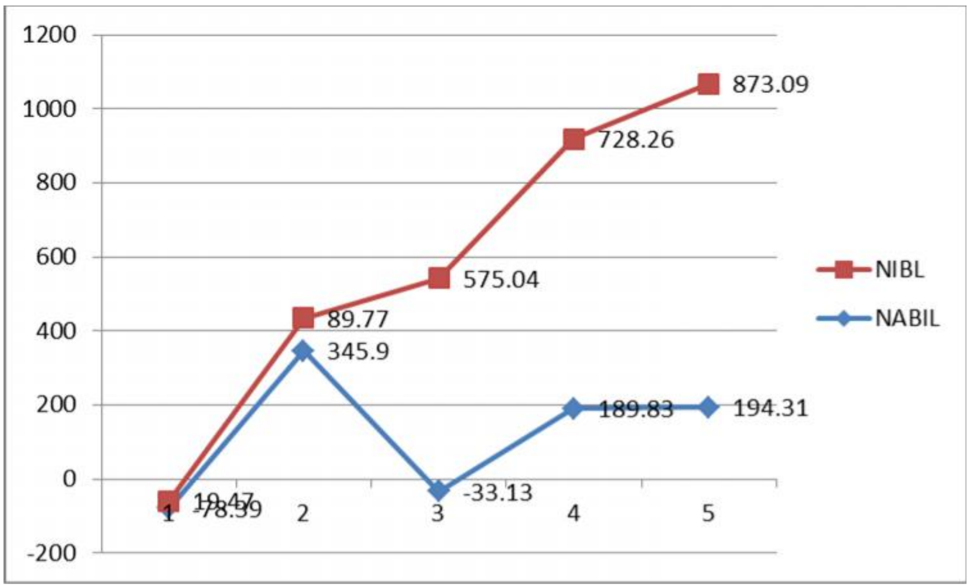
In the figure 4.10, increasing NRB balance trend of NABIL can be seen in the first three years; after that it had decreased in second last year whereas there is increasing trend in the final year of study period. However in the case of NIBL it was in negative trend in the first year, and then increased in the next two years. The same was decreased in the second last year while increased in the final year.

Balance with Banks/Financial Institutions

A fluctuation trend in NABIL bank's balance with bank & financial institutions can be seen during the study period. In the year 2006/07 and in 2008/09 this item had decreased comparing the base year 2005/06. The decreased percent was 78.39 and 33.13 percent. In the remaining years, it was increased by 345.9, 189.83 and 194.31 percent. In the other hand, NIBL bank's balance with bank & financial institutions has continuously been increased comparing the base year. These changes in the form of percent were 19.47, 89.77, 575.04, 728.26 and 873.09 percent.

The changed figures in the form of percent can also be presented in a figure:

Figure: 4.12: Trend of Balance with Other Banks and Financial Institutions



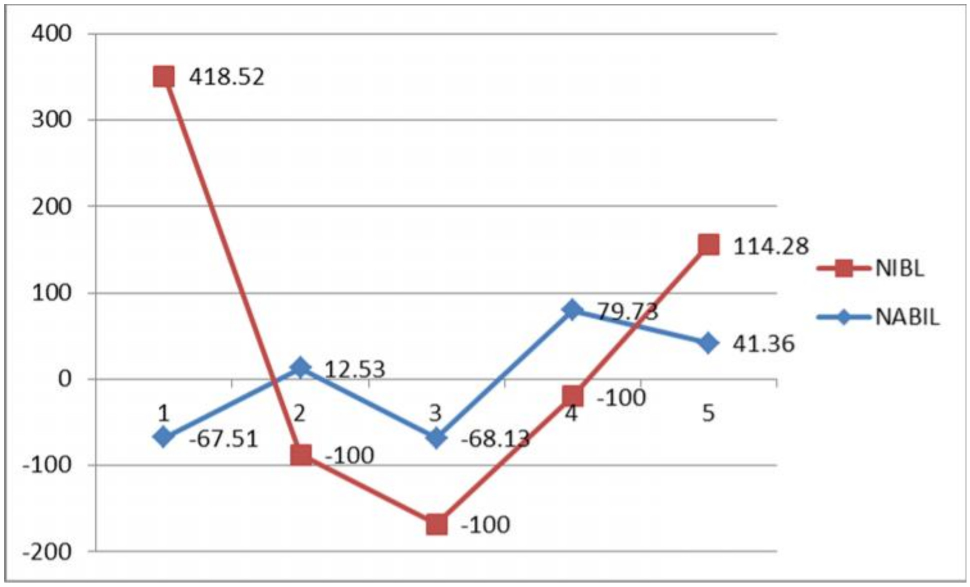
In figure 4.11, both rising and falling trend can be seen in the case of NABIL. But in the case of NIBL the same item has continuously been increasing.

Money at Call and Short Notice

In the first year, the above item of NABIL bank had decreased by 67.51 percent. However in the second year it was increased by 12.53 percent. And again in the third year it had decreased by 68.13 percent comparing the base year 2005/06. In the last two years it was increased by 79.73 and 41.36 percent. The matter in the same item of NIBL is different. A huge increment (418.52) was made in the first year, and then it was completely disappeared in the next three years. And in the last year it was again increased by 114.285 percent.

The changed figures in the form of percent can also be presented as:

Figure: 4.13: Trend of Money at Call and Short Notice



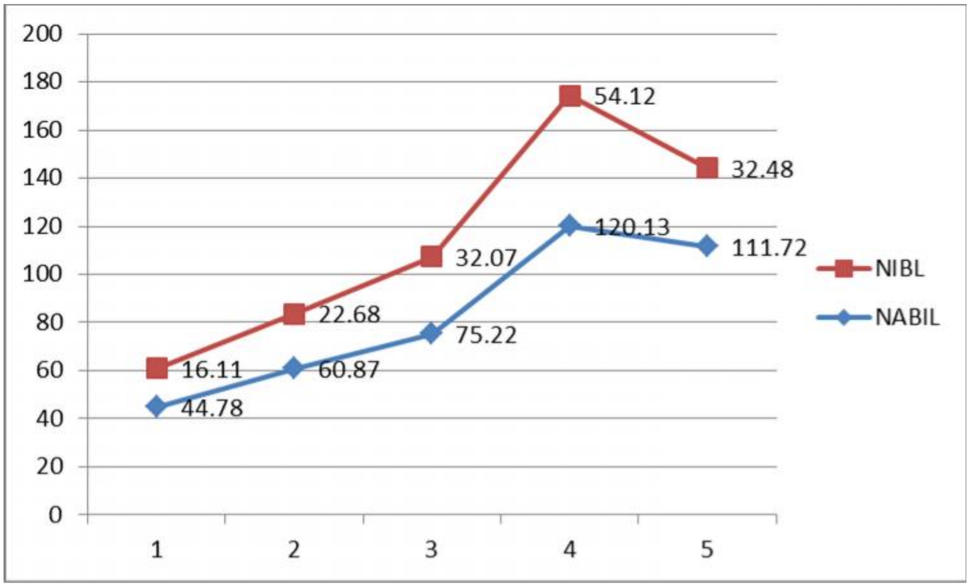
The figure 4.12 shows both banks' inconsistent trend.

Investment

The investment of NABIL has continuously increased in the first four years and was decreased in the last year. In these years the changed percent were 44.78, 60.87, 75.22, 120.13 and 111.72. The same type of trend can be seen in the case of NIBL and the percents were 16.11, 22.68, 32.07, 54.12 and 32.48 percent during the study period.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.14: Investment Trend



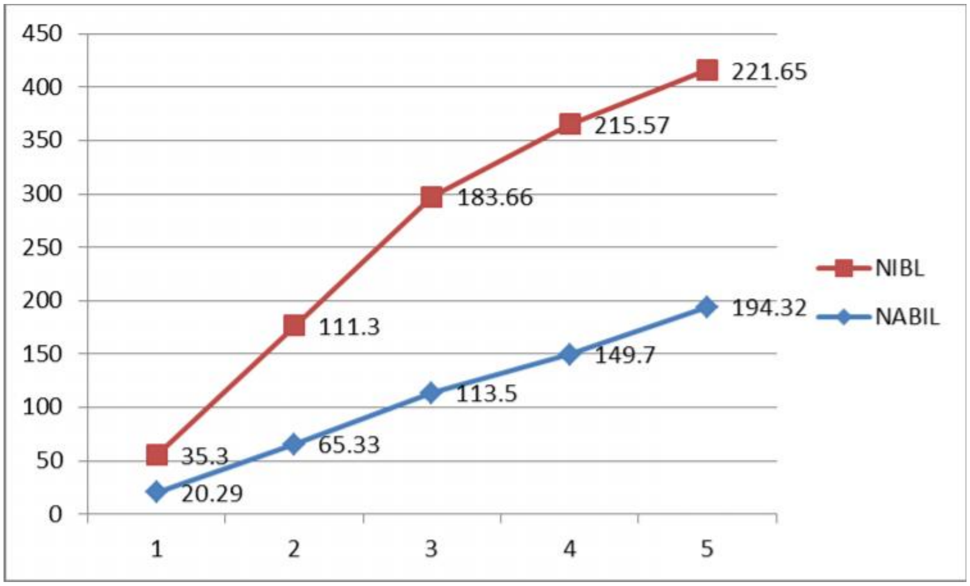
In figure 4.13, similar type of trend percent of both banks can be seen. Both banks' investment trend seems increasing till the fourth year, then in the last year it had decreased. There is consistency in investment trend.

Loans, Advances and Bills Purchased

If it is viewed the financial statement of both banks, it can be easily seen that there is an increasing trend of loan, advances and bills purchased. In the case of NAIBL the changes represented by percent were 20.29, 65.33, 113.50, 149.70 and 194.32. Similarly in the case of NIBL the same item was 35.30, 111.30, 183.66, 215.57 and 221.65 percent.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.15: Trend of Loan, Advance & Bills Purchased



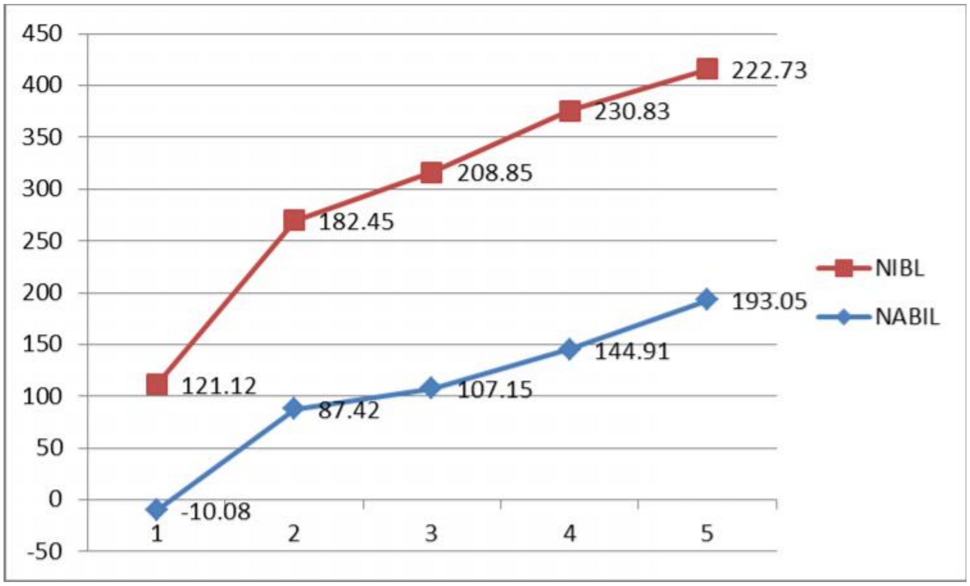
In the above figure 4.14, it can easily been seen that both banks have continuous increasing trend in loan, advance & bills purchased. But it is necessary to note that increasing rate of NABIL has greater than that of NIBL.

Fixed Assets

The value of fixed asset of NABIL had decreased by 10.08 in the first year comparing the base year 2005/06. After that it has been continuously increasing. And the increasing rates were 87.42, 107.15, 144.91 and 193.05 percent. However in the case of NIBL the same item were continuously increased. These percents were 121.12, 182.45, 208.85, 230.83 and 222.73 percent.

The changed figures in the form of percent can also be presented in a figure:

Figure: 4.16: Trend of Fixed Assets



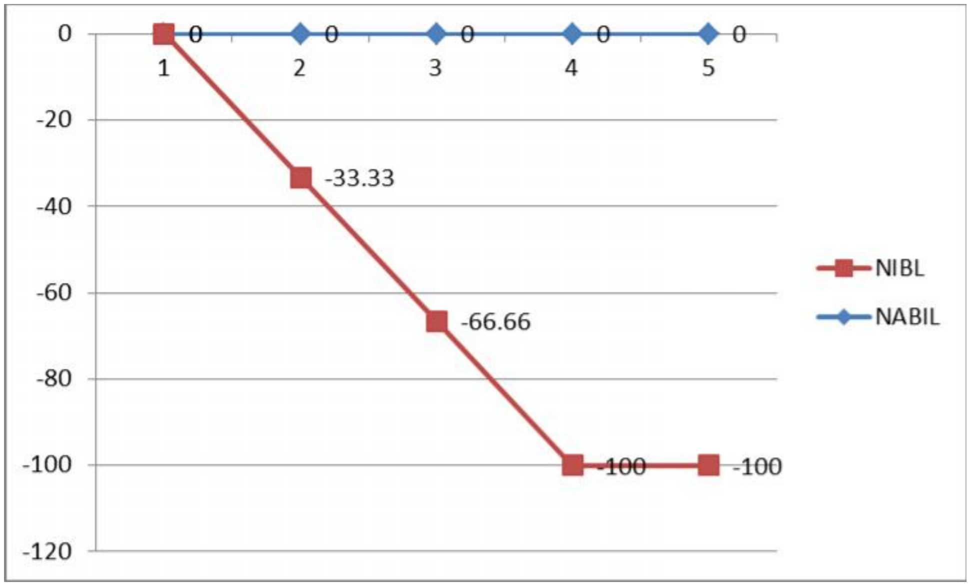
In figure 4.15, the increasing trend percent of fixed assets of both banks can be seen. However in the first year of NABIL bank the trend was decreased. And it is noted that the rate of NIBL is higher than that of NABIL.

Non-Banking Assets

In the case of NABIL, it does not have any non-banking assets. However in the case of NIBL its non-banking assets were discarded within two years comparing the base year 2005/06. These changes in the form of percent were 33.33 and 66.66 percent. And in the last two years there were no existence of non-banking assets.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.17: Trend of Non-banking Assets



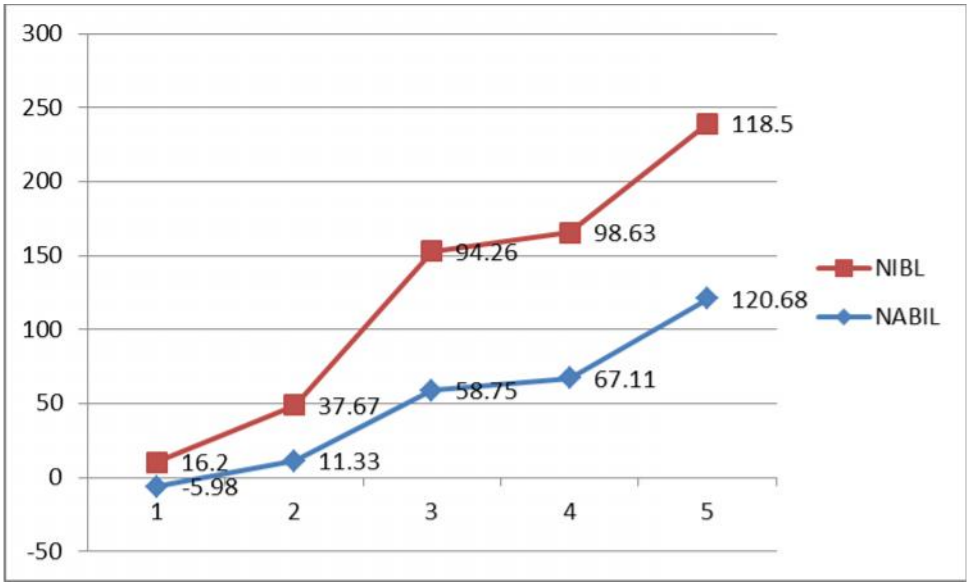
In figure 4.16, the decreasing trend of non-banking assets of NIBL can be seen.

Other Assets

Other assets of NABIL bank in the first year comparing the base year 2005/06 had decreased by 5.98 percent. Then in the remaining years it was continuously increased and the rates were 11.33, 58.75, 67.11 and 120.68 percent. On the other hand, in case of NIBL the same item has continuously been increased. These changes were 16.20, 37.67, 94.26, 98.63 and 118.50 percent.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.18: Trend of Other Assets



In figure 4.17, the increasing trend of other assets can be seen. Both banks have similar type of increasing trend except the first year of NABIL's trend.

Income statement is a financial statement that measures a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period, typically over a fiscal quarter or year. In the case of banking business, the major income sources are interest and commission & discount etc. Similarly the major expenses are interest expenses and staff expenses etc. In the context of this study only major items shall explain through trend analysis hereunder.

Table: 4.3: Profit and Loss Account [NABIL]

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Interest Income	1,309,998,500	1,587,758,714	1,978,696,727	2,798,486,196	4,047,725,656	5,258,269,627
% change		21.20	51.04	113.62	208.98	(57.38)
Interest Expense	357,161,304	555,710,109	758,436,212	1,153,280,052	1,960,107,902	2,946,691,281
% change		55.59	112.35	222.90	448.80	725.03

Net Interest Income	**952,837,196**	**1,032,048,605**	**1,220,260,515**	**1,645,206,144**	**2,087,617,754**	**2,311,578,346**
% change		8.31	28.06	72.66	119.09	142.59
Commission and Discount	138,293,913	150,608,550	156,234,754	179,693,027	215,481,543	290,855,057
% change		8.90	12.97	29.93	55.81	110.31
Other Operating Income	82,897,862	87,574,553	97,444,578	144,164,143	169,548,006	183,444,757
% change		5.64	17.54	73.90	104.52	121.29
Exchange Income	185,483,662	209,926,167	196,487,415	251,919,712	291,440,756	276,102,798
% change		13.17	5.93	35.81	57.12	48.85
Total Operating Income	**1,359,512,633**	**1,480,157,875**	**1,670,427,262**	**2,220,983,026**	**2,764,088,060**	**3,061,980,958**
% change		8.87	22.86	63.36	103.31	125.22
Staff Expense	219,780,853	240,161,275	262,907,576	339,897,913	367,162,384	455,616,099
% change		9.27	19.62	54.65	67.05	107.30
Other Operating Expense	182,696,413	188,183,330	220,750,570	265,158,033	334,668,677	403,992,554
% change		3.00	20.82	45.13	83.18	121.12
Exchange Loss	-	-	-	-	-	–
Operating Profit before Provision for Possible Losses	**957,035,367**	**1,051,813,270**	**1,186,769,116**	**1,615,927,080**	**2,062,256,999**	**2,202,372,305**
Provision for Possible Losses	3,769,541	14,206,365	64,055,186	45,722,434	355,829,115	109,470,414
Operating Profit	**953,265,826**	**1,037,606,905**	**1,122,713,930**	**1,570,204,646**	**1,706,427,884**	**2,092,901,891**
% change		8.84	17.77	64.71	79.00	119.55
Non-Operating Income /(Expense)	735,324	5,280,641	24,083,737	2,190,102	6,454,724	6,981,078
Provision for Possible Losses Write Back	7,729,444	10,926,317	11,100,529	10,617,867	39,791,809	7,101,374
Profit from Regular Activities	**961,730,594**	**1,053,813,863**	**1,157,898,196**	**1,583,012,615**	**1,752,674,417**	**2,106,984,343**
Income/(Expense) from Extra-ordinary Activities	26,073,578	40,736,694	39,990,808	43,521,866	34,321,843	314,8475
Profit from All Activities	**987,804,172**	**1,094,550,557**	**1,197,889,004**	**1,626,534,481**	**1,786,996,260**	**2,110,132,818**
Provision for Staff Bonus	89,800,379	99,504,596	108,899,000	147,866,771	162,518,278	192,007,714
Provision for Income Tax	262,741,444	321,086,263	342,521,610	447,614,612	485,907,180	572,394,411
This Year	262,562,561	314,526,570	342,468,738	446695867	485075241	572,182,047

Up to Previous Year	178,883	6,559,693	52,872	918,745	831,939	212,364
Subsidiary's company profit						1,551,273
Net Profit/(Loss)	**635,262,349**	**673,959,698**	**746,468,394**	**1,031,053,098**	**1,138,570,802**	**1,344,179,420**
% change		6.09	17.50	62.30	79.22	111.59

Source: Annual report of NABIL & NIBL (2005/06 to 2010/11)

Note: change in percentage calculated on the base year 2005/06

Profit loss account of NIBL for six years i.e. from FY 2005/06 to FY 2010/11 directly extracted from the bank's annual report has been presented as follows:

Table: 4.4: Profit and Loss Account [NIBL]

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Interest Income	1,172,742,193	1,584,987,354	2,194,275,722	3,267,941,142	4,653,521,338	5,803,440,174
% change		35.15	87.10	178.65	296.80	394.86
Interest Expense	(490,946,961)	(685,530,264)	(992,158,398)	(1,686,973,130)	(2,553,847,497)	(3,620,336,697)
% change		39.63	102.09	243.61	420.18	637.41
Net Interest Income	**681,795,232**	**899,457,090**	**1,202,117,324**	**1,580,968,012**	**2,099,673,841**	**2,183,103,477**
% change		31.92	76.31	131.88	207.96	220.19
Commission and Discount	115,942,016	163,899,110	215,292,193	262,791,664	242,886,274	269,429,160
% change		41.36	85.68	126.65	109.48	132.38
Other Operating Income	35,902,340	47,318,720	66,376,659	87,574,794	168,312,660	152,984,768
% change		31.79	84.88	143.92	368.80	326.11
Exchange Income	125,747,407	135,355,345	165,838,748	185,327,111	224,056,830	228,076,344
% change		7.64	31.88	47.38	78.18	81.37
Total Operating Income	**959,386,995**	**1,246,030,265**	**1,649,624,924**	**2,116,661,581**	**2,734,929,605**	**2,833,593,749**
% change		**29.87**	**71.94**	**120.62**	**185.07**	195.35
Staff Expense	(120,663,710)	(145,370,601)	(187,149,985)	(225,721,490)	(279,851,360)	(326,543,424)
% change		20.47	55.10	87.06	131.92	170.62
Other Operating Expense	(190,605,132)	(243,430,632)	(313,153,795)	(413,883,755)	(433,596,280)	(456,056,633)
% change		27.71	64.29	117.14	127.48	139.26
Exchange Loss	-	-	-	-	-	-
Operating Profit before Provision for Possible Losses	**648,118,153**	**857,229,032**	**1,149,321,144**	**1,477,056,336**	**2,021,481,965**	**2,050,993,692**
Provision for	(103,807,589)	(129,718,921)	(135,989,237)	(166,201,383)	(93,056,584)	(267,331,490)

Possible Losses						
Operating Profit	**544,310,564**	**727,510,111**	**1,013,331,907**	**1,310,854,953**	**1,928,425,381**	1,783,662,202
% change		33.65	86.16	140.82	254.28	227.69
Non-Operating Income /(Expense)	390,742	1,426,134	7,047,735	2,953,012	10,606,049	8,396,361
Provision for Possible Losses Write Back	10,704,164	66,776,784	101,576,771	114,653,009	50,000,462	106,634,071
Profit from Regular Activities	**555,405,470**	**795,713,029**	**1,121,956,413**	**1,428,460,974**	**1,989,031,892**	**1,898,692,634**
Income/(Expense) from Extra-ordinary Activities	-	-	-	-	-	(52,860,618)
Profit from All Activities	**555,405,470**	**795,713,029**	**1,121,956,413**	**1,428,460,974**	**1,989,031,892**	**1,845,832,016**
Provision for Staff Bonus	(50,491,407)	(72,337,548)	(101,996,038)	(129,860,089)	(180,821,081)	(167,802,911)
Provision for Income Tax						
This Year	(154,377,650)	(221,976,628)	(321,287,519)	(389,580,266)	(532,898,521)	(5,003,559,900)
Up to Previous Year				7,477,673	-	-
- Deferred Tax Income / (Expense)			(1,941,340)	(15,879,221)	(9,362,702)	(1,028,175)
Net Profit/(Loss)	**350,536,413**	**501,398,853**	**696,731,516**	**900,619,072**	**1,265,949,588**	**1,176,641,031**
% change		43.03	98.76	156.92	261.14	408.83

Source: Annual report of NABIL & NIBL (2005/06 to 2010/11)

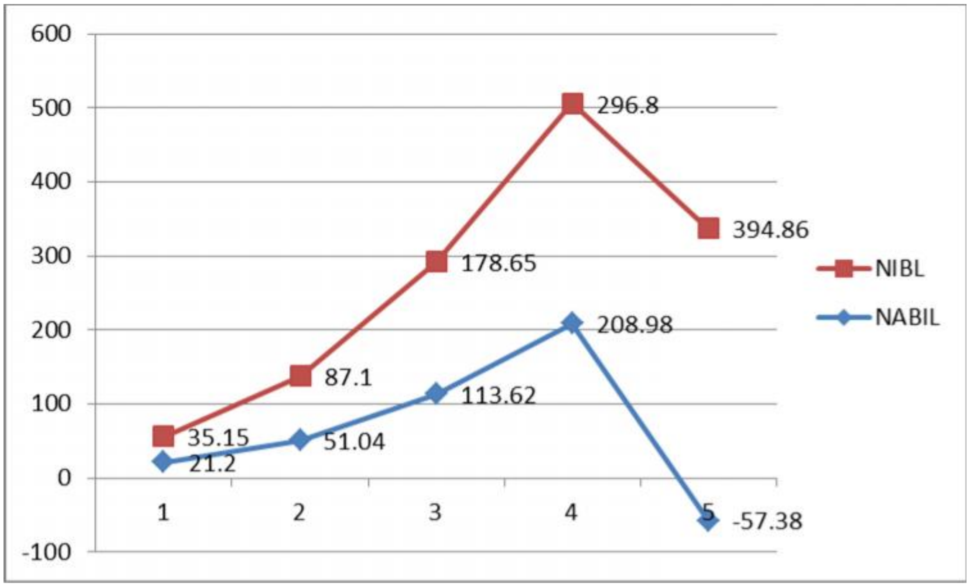
Note: change in percentage calculated on the base year 2005/06

Interest Income

Interest income of NABIL had continuously increased till the fourth year comparing the base year 2005/06 but it has decreased by 57.38 percent in the last year. The increasing percent of NABIL were 21.20, 51.04, 113.62 and 208.98 percent. On the other hand, the same item of NIBL has continuously increased. The rates were 35.15, 87.10, 178.65, 296.80 and 394.86 percent.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.19: Trend of Interest Income



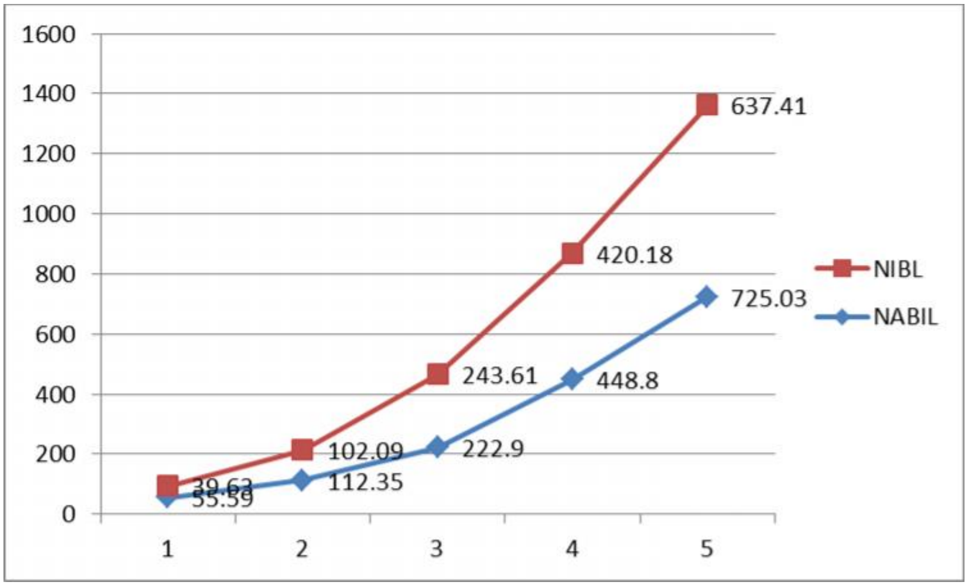
In figure 4.18, interest income trend of both banks can be seen. The increasing rate of NIBL is higher than that of NABIL.

Interest Expense

Interest expenses of both banks have been increasing during the study period. These changes of NABIL were 55.59, 112.35, 222.90, 448.80 and 725.03 percent. The same item of NIBL was 39.63, 102.09, 243.61, 420.18 and 637.41 percent.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.20: Trend of Interest Expense



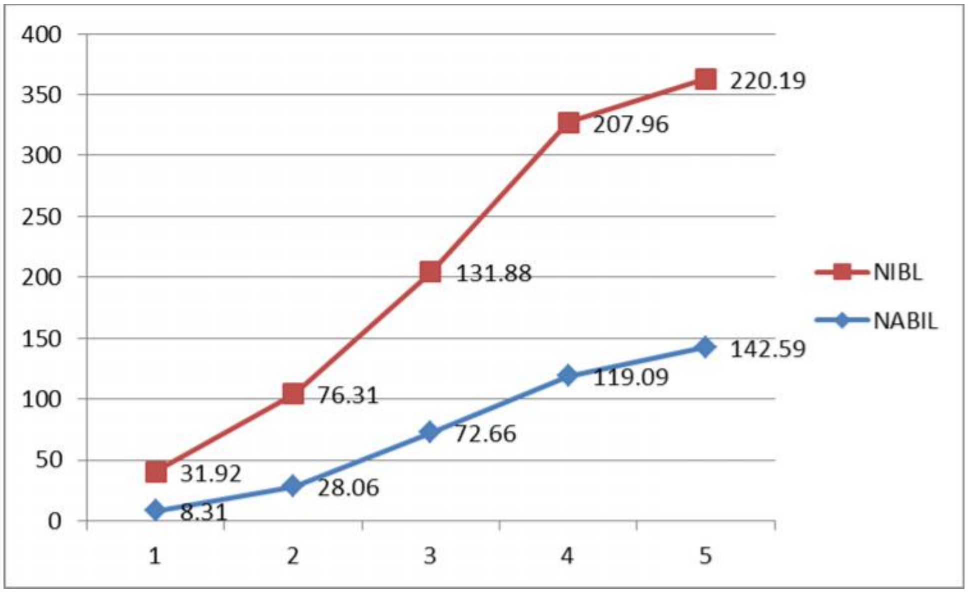
In figure 4.19, interest expenses trend of both banks can be seen. Both banks have increasing trend of interest expenses.

Net Interest Income

Only interest income and interest expenses do not show the actual performance of banks. Therefore it is necessary to identify the trend of net interest income there. The changes in net interest of NABIL were 8.31, 28.06, 72.66, 119.09 and 142.59 percent. On the other hand, the same item of NIBL was 31.92, 76.31, 131.88, 207.96 and 220.19 percent. Comparing the percent changes of both banks, NIBL has greater rate of changes than NABIL.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.21: Trend of Net Interest Income



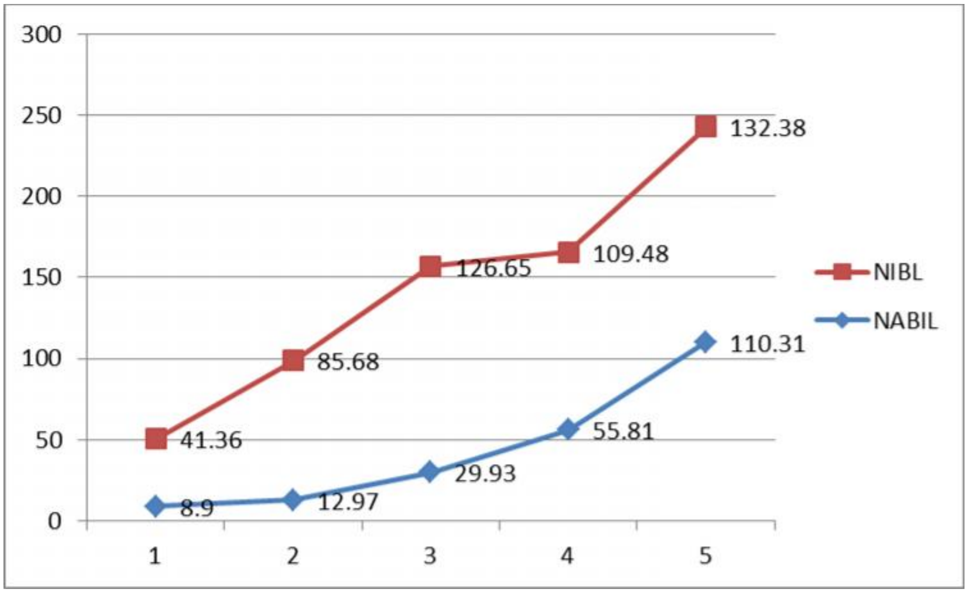
In figure 4.20, both banks' increasing trend in the net interest income can be seen. But it is necessary to notice that increasing rate of NIBL is greater than that of NABIL.

Commission and Discount

Commission and discount of both banks have been increasing comparing the base year 2005/06. The percent change of NABIL was 8.90, 12.97, 29.93, 55.81 and 110.31 percent. Similarly, in the case of NIBL the same item percent was 41.36, 85.68, 126.65, 109.48 and 132.38 percent.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.22: Trend of Commission and Discount



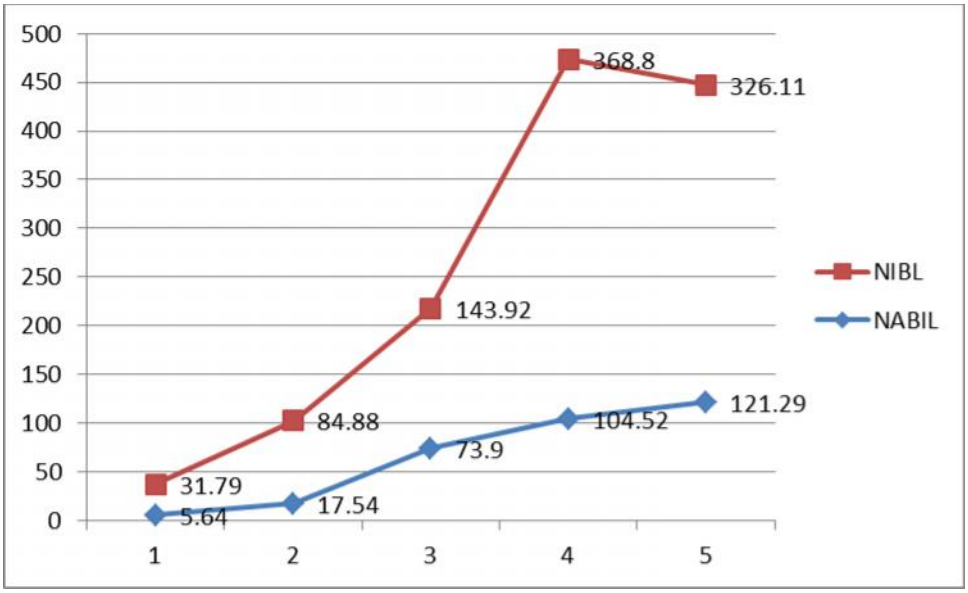
The figure 4.21 shows increasing trend of discount and commission during the study period. Both banks have increasing trend however NIBL's trend on such item is greater than that of NABIL.

Other Operating Income

The trend of other operating income of both banks is similar. This means both banks trend is increasing. The changes in the form of percent of NABIL during the study period are 5.64, 17.54, 73.90, 104.52 and 121.29 percent. Similarly the same item of NIBL is 31.79, 84.88, 143.92, 368.80 and 326.11 percent.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.23: Trend of Other Operating Income



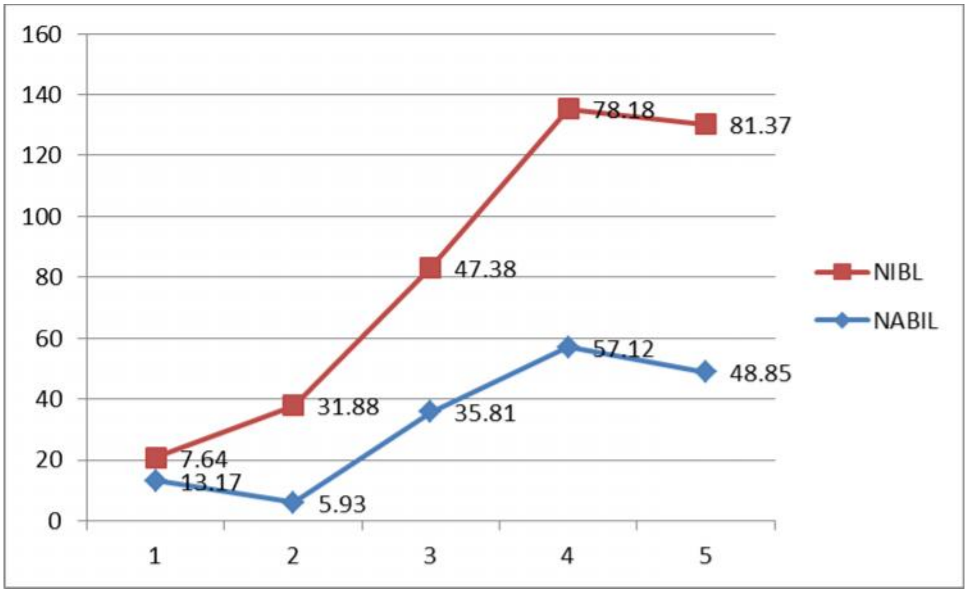
In figure 4.22, the increasing trend of other operating expenses of both the banks can be seen. However, NIBL increasing trend rate is high than that of NABIL.

Exchange Income

The exchange income of both banks has been increasing comparing with the base year 2005/06. The exchange income of NABIL increased during the study period is 13.17, 5.93, 35.81, 57.12 and 48.85 percent. In the case of NIBL the same item has increased by 7.64, 31.88, 47.38, 78.18 and 81.37 percent.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.24: Trend of Exchange Income



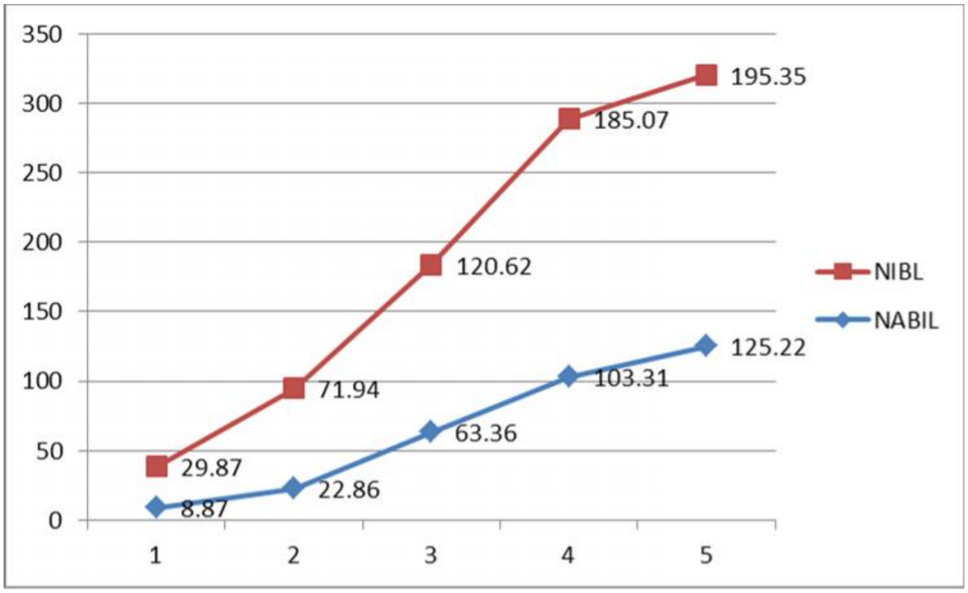
In figure 4.23, increasing trend of exchange income can be seen.

Total Operating Income

Total operating income of both banks has been continuously increasing during the study period. In the case of NABIL, the trend percent are 8.87, 22.86, 63.36, 103.31 and 125.22 percent. Similarly in the case of NIBL, the same item increased by 20.47, 55.10, 87.06, 131.92 and 170.62 percent.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.25: Trend of Total Operating Income



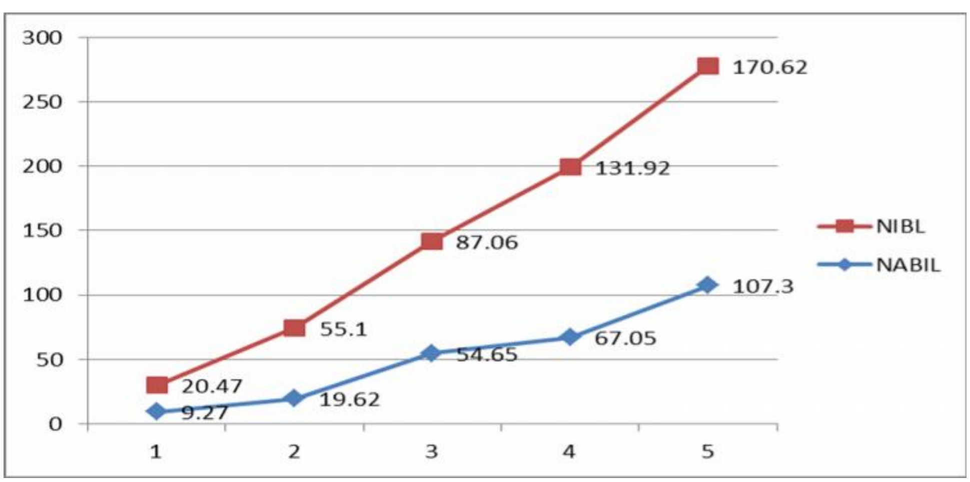
In figure 4.24, increasing trend of total operating income can be seen.

Staff Expense

Staff expenses of NABIL have increased by 9.27, 19.62, 54.65, 67.05 and 107.30 percent. On other hand, the same item has increased by 20.47, 55.10, 87.06, 131.92 and 170.62 percent in the case of NIBL.

The changed figures in the form of percent can also be presented in a figure and has shown in the following figure:

Figure: 4.26: Trend of Staff Expense



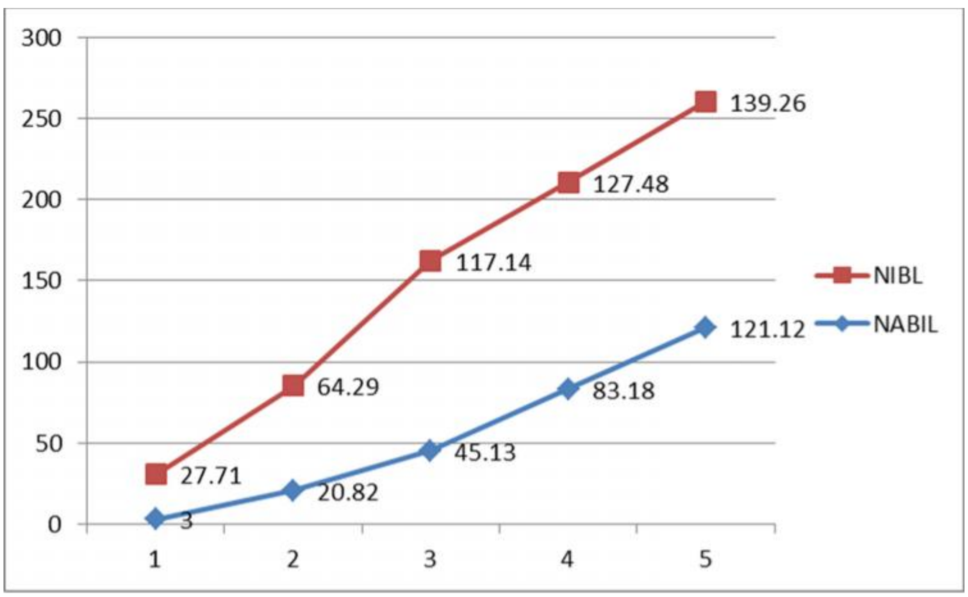
In figure 4.25, increasing trend of total operating income can be seen.

Other Operating Expense

Other operating expenses of NABIL were slightly increased by 3 percent in the first year as compared with the base year. In the remaining periods, it was increased by 20.82, 45.13, 83.18 and 121.12 percent. On the other hand, in the case of NIBL the same item has increased by 27.71, 64.29, 117.14, 127.48 and 139.26 percent.

The changed figures in the form of percent can also be presented in a figure and has shown in the following:

Figure: 4.27: Trend of Other Operating Expense



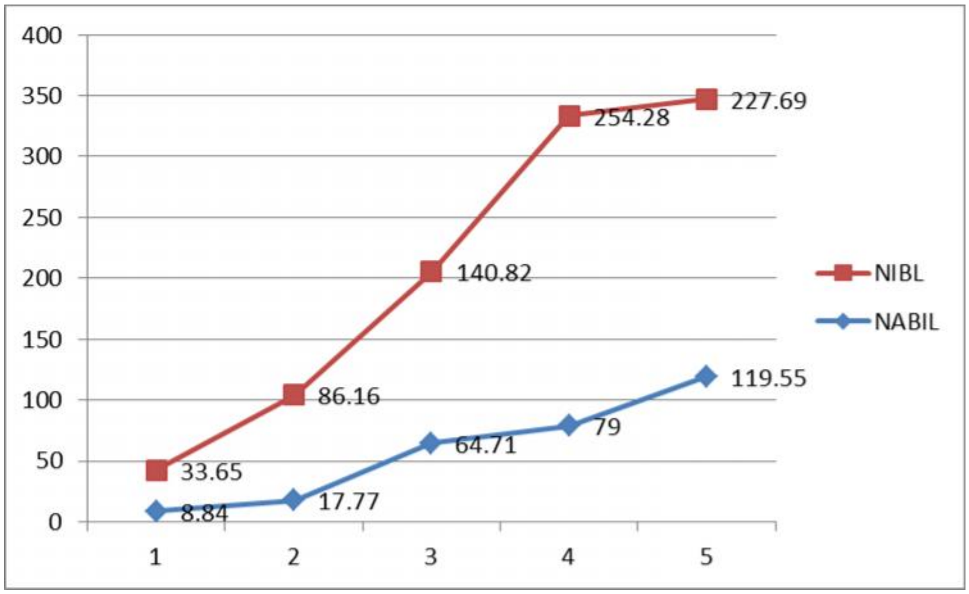
In above figure, increasing trend of other operating expenses can be seen.

Operating Profit

Operating profit of NABIL has remained in increasing trend but it seems that increasing rate is lower than that of NIBL. Trend percent of NABIL comparing the base year 2005/06 are 8.84, 17.77, 64.71, 79.00 and 119.55 percent. In the case of NIBL, the same item has increased by 33.65, 86.16, 140.82, 254.28 and 227.69 percent.

The changed figures in the form of percent can also be presented in a figure and has shown in the following:

Figure: 4.28: Trend of Operating Profit



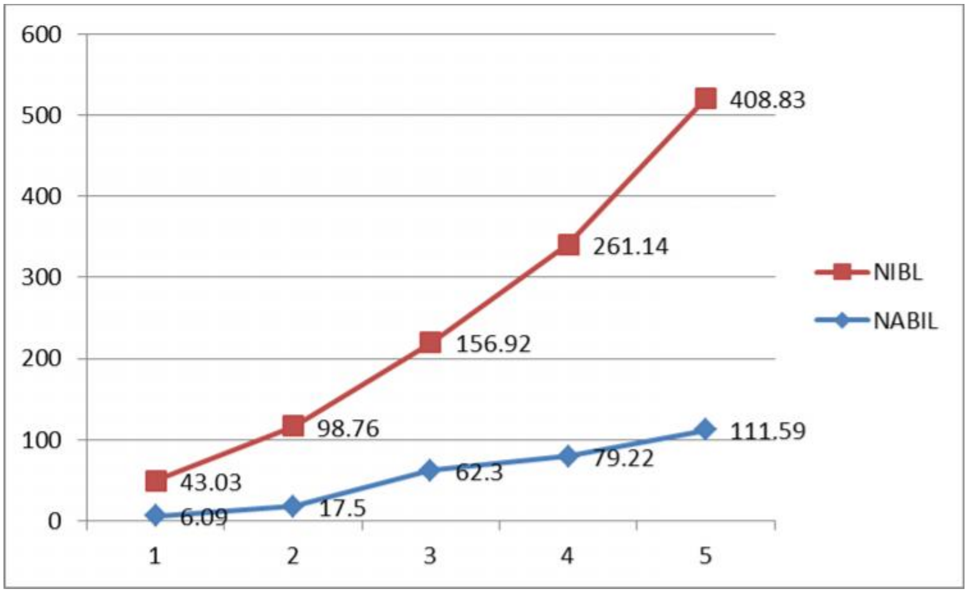
In the above figure, increasing trend of other operating expenses can be seen.

Net Profit

Net profit of both banks has been increasing. But the increasing rate of NIBL is greater than that of NABIL. The increasing rate of NABIL was 6.09, 17.50, 62.30, 79.22 and 111.59 percent. On the other hand, the same item of NIBL has increased by 43.03, 98.76, 156.92, 261.14 and 408.23 percent.

The changed figures in the form of percent can also be presented in figure:

Figure: 4.29: Net Profit Trend



In figure 4.28, increasing trend of other operating expenses can be seen.

Table: 4.5: A summary sheet of financial position and performance – horizontal perspective

Assertions	**Financial Position**			**Assertions**	**Financial Performance**		
	NABIL (%)	**NIBL (%)**	**In favor of:**		**NABIL (%)**	**NIBL (%)**	**In favor of:**
Reserve & surplus	41.97	103.31	NIBL	Interest income	67.49	198.51	NIBL
Debenture & bonds	15.00	81.81	NABIL	Interest expense	312.93	288.58	NIBL
Borrowing	552.35	309.90	NIBL	Net interest	74.14	133.65	NIBL
Deposits	95.00	117.53	NIBL	Commission & discount	43.58	99.11	NIBL
Bills payable	251.49	155.01	NIBL	Other operating income	64.58	191.10	NIBL
Proposed & unpaid dividend	8.11	200.45	NIBL	Exchange income	32.18	49.29	NIBL
Income tax liability	8.66	114.34	NABIL	Total operating income	64.72	120.57	NIBL
Other liability	53.25	145.03	NABIL	Staff expense	51.58	93.03	NABIL
Cash balance	138.56	159.74	NIBL	Other operating expense	54.65	95.18	NABIL
Balance with NRB	378.38	94.74	NABIL	Operating profit	57.97	148.52	NIBL
Balance with other banks & financial institutions	123.70	457.13	NIBL	Net profit	55.34	193.74	NIBL
Money at call & short notice	(0.40)	46.56	NIBL				
Investment	82.54	31.49	NABIL				
Loan, advances and bills purchased	108.63	153.50	NIBL				

Fixed assets	104.49	193.20	NABIL				
Non-banking assets	0.00	(75.00)	NABIL				
Other assets	50.38	73.05	NIBL				
Total Indicators			**18**	Total Indicators			**11**
	For NABIL	7			For NABIL	2	
	For NIBL	11			For NIBL	9	
Better Financial Position			**NIBL**	**Better Financial Performance**			**NIBL**

To measure the strength of financial position of the banks, eighteen indicators have been taken directly from the balance sheet and analyzed. The analysis has indicated that out of those indicators, eleven indicators favored NIBL whereas remaining seven indicators were in support of NABIL.

Similarly eleven indicators have been taken directly from the income statement for the purpose of comparing financial performance of these two banks. Out of these indicators, nine indicators have supported NIBL. NABIL has been favored by only two indicators as shown by the analysis.

4.2 Vertical Analysis and Common Size Statements

Vertical analysis is the procedure of preparing and presenting common size statements. Common size statement is one that shows the items appearing on it in percentage form as well as in rupees form. Each item is stated as a percentage of some total of which that item is a part. Key financial changes and trends can be highlighted by the use of common size statements**.** Common size statements are particularly useful when comparing data from different companies.

In this analysis only the major components of balance sheet and income statement are examined through vertical analysis. In balance sheet items; the total assets is taken to calculate the percentage and in the case of income statement; interest income is taken to calculate the percentage.

Table: 4.6: Balance Sheet Assertions (NABIL) Rs. In Million

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	NABIL	NABIL	NABIL	NABIL	NABIL	NABIL	NABIL
Reserves and Surplus	1383	1565	1748	2164	1805	2537	
% on total assets	6.19	5.74	4.71	4.93	3.47	4.36	4.90
Deposits	19347	23342	31915	37348	46341	49696	
% on total assets	86.64	85.65	85.95	85.14	88.98	85.47	86.31
Cash Balance	238	270	511	674	636	745	
% on total assets	1.07	0.99	1.38	1.54	1.22	1.28	1.25
Investment	6179	8945	9940	10826	13601	13081	
% on total assets	27.67	32.82	26.77	24.68	26.12	22.50	26.76
Loans, Advances and Bills Purchased	12923	15546	21365	27590	32269	38034	
% on total assets	57.87	57.04	57.54	62.89	61.96	65.42	60.45
Fixed Assets	319	287	598	661	781	935	
% on total assets	1.43	1.05	1.61	1.51	1.50	1.61	1.45
Total Assets	22330	27253	37133	43867	52080	58141	

Source: Annual report of NABIL & NIBL (2005/06 to 2010/11)

Note: change in percentage calculated on the base year 2005/06

Table: 4.7: Balance Sheet Assertions (NIBL) Rs. In Million

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	NIBL	NIBL	NIBL	NIBL	NIBL	NIBL	NIBL
Reserves and Surplus	825	1077	1483	1501	2176	2148	
% on total assets	3.87	3.90	3.81	2.83	3.80	3.68	3.65
Deposits	18927	24489	34452	46698	50095	50138	
% on total assets	88.74	88.76	88.63	88.09	87.42	85.92	87.92
Cash Balance	563	764	1464	1833	1525	1719	
% on total assets	2.64	2.77	3.77	3.46	2.66	2.95	3.04
Investment	5603	6506	6874	7400	8636	7423	
% on total assets	26.27	23.58	17.68	13.96	15.07	12.72	18.21
Loans, Advances and Bills Purchased	12776	17286	26997	36241	40318	41096	
% on total assets	59.90	62.65	69.45	68.37	70.36	70.42	66.86

Fixed Assets	343	759	970	1061	1136	1108	
% on total assets	1.61	2.75	2.50	2.00	1.98	1.90	2.12
Total Assets	21330	27591	38873	53011	57305	58375	

For the purpose of vertical analysis of balance sheet items, total assets have taken as a base. Therefore percentage change on all balance sheet items has calculated on total assets. Now the major balance sheet items are explained as below:

Reserve and surplus

The amount of reserve and surplus of NABIL has continuously been increased for the first four years. Then it has decreased in the fifth year and again increased in the sixth year. But if it is analyzed from the angle of percentage changes on the basis of total assets, the matter shall different. From this point, the percentage of reserve & surplus on total assets was continuously decreased in the first three years. Then it has increased in fourth year, decreased in fifth and the last year.

Similarly in the case of NIBL, reserve and surplus has continuously been increased up to fifth year of the study period but in the last year it has been decreased. Although the amount has been increased, the matter is different if it is viewed as a percentage of total assets. Percentage of reserve and surplus on total assets has increased in the first two years but it has been decreased in the third year. The percentage has been increased in the fourth year but after that it has continuously been decreased up to the end of the period.

Deposits

NABIL Bank has collected 19347, 23342, 31915, 37348, 46341 and 49696 million from the year 2005/06 to 2010/11 which is respectively 86.64, 85.65, 85.95, 85.14, 88.98 and 85.47 percent of the total assets. As we can see, the amount of deposits collected by the bank has continuously been increased over the study period. However, it's continuously decreasing in first two years; increased in third year and again decreased in forth year if we viewed it as a percentage of total assets. Such percentage has increased in fifth year which is maximum over the study period but again in the last year it has decreased.

In case of NIBL, as similar to that of NABIL amount of deposits collected has an upward trend. It has collected 18927, 24489, 34452, 46698, 50095 and 50138 million in the six years of study period which comes to 88.74, 88.76, 88.63, 88.09, 87.42 and 85.92 percent respectively of total assets. Though the percentage has also been increasing in the first and second year, it has decreased in the next four years.

Cash Balance

NABIL has maintained cash balance, which is 1.07, 0.99, 1.38, 1.54, 1.22 and 1.28 percent of the total assets, lower as compared to that of NIBL which has cash balance to total assets ratio of 2.64, 2.77, 3.77, 3.46, 2.66 and 2.95 percent respectively.

Investment

NABIL has made investment of 27.67, 32.82, 26.77, 24.68, 26.12 and 22.50 percent of total assets from 2005/06 to 2010/11 respectively. As we can see investment in the form of investment to total assets ratio is being fluctuating significantly. It is in increasing trend in the first two years after that it's being continuously decreased up to the end of the study period except in the fifth year.

The same percentage in case of NIBL is 26.27, 23.58, 17.67, 13.96, 15.07 and 12.72 respectively over the period. Unlike NABIL, the percentage of NIBL has continuously been decreased from the beginning to the end of the period except in the fifth year in which the percentage was increased from 13.96 to 15.07.

Loans, Advances and Bills Purchased

In case of NABIL, percentage of loans, advances and bills purchased on total assets has been decreased in the first two years and has increased in the next two years. The percentage is 57.87, 57.04, 57.54 and 62.89 for the first four years. In the last year of the study period it reached to the higher level ie. 65.42 percent after falling to 61.96 percent in the fifth year.

Similarly in case of NIBL, the same percentage was 59.90, 62.65, 69.45, 68.37, 70.36 and 70.42. Unlike NABIL, the percentage has continuously been increasing in case of NIBL except in the fourth year.

Fixed Assets

As presented in the above table, NABIL has spent 1.43, 1.05, 1.61, 1.51, 1.50 and 1.61 percent of the total assets respectively in the six years in its fixed assets. As we can see, the percentage has decreased in first and second year and increased in third year. But again in fourth and fifth year it has decreased before increasing to 1.61 percent in the last year.

On the other hand, NIBL has increased investment in fixed in the first two years which was 1.61 and 2.75 percent of total assets. After that the percentage has continuously decreased till the final year of the study i.e. 2.50, 2.00, 1.98 and 1.90.

Table: 4.8: A summary sheet of financial position – vertical perspective

Indicators for financial position	Indicator	Mean Value		Difference
		NABIL	NIBL	
Reserves and Surplus	%	4.90	3.65	1.25
Deposits	%	86.31	87.92	1.61
Cash Balance	%	1.25	3.04	1.79
Investment	%	26.76	18.21	8.55
Loans, Advances and Bills Purchased	%	60.45	66.86	6.41
Fixed Assets	%	1.45	2.12	0.67

As shown in the above table, average percentage of Reserve and Surplus on Total Assets is higher in case of NABIL. It indicates that NABIL is in better position to issue bonus share if it is necessary to increase its current paid-up capital.

The higher average rate of deposit on total assets of NIBL shows that NIBL has good market share and succeed to identify loyal customers.

The higher cash to total assets ratio of NIBL indicates the better liquidity position of the bank as compared to that of NABIL.

NABIL has higher investment to total assets ratio. It means that the bank is willing to make investment in secure areas such as government treasury bills, NRB bonds, foreign banks etc.

NIBL has invested greater portion of its deposits in loans and advances. Though loans and advances are not good from the prospective of security like investment, it's good enough to get the higher return.

The higher fixed assets to total assets ratio of NIBL indicates that the bank has locked-up more of its fund in fixed assets. It may result in losing better investment opportunities if they are of large scale.

Table: 4.9: Profit & loss account assertions

Rs. In Million

	2005/06		2006/07		2007/08		2008/09		2009/10		2010/11	
	NABIL	NIBL	NABIL	NIBL	NABIL	NIBL	NABIL	NIBL	NABIL	NIBL	NABIL	NIBL
Net interest	953	682	1032	899	1220	1202	1645	1581	2088	2100	2312	2183
% on interest income	72.74	58.14	65.00	56.75	61.67	54.78	58.79	48.38	51.58	45.12	43.96	37.62
Commission and Discount	138	116	151	164	156	215	180	263	215	243	291	269
% on interest income	10.56	9.89	9.49	10.34	7.90	9.81	6.42	8.04	5.32	5.22	5.53	4.64

Other Operating Income	83	36	88	47	97	66	144	88	170	168	183	153
% on interest income	6.33	3.06	5.52	2.99	4.92	3.02	5.15	2.68	4.19	3.62	3.49	2.64
Staff Expense	220	121	240	145	263	187	340	226	367	280	456	327
% on interest income	16.78	10.29	15.13	9.17	13.29	8.53	12.15	6.91	9.07	6.01	8.66	5.63
Other Operating Expense	183	191	188	243	221	313	265	414	335	434	404	456
% on interest income	13.95	16.25	11.85	15.36	11.16	14.27	9.48	12.66	8.27	9.32	7.68	7.86
Net Profit/(Loss)	635	351	674	501	746	697	1031	901	1139	1266	1344	1177
% on interest income	48.49	29.89	42.45	31.63	37.73	31.75	36.84	27.56	28.13	27.20	25.56	20.27
Interest Income	1310	1173	1588	1585	1979	2194	2798	3268	4048	4654	5258	5803

Source: Annual report of NABIL & NIBL (2005/06 to 2010/11)

Note: change in percentage calculated on the base year 2005/06

Net Interest

As presented in the above table, amount of net interest earned by NABIL has continuously been increased. However, the matter will be different if it is analyzed taking the percentage of net interest income on interest income. As the percentage has a downward trend, though the bank's ability to cover other expense is continuously being increased its interest expense is being increased in a higher rate than the interest income. The percent of net interest on interest income over the period is 72.74, 65.00, 61.67, 58.79, 51.58 and 43.96.

The matter is similar in the case of NIBL too. As in case of NABIL, amount of net interest of NIBL has also been continuously increased from the first year to the last year of the study period. However, the percentage of net interest on interest income is being decreased. It shows the higher rate of increment in interest expense than that of interest income. The bank's increased ability to cover expense other than interest expense has been presented by increased net interest income. The percent of net interest on interest income over the period is 58.14, 56.75, 54.78, 48.38, 45.12 and 37.62.

Commission and Discount

Percent of commission and discount on interest income has continuously been decreased except in the last year of the study period in case of NABIL. The percentage of commission and discount on interest income over the period is 10.56, 9.49, 7.90, 6.42, 5.32 and 5.53.

In case of NIBL, the percentage has increased in 2006/07 and after that it has continuously been decreased till the last year of the period. The respective percentage is 9.89, 10.34, 9.81, 8.04, 5.22 and 4.64.

Other Operating Income

In case of NABIL, though the amount of other operating income has an upward trend, percentage of other operating income on interest income is significantly fluctuating. The percentage has decreased till third year of the study period which was 6.33, 5.52 and 4.92, after that it has increased in fourth year to 5.15. In the fifth and sixth year, it was decreased to 4.19 and 3.49 percent.

The percentage is significantly lower in case of NIBL. The rates were 3.06, 2.99, 3.02 and 2.68 for the first four years. The percentage has decreased in 2006/07, increased in 2007/08 and again decreased in 2008/09. In the fifth year it reached to 3.62 from 2.68 and again decreased to 2.64 in the last year.

Staff Expense

The percentage of staff expense on interest income has remained 16.78, 15.13, 13.29, 12.15, 9.07 and 8.66 respectively from the first year to the last year of the study period in case of NABIL. In this way though the amount of staff expense has upward trend, the percentage of staff expense on interest income has continuously been decreased. It means that the increment rate of interest income is greater than that of staff expense.

Similarly, the same percentage of NIBL has remained 10.29, 9.17, 8.53, 6.91, 6.01 and 5.63 over the period being continuously decreased. Similar to the NABIL even in the case of NIBL too, the amount of staff expense is continuously being increased and hence increment rate of interest income is greater than that of staff expense.

Other Operating Expense

NABIL is spending 16.25, 15.36, 14.27, 12.66, 9.32 and 7.86 percent of its interest income on other operating expense from first to the last year of the study period respectively. The higher rate of increment in interest income as compared to the increment rate of other operating expense has been indicated by increasing amount of other operating expense and the declining percentage.

The matter is similar in case of NIBL too. It's percentage of other operating expense on interest income is also declining though the amount of expense is in increasing trend. The respective percentage is 16.25, 15.36, 14.27, 12.66, 9.32 and 7.86 from first to last year of study period.

Net Profit/ (Loss)

The amount of net profit has continuously been increased from the first year to the last year of the study period in case of NABIL. But if it is viewed as a percentage on interest income, it seems that net profit has continuously been decreased to the last year. The rate is 48.49, 42.45, 37.73, 36.84, 28.13 and 25.56 respectively.

The matter is quite different in case of NIBL. Though the amount of net profit has an upward trend, the percent of net profit/ (loss) on interest income has increased only up to third year of the study period (29.89, 31.63, and 31.75). In the fourth and fifth year the percentage has fallen down to 27.56 and 27.20 respectively. But again in the last year it has increased to 20.27.

Table: 4.10: A summary sheet of financial performance

Indicators for financial performance	Indicator	Mean Value		Difference
		NABIL	NIBL	
Net interest	%	41.04	49.87	8.83
Commission and Discount	%	7.54	7.99	0.45
Other Operating Income	%	4.93	3.00	1.93
Staff Expense	%	12.51	7.76	4.75
Other Operating Expense	%	10.40	12.62	2.22
Net Profit/(Loss)	%	36.53	28.05	8.48

Both the amount of net interest income and the average percentage of net interest income on interest income over the period are greater in case of NABIL (58.96) than that of NIBL (50.13). This shows that NABIL is in the better position to generate net interest income as compared to NIBL and hence is more able to cover expenses other than interest expense.

The greater percentage of commission and discount on interest income for NIBL (7.99) indicates greater involvement of the bank in various services like: bills discounting, remittance, LC etc.

NIBL has minimized the risk of net profit being fluctuated due to the adverse effect on the interest rates i.e. interest risk. It is because that the bank has greater proportion of other operating income on gross interest income compared to NIBL.

The average of the percentage over the period is greater in case of NABIL (12.51) than that of NIBL (7.76). It indicates that NABIL is spending more of its interest income on paying to staffs as compared to NIBL.

NABIL is being able to operate its business in minimum cost as indicated by the lower percentage of other operating expense on interest income.

NABIL's net profit ratio on interest income is higher than that of NIBL. It demonstrates that NABIL is more able to convert its interest income to net profit by maintaining other expenses to the possible minimum level.

4.3 Financial Ratio Analysis

Ratio analysis is widely used as a tool of financial analysis. It is used to interpret the financial statement. The main kinds of tools to measure the performance are as given below:

Earnings per Share

It simply shows the profitability of the firm of a per share basis. It is calculated from the point of view of the ordinary shareholder. It is calculated by dividing the profit after tax by the total number of ordinary share outstanding.

Table: 4.11: Comparative Statement of EPS of two banks (In Rs.)

Year	NABIL			NIBL		
	Net Profit After Tax	No. of common share (In no.)	EPS	Net Profit After Tax	No. of common share (In no.)	EPS
2005/06	635,262,349	4,916,544	129.21	350,536,413	5,905,860	59.35
2006/07	673,959,698	4,916,544	137.08	501,398,853	8,013,526	62.57
2007/08	746,468,394	6,892,160	108.31	696,731,516	12,039,154	57.87
2008/09	1,031,053,098	9,657,470	106.76	900,619,072	24,070,689	37.42
2009/10	1,138,570,802	14,491,240	78.56	1,265,949,588	24,090,977	52.55
2010/11	1,344,179,420	20,297,694	66.22	1,176,641,031	24,090,977	48.84
Average			104.36			53.10

EPS of NABIL has increased in the year 2006/07 as compared to previous year i.e. 137.08 from 129.21. But after that EPS has started to go down and in the last year of the study period it has come to 66.22. In the third, fourth and fifth its EPS was 108.31, 106.76 and 78.56.

In case of NIBL, EPS is significantly fluctuating as compared to NABIL. It was 62.57 in the second year of the study period after increasing from 59.35. Similarly it has decreased in the third and fourth year and has come to 57.87 and 37.42 respectively. In the last year i.e. 2010/11 it was 48.84 after increasing in the fifth to 52.55.

Return on Asset

It measures the firm's return on investment of financial resources. It also helps us to provide the information of proper utilization of the resources. It is the relation between profit and total assets. Lower return on assets (ROA) means lower profit and higher ROA means higher profit. In the present study, this ratio is examined to measure the profitability of all financial resources in the bank assets.

Table: 4.12:A Comparative Statement of ROA

Year	NABIL			NIBL		
	Net Profit After Tax	**Total Assets**	**Ratio**	**Net Profit After Tax**	**Total Assets**	**Ratio**
2005/06	635,262,349	22,329,971,078	2.84	350,536,413	21,330,137,542	1.64
2006/07	673,959,698	27,253,393,008	2.47	501,398,853	27,590,844,761	1.82
2007/08	746,468,394	37,132,759,149	2.01	696,731,516	38,873,306,084	1.79
2008/09	1,031,053,098	43,867,397,504	2.35	900,619,072	53,010,803,126	1.70
2009/10	1,138,570,802	52,079,725,697	2.19	1,265,949,588	57,305,413,482	2.21
2010/11	1,344,179,420	58,141,437,401	2.31	1,176,641,031	58,356,827,501	2.02
Average			2.36			1.86

In case of NABIL, ROA has remained 2.84, 2.47 and 2.01 in the first three years of the study period. In the fourth year it increased to 2.35 but after that it has again come down to 2.19. In the last year it slightly increased and reached to 2.31.

Similarly in case of NIBL too, ROA does not have clear trend. In the first two years, it was increasing but in the next two years it has downward trend. In the fifth year, it increased to 2.21 before falling down to 2.02 in the last year. ROA in the first four year were 1.64, 1.82, 1.79 and 1.70.

Price Earnings Ratio

Price earnings ratio (P/E ratio) is the ratio between market price per equity share and earning per share. The ratio is calculated to make an estimate of appreciation in the value of a share of a company and is widely used by investors to decide whether or not to buy shares in a particular company.

Table: 4.13: A Comparative Statement of PE Ratio

Year	NABIL			NIBL		
	Market Value Per Share	Earnings Per Share	PE Ratio	Market Value Per Share	Earnings Per Share	PE Ratio
2005/06	2240	129.21	17.34	1260	59.35	21.23
2006/07	5050	137.08	36.84	1729	62.57	27.63
2007/08	5275	108.31	48.70	2450	57.87	42.34
2008/09	4899	106.76	45.89	1388	37.42	37.09
2009/10	2384	78.56	30.35	705	52.55	13.42
2010/11	1252	66.22	18.91	515	48.84	10.54
Average			33.01			25.38

Though in the first three years, PE Ratio of NABIL has continuously been increasing it started to decrease from forth year and came down to 18.91 in the last year of the study period. In the first five years, its PE Ration has remained 17.34, 36.84, 48.70, 45.89 and 30.35.

The trend is similar in case of NIBL too. The ratio has upward trend in first three years and downward trend in the last three years. The ratio has remained 21.23, 27.63, 42.34, 37.09, 13.42 and 10.54 during the study period respectively.

Net Profit to Gross Income

Gross income includes interest income, discount &commission, other operating income and exchange income.

Table: 4.14: A Comparative Statement of Net Profit to Gross Income

Year	NABIL			NIBL		
	Net profit after tax	**Gross income**	**NPAT/GI Ratio**	**Net profit after tax**	**Gross income**	**NPAT/GI Ratio**
2005/06	635,262,349	1,716,673,937	37.01	350,536,413	1,450,333,956	43.80
2006/07	673,959,698	2,035,867,984	33.10	501398853	1,931,560,529	34.89
2007/08	746,468,394	2,428,863,474	30.73	696731516	2,641,783,322	28.26
2008/09	1,031,053,098	3,374,263,078	30.56	900619072	3,803,634,711	27.11
2009/10	1,138,570,802	4,724,195,961	24.10	1265949588	5,288,777,102	21.53
2010/11	1,344,179,420	6,008,672,239	22.37	1176641031	6,453,930,446	20.83
Average			29.65			29.40

NPAT to Gross Income ratio has continuously been decreasing during the study period in case of NABIL. The ratio has remained 37.01, 33.10, 30.73, 30.56, 24.10 and 22.37 respectively from the first year to the last year. Though the banks gross income is in increasing trend, the ratio is decreasing. It indicates that the bank's total expense is growing in the rate higher than its gross income.

Trend is similar in case of NIBL too. Its NPAT to Gross Income ratio has remained 43.80, 34.89, 28.26, 27.11, 21.53 and 20.83. Similar to NABIL, in case of NIBL too, the rate of increment in total expense is higher than that of gross income as its gross income is in increasing trend.

Interest income to Loan and Advances Ratio

Interest income includes interest from loan & advances and overdraft. And the amount of loan and advances directly has taken from the balance sheet.

Table: 4.15: A Comparative Statement of Interest income to Loan and advance ratio

Year	NABIL			NIBL		
	Interest income (Rs.)	**Loan and advances (Rs.)**	**Interest income to Loan & advance ratio**	**Interest income (Rs.)**	**Loan and advances (Rs.)**	**Interest income to Loan & advance ratio**
2005/06	986,231,566	12,922,543,153	7.63	964,689,365	12,776,208,037	7.55
2006/07	1,167,255,366	15,545,778,730	7.51	1,302,121,998	17,286,427,389	7.53
2007/08	1,496,243,925	21,365,053,318	7.00	1,907,261,454	26,996,652,258	7.06
2008/09	2,182,646,650	27,589,933,041	7.91	2,906,054,774	36,241,206,558	8.02
2009/10	3,368,727,546	32,268,873,283	10.44	4,303,311,186	40,318,308,062	10.67
2010/11	4,479,060,057	38,034,097,554	11.78	5,435,842,729	41,095,514,519	13.00
Average			8.71			8.97

Interest Income to Loan and Advance ratio, in case of NABIL, has continuously been decreased in the first three years. After that it started to increase and in the last year it reaches higher level over the period of study i.e. 11.78 percent. In first five year it was 7.63, 7.51, 7.00, 7.91 and 10.44 percent.

The same ratio was 7.55, 7.53, 7.06, 8.02, 10.67 and 13.00 in case of NIBL. As presented in the table, as in case of NABIL, the ratio has increased in the first three years and has decreased in the last next three years.

Net profit to loan and advance ratio

Net profit to loan and advance ratio is the ratio that shows net profit earned by each unit of loan and advance supplied by the banks.

Table: 4.16: A Comparative Statement of Net Profit to Loan and Advance Ratio

Year	NABIL			NIBL		
	Net profit	Loan and advances	Net profit to Loan & advance ratio	Net profit	Loan and advances	Net profit to Loan & advance ratio
2005/06	635,262,349	12,922,543,153	4.92	350,536,413	12,776,208,037	2.74
2006/07	673,959,698	15,545,778,730	4.34	501,398,853	17,286,427,389	2.90
2007/08	746,468,394	21,365,053,318	3.49	696,731,516	26,996,652,258	2.58
2008/09	1,031,053,098	27,589,933,041	3.74	900,619,072	36,241,206,558	2.49
2009/10	1,138,570,802	32,268,873,283	3.53	1,265,949,588	40,318,308,062	3.14
2010/11	1,344,179,420	38,034,097,554	3.53	1,176,641,031	41,095,514,519	2.86
Average			3.92			2.79

In case of NABIL, Net Profit to Loan and Advance ratio has downward trend in the first three years and it has increased in the next two years. In the final year it remained unchanged i.e. 35.53. The ratio for the first four years was 4.92, 4.34, 3.49 and 3.74 percent.

Similarly in case of NIBL, the ratio has increased in the first two years and has decreased afterwards till the last year of the study period except in the fifth year. The ratio for the period has remained as 2.74, 2.90, 2.58, 2.49, 3.14 and 2.86 percent.

Table: 4.17: A comparative summary sheet – financial ratio perspective

Financial Ratios	**Indicator**	**Mean Value**		**Difference**
		NABIL	**NIBL**	
Earnings Per Share (EPS)	Rs.	104.36	53.10	51.26
Return on Asset (ROA)	%	2.36	1.86	0.50
Price Earnings Ratio (PE ratio)	Ratio	33.01	25.38	7.63
Ratio of Net Profit to Gross Income	%	29.65	29.40	0.25
Interest income to Loan and Advances Ratio	%	8.71	8.97	0.26
Net profit to loan & advance ratio	%	3.92	2.79	1.13

From the table, it is obvious that NABIL has higher EPS in each year as compared to NIBL. Thus, it can be said that earning power of NABIL is much better and hence can give good return to the shareholders than NIBL since its average EPS over the period is also much higher than that of NIBL i.e. 104.36 and 53.10 respectively.

The average ROA is better in case of NABIL i.e. 2.36 as compared to that of NIBL i.e. 1.86. So, we can conclude that NABIL is in better position to efficiently utilize its resources to generate the income.

The average PE Ratio is higher in case of NABIL (33.01) than that of NIBL (25.38). It shows that investors are willing to pay high for each unit of earnings of NABIL as compared to that of NIBL. Higher P/E Ratio of NABIL shows that its strong growth prospects, other things held constant.

The average net profit to gross income ratio over the study period is greater in case of NABIL (29.65) than that of NIBL (29.40). It shows that NABIL has a bit greater ability to save its gross income as net profit by taking control over its expense as compared to NIBL.

The higher average interest income to loans and advance ratio (by 0.26 %) of NIBL over the study period indicates that NIBL has greater ability to efficiently mobilize its deposits.

Though the average interest income to loans and advance ratio of NIBL is higher, the average net profit to loan and advance ratio over the period is higher in case of NABIL (3.92) as compared to that of NIBL (2.79). It indicates that NABIL is efficient in controlling its expenses.

4.4 Benchmark Analysis

Ratios, even when well specified, may suffer from a lack of an appropriate benchmark to indicate an optimal level. Using an industry average as the benchmark may be useful for an intra-industry analysis but not for an inter-industry analysis.

Table: 4.18: A comparative summary sheet of major financial indicators

		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Average
Market Value per Share	NABIL	2240	5050	5275	4899	2384	1252	3516.67
	NIBL	1260	1729	2450	1388	705	515	1341.17
Dividend (including bonus) on share capital	NABIL	85.00	140.00	100.00	85.00	70.00	30.00	85.00
	NIBL	55.46	30.00	40.83	20.00	25.00	50.00	36.88
Employee Expense/Total Operating Expense	NABIL	28.93	24.41	21.17	23.96	13.79	11.91	20.70
	NIBL	38.77	37.39	37.41	38.50	39.23	41.73	38.84
Interest Expense on Total Deposit and Borrowings	NABIL	2.09	2.54	2.64	3.22	4.33	6.15	3.50
	NIBL	2.52	2.71	2.79	3.53	4.99	7.20	3.96
Exchange Gain/Total Income	NABIL	10.31	10.02	7.81	7.47	6.17	4.60	7.73
	NIBL	8.60	6.77	6.03	4.79	4.19	3.47	5.64
Total Credit/Deposit	NABIL	68.63	68.13	68.18	73.87	71.17	78.29	71.38
	NIBL	69.63	72.56	79.91	78.86	81.74	83.54	77.71
Capital Adequacy Ratio (Total Capital Fund)	NABIL	12.31	12.04	11.10	10.70	10.50	10.58	11.21
	NIBL	11.97	12.17	11.28	11.24	10.55	10.91	11.35
Liquidity (CRR)	NABIL	3.26	6.00	8.37	9.03	3.02	4.90	5.76
	NIBL	13.61	10.47	10.91	10.32	7.77	6.67	9.96
Non-Performing	NABIL	1.38	1.12	0.74	0.80	1.48	1.77	1.22

Loans/Total Loans	NIBL	2.07	2.37	1.12	0.58	0.67	0.94	1.29
Weighted Average Interest Rate Spread	NABIL	4.90	4.15	3.94	4.16	4.40	4.37	4.32
	NIBL	3.90	3.99	4.00	3.94	4.36	4.06	4.04

Market Value Per Share

Market value per share of NABIL has increased in the first three years of the study period afterwards started to decrease in the remaining three years. During the study period, its average market value per share remained at Rs.3516.67. The pattern is same in the case of NIBL too. But its average market value per share remained at Rs. 1341.17.

Though the trend of increase/decrease in the market value of share has remained same during the period, the average market value is higher in case of NABIL (Rs. 3516.67) than that of (Rs. 1341.17).

Dividend (including bonus) on Share Capital

There is no consistency in distributing dividend to the shareholders in case of both the banks. However, there is difference in distributing dividend to shareholders by the banks. During the study period, NABIL has distributed more dividends (Rs. 85.00) than that of NIBL (Rs. 36.88) in an average.

Employee Expense to Total Operating Expense

It seems that NIBL has a little consistency in employee expense as compared to NABIL. However, the employee expense on total operating expense is higher in case of NIBL i.e. 38.84 than that of NABIL i.e. 20.70 percent.

Interest Expense on Total Deposit and Borrowings

There is an increasing trend in interest expense on total deposit and borrowings in both the banks. But in an average, interest expense on total deposit and borrowings of NIBL is greater than that of NABIL.

Exchange Gain to Total Income

The similar downward trend of exchange gain on total income can be seen in both the banks during the study period. Though the trend is similar, NABIL has greater portion of income from exchange fluctuation in its total income as compared to that of NIBL.

Total Credit to Deposit

The proportion of credit on deposit is greater in case of NIBL. In an average, the total credit on deposit of NABIL 71.38 and of NIBL has remained at 77.71 percent.

Capital Adequacy Ratio (Total Capital Fund)

Both the banks has maintained capital fund as per NRB Directives during the study period. However, in an average NIBL has maintained a bit more than NABIL.

Liquidity Ratio

From the beginning of the period, liquidity position of NIBL is much stronger as compared to that of NABIL.

Non-performing Loans to Total Loans

As per NRB Directives, sub-standard, doubtful and loss loans are categorized as non-performing loan. The above table shows that NABIL's performing loan is greater than that of NIBL.

Weighted Average Interest Rate Spread

There is no significant difference between the interest spread rates of the two banks.

Table: 4.19: A comparative summary sheet – benchmark analysis perspective

Financial Indicators	Indicator	Mean Value		Difference
		NABIL	NIBL	
Market Value per Share	Rs.	3516.67	1351.71	2164.96
Dividend (including bonus) on share capital	%	85.00	36.88	48.12
Employee Expense/Total Operating Expense	%	20.70	38.84	18.14
Interest Expense on Total Deposit and Borrowings	%	3.50	3.96	0.46
Exchange Gain/Total Income	%	7.73	5.64	2.09
Total Credit/Deposit	%	71.38	77.71	6.33
Capital Adequacy Ratio (Total Capital Fund)	%	11.21	11.35	0.14
Liquidity (CRR)	%	5.76	9.96	4.20
Non-Performing Loans/Total Loans	%	1.22	1.29	0.07
Weighted Average Interest Rate	%	4.32	4.04	0.28

Spread				

Average market value per share of NABIL is greater than that of NIBL by Rs. 2164.96 during the study period. This shows that NABIL has better net worth per share and there is higher possibility of buying NABIL's stock as compared to that of NIBL.

NABIL's shareholders are getting more return in their investment since the bank's average dividend on share capital is much higher than that of NIBL.

Proportion of employee expense on total operating expense is greater in case of NIBL in comparison with NABIL. It shows that NIBL has better control over other operating expense and sincere to increase employees' productivity.

NIBL is paying higher interest to its depositors and lenders. During the study period NIBL's average interest on total deposit and borrowing is greater by 0.46 percent as compared to that of NABIL i.e. 3.50 percent.

The NABIL's total income has greater portion of gain from exchange fluctuation than that of NIBL. It indicates that NIBL's financial performance in the form of profit is a bit free from the risk that may arise due to the exchange fluctuation.

The CDR of NIBL is greater (77.71 %) as compared to that of NABIL (71.38 %). This means there is a greater chance of suffering from liquidity problem to NIBL. However the principle is that potential return rises with an increase in risk and NIBL is getting more investment opportunities.

As per NRB Directives No. 1 on "Provisions Relating to Capital Adequacy Ratio", the commercial banks (Class A licensed institutions) are required to maintain at least 10% of total risk weighted assets as Capital Fund. Capital Fund includes Core Capital Fund and Supplementary Capital Fund. As per the directives, minimum Core Capital Fund and Supplementary Capital Fund to be maintained by the commercial banks is 6.00 % and 4.00% of total Risk Weighted Assets respectively and both funds are to be maintained separately. As presented in the table, both NABIL and NIBL have fulfilled the requirement of NRB Directives during the study period.

NRB Directives No. 13 on "Provisions Relating to Compulsory Reserve/Statutory Liquidity" has stated that commercial banks (i.e. Class A licensed institutions) shall maintain at least 5.50% of Total Deposit Liabilities as compulsory reserve/CRR and deposit to NRB. As shown in the table, NABIL and NIBL have maintained 5.76% and 9.96% respectively as CRR in an average during the study period. As made compulsory by the directives, both the banks have fulfilled such requirement in each year.

As categorized by NRB Directives No. 2 on "Provisions Relating to Classification of Loans/advances and Loan Losses", loans other than Pass Loan and Restructured / Rescheduled Pass Loan i.e. Sub-standard, Doubtful and Loss loans are non-performing loans. The average proportion of non-performing loan on total loan is greater in case of NIBL than that of NABIL. This indicates that there is a greater possibility of suffering loss due to customer turns out to be bad in case of NIBL as compared to that of NABIL.

NRB Directive No. 15 on "Provisions Relating to Interest Rates" has granted the authority to determine the rate of interest to be charged on loan and advances supplied and to be paid on the deposits of customers. As shown in the table, NABIL has maintained greater difference between the two rates than that of NIBL.

4.5 Difference between NABIL and NIBL

The comparative performance of the banks measured by four perspectives has been presented in the following table:

Table: 4.20: Comparative sheet of financial position and performance – four perspectives

Financial Tools	**Total Indicators**	**No. of Indicators**		**Supports to:**				**Neu-tral**	**Positive for:**			
		Financial Position	**Financial Performance**	**Financial Position**		**Financial Performance**			**Financial Position**		**Financial Performance**	
				NABIL	**NIBL**	**NABIL**	**NIBL**		**NABIL**	**NIBL**	**NABIL**	**NIBL**
Horizontal Analysis	29	18	11	7	11	2	9	-		√		√
Vertical Analysis	12	6	6	3	3	3	3	-	Neutral	Neutral	Neutral	Neutral
Ratio Analysis	6	-	6	-	-	5	1	-	-	-	√	
Benchmark Analysis	10	5	5	2	3	2	3	-		√		√
Total	**57**	**29**	**28**	**12**	**17**	**12**	**16**	**-**		√√	√	√√

In this study, to compare the financial position and performance of the banks, four types of financial tools have been used. In aggregate fifty-seven indicators were used, out of these twenty-nine indicators were for financial position and remaining twenty-eight were for financial performance. As shown in the above table, out of the indicators taken to measure the financial position twelve indicators favored NABIL whereas seventeen supported NIBL. Similarly twenty-eight indicators have been used for the purpose of comparing financial performance of the banks. The analysis demonstrated that out of these financial performance related indicators, twelve indicators supported NABIL and rest of these were in favor of NIBL.

Two out of four financial tools favored NIBL based on financial position related indicators. Therefore it can be concluded that NIBL has better financial position.

Similarly, two out of four financial tools supported NIBL and NABIL had been supported by one on the basis of financial performance. Based on this result, it can be concluded that NIBL has better financial performance.

4.6 Major Findings

The major findings of the study are as follows:

- To measure the strength of financial position of the banks, eighteen indicators have been taken directly from the balance sheet and analyzed. The analysis has indicated that out of those indicators, eleven indicators favored NIBL whereas remaining seven indicators were in support of NABIL.
- Similarly eleven indicators have been taken directly from the income statement for the purpose of comparing financial performance of these two banks. Out of these indicators, nine indicators have supported NIBL. NABIL has been favored by only two indicators as shown by the analysis.
- For the purpose of measuring the strength of financial position of the banks, six indicators have been taken selected from the balance sheet and analyzed. The analysis has indicated that out of those indicators, three indicators favored NIBL whereas remaining three indicators were in support of NABIL.
- Six indicators have been taken from the income statement for the purpose of comparing financial performance of these two banks. Each bank has been favored by three indicators out of those selected.
- In this section, six financial ratios were used as a basis for comparing the financial performance of the banks. Out of those indicators, five indicators were in favor of NIBL whereas NABIL was supported by only one indicator.
- To measure the strength of financial position of the banks, five indicators have been taken from the annual report of the banks. The analysis has

indicated that out of those indicators, three indicators favored NIBL whereas remaining two indicators were in support of NABIL.

- Five indicators have been taken for the purpose of comparing financial performance of these two banks. The analysis has indicated that out of those indicators, three indicators favored NIBL whereas remaining two indicators were in support of NABIL.

Chapter V
SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter summarizes the whole study, draws the conclusion of the study and makes recommendation for two banks as follows:

5.1 Summary

A financial system is of vital in nature for the economic development as it provides relieve in funds mobilization. Today's volatile economic environment requires efficient financial system for specialize in production, to retain investors' friendly relationship and competitive market to assist economic transaction. A stable and efficient financial system represents efficient allocation of resources and become the foundation of rising of financial performance of an organization which leads to enhance actions and functions of the organization. Investment banks, as a component of financial system, serve as stakeholder in the economy and work for development of the economy of a country. Investment banks provide a backup to all capital market in the economy through trading in shares, investment holdings, and merchant banking activities. They also support the credit market in the country through short term and medium term loans. For the enhancement of financial performance three principal factors can be argued; its asset management, institution size, and operating efficiency.

Financial statements are prepared to meet external reporting obligations and also for decision making purposes. They play a dominant role in setting the framework of managerial decisions. But the information provided in the financial statements is not an end in itself as no meaningful conclusions can be drawn from these statements alone. However, the information provided in the financial statements is of immense use in making decisions through analysis and interpretation of financial statements.

The objective of this study is to compare the banks through Horizontal, Vertical, Ratio and Benchmark analysis approach. As defined objective, the study has been organized in five chapters consisting of introduction, literature review, research methodology, data presentation and analysis and summary, conclusion and recommendation. The first chapter focused the brief introduction of the study, establishes objectives, defines statement of the problems and organizes the study. In the literature review part related books, articles and journals are reviewed. The research methodology section presents the research design, population and sample and techniques of data analysis. The fourth chapter includes the presentation and analysis of data.

The six years data has taken for study purpose. According to the defined objectives, in total twenty-nine (29) financial indicators were used for horizontal analysis out of which eighteen (18) indicators were used for the measurement for financial position and the rest of eleven (11) were used for financial performance. In total twelve (12) financial indicators were used for vertical analysis out of which six (6) of each indicator were used for the measurement for financial position and performance. In ratio analysis six (6) financial indicators were used to measure the financial performance. Ten (10) indicators i.e. five (5) for financial position and five (5) for financial performance were used for the purpose of benchmark analysis.

5.2 Conclusion

There are various methods or techniques that are used in analyzing financial statements. The techniques used in this study were Horizontal, Vertical, Ratio and Benchmark analysis.

In horizontal analysis, financial data of two or more year are compared by taking earlier year as a base year. Each balance sheet and income statement assertions are compared in vertical analysis by presenting them in the form of percentage of some total (i.e. total assets/ total interest income) of which that item is a part. Ratio analysis describes significant relationship between accounting figures shown on a balance sheet and income statement. In benchmark analysis a bank has been compared with another by comparing their various financial indicators.

In this study, it has been found that two out of four financial tools namely Horizontal and Benchmark approach favored NIBL based on financial position related indicators. Therefore it can be concluded that NIBL has better financial position.

Similarly, two (i.e. Horizontal and Benchmark approach) out of four financial tools supported NIBL and NABIL had been supported by one i.e. Ratio analysis approach on the basis of financial performance. Based on this result, it can be concluded that NIBL has better financial performance.

5.3 Recommendation

On the basis of above conclusions, this study recommends as follows:

- NABIL has to increase its market share by offering different kind of services which does not only help to increase its deposit but also other incomes like: commission and discounts and other operating incomes.
- Minimum cash balance of NABIL has shown that the bank has adopted aggressive financing policy. This is good from the viewpoint of profitability but it may result in liquidity problem. So, the bank is recommended to give attention towards the liquidity too.
- NIBL has more risk of suffering loss caused by its loan and advances being loss loan because it has greater portion of non-performing loan on total loan. In addition to that lower proportion of investment in total assets of

NIBL also demonstrates such situation. So, the bank is recommended to well identify secure and profitable customers.

- Greater proportion of fixed assets on total assets of NIBL indicates that the bank has locked-up more of its fund on fixed assets. Though the bank has made investment in its fixed assets, it has lower ROA. This shows that the bank is either inefficient to properly utilize its assets on more profitable sectors or it has more idle assets. So, the bank is recommended to efficiently mobilize its assets on productive sectors.
- NIBL's lower net profit to interest income ratio and higher ratio of other operating expense to interest income as well as higher ratio of net profit to gross income shows that though the bank is able to generate higher gross income, the bank's net profit is being lowered because of its higher expense. So, the bank is recommended to maintain proper control over its expense by designing and implementing effective internal control over the reasonableness, genuineness and authorization of the expenses.
- Though NIBL's expense is proportionately higher than that of NABIL, NIBL has made such expense on the productivity of its employees. So it is recommended to NABIL to give consideration over the productivity of the employees.
- NIBL is being more able to mobilize its deposit as indicated by higher CDR. NABIL has to concentrate on how deposits can be more efficiently mobilized.
- Interest spread rate directly affects net interest income. NIBL has maintained lower interest spread rate as compared to that of NABIL. So NIBL is recommended to increase this rate however while increasing this rate the bank shouldn't allow the customers' loyalty to be impaired.

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