A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE OF NEPAL BANK LIMITED BEFORE AND AFTER MANAGEMENT CHANGE

A THESIS

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RECOMMENDATION

This is to certify that the thesis

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Has been prepared and approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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And found the thesis to be original work of the student and written in accordance to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for **Master Degree of Business Studies (M.B.S)**

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DECLARATION

I hereby declare that the work reported in this thesis entitled "A Comparative Study of Financial Performance of Nepal Bank Limited Before and After Management Change" submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for the Master's Degree in Business Studies (M.B.S) under the supervision of Asso. Prof. Achyut Raj Bhattarai and Shree Bhadra Neupane of Shanker Dev Campus.

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LOKENDRA BAHADUR BALAYAR

TABLE OF CONTENTS

LIST OF TABLE

LIST OF FIGURES

ABBREVIATIONS

&	:	And
A/C	:	Account
A.D	:	Anno Domini
B.S	:	Bikram Sambat
BVPS	:	Book Value per Share
C.V	:	Correlation of Variation
DPS	:	Dividend per Share
DPR	:	Dividend Payout Ratio
EAC	:	Earning Available to Common Shareholder
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
FY	:	Fiscal Year
GON	:	Government of Nepal
HBL	:	Himalayan Bank Limited
i.e.	:	That is
JVBs	:	Joint Venture Banks
Ltd.	:	Limited
MBS	:	Master of Business Studies
MVPS	:	Market Value per Share
NCC	:	Nepal Credit and Commerce
NGO	:	Non Government Organization
NO.	:	Number
NSBIBL	:	Nepal State Bank of India Bank Limited
NRB	:	Nepal Rastra Bank
NPAT	:	Net Profit after Tax
Pvt.	:	Private
%	:	Percentage
P/ER	:	Price-Earning Ratio
S.D	:	Standard Deviation

T.U	:	Tribhuvan University
TPS	:	Tax per Share
USA	:	United States of America
Vol.	:	Volume
Yrs.	:	Years

CHAPTER-I
INTRODUCTION

1.1Background of the Study

The introduction of first public bank was "The Bank of Venice" established in 1357 A.D. in Italy and "The Bank of England" was the first bank in the history of banking as a central bank established in 1694 A.D. in the United Kingdom, which proved to be a big milestone for the development of banking system in the world.

“The modern banking in Nepal dates back to 1937 A.D. when the first commercial bank was created under the Nepal bank act 1937, during the prime-minister ship of Juddha Samsher Jung Bahadur Rana. Before that, the credit needs of the people for commercial and the other purpose were met mostly by the unorganized market of the private moneylenders. During the period of Jayasthiti Malla, when Nepal's trade with her neighboring countries was flourishing, private money-lenders, who were then known as Tankadharis, advanced loans to individuals for commercial and other purposes against mortgage of goods, and also on personal guarantees.” *(Ojha & Rajbahak; 1965:69)*

However, in the absence of proper agency to control their activities, the business of the private moneylenders degenerated gradually into an act of exploitation. They fleeced the borrowers by charging very high interest rates and other extra dues for the loan advanced.

In order to relieve the burden of the borrowers, during the prime-minister ship of Ranodhip Shingh, (1877-1885) the Tejarath, a government financial institution was established in Kathmandu valley, the capital of the kingdom, to provide the loans to the people of the valley at interest cheaper than the rates charged by the private moneylenders.

The Tejarath advanced loans to the people at the rate of 5 per cent per annum against the security of gold, silver and silver ornaments. This facility of the Tejarath was later on extended to other areas of the kingdom by opening branches during the period of prime minister”(*Rana, (1901-1929).*

After the creation of the Nepal Bank Limited, the Tejarath gradually reduced its lending activities by conforming itself to advancing loans to government officials, repayable from their salaries. Though some fragmented efforts were made by Rana rulers to create monetary institutions in the kingdom, the usurpation of political power by the Rana family from the Shah rules, however, ushered in a dark are in the political and economic history of Nepal.

The Ranas kept the country isolated and virtually stagnant for more than hundred years. No conscious efforts towards developing the economy were made and this accounted for the slow development of the financial system in Nepal during the Rana regime.

The only banking institutions established during Rana rule was Nepal Bank Limited in 1937 with the authorized capital of Rs. 10 million, of which only 2.5 million was initially raised. In the absence of comprehensive development programs, the activities of the Nepal Bank Limited was confined mostly to financing commercial transactions and advances against gold and silver, and the bank's involvement in industrial development was negligible.

It is only after the political change of 1951, which replaced the autocratic Rana regime by a democratic form of government that conscious efforts towards developing the economy of the country were made with the implementation of the first five years plan in 1956. Economic growth requires the conditioning of the whole environment in which adequate arrangement of monetary institutions from an important part.

In the process of the implementation of the development plans, the main financial problem was, therefore, to create financial institution to finance, on a priority basis, investment in agriculture and industry to achieve the objectives of rapid economic growth. In the initial stage of the development institutions was not only to provide term finance to entrepreneurs but also to promote planned investment in agriculture and industry, and the advancing of loans at subsidized interest rates.

The only commercial bank operating at that time chose, by adhering to its traditional outlook, to keep it self aloof from the task financing agriculture and industrial projects, by limiting its lending activities to more secured areas such as trade and advanced against gold and silver.

In order to meet this urgent need, several banking institutions were brought into existence between 1956 and 1967. The Nepal Rastra Bank, the central bank of Nepal, was established in 1956 under the Nepal Rastra Bank act, to carry on the task issuing notes, stabilizing the exchange rate of the Nepalese currency and developing financial infrastructure directed towards mobilizing more resource for the promotion of trade and industry in the country. Prior to the emergence of Nepal Rastra Bank, the note issuing authority was vested with the Mulkikhana, the government treasury office.

Special laws were incorporated to create other development banks and the commercial banks. The Nepal industrial development corporation came into existence in 1959 and Agriculture development bank in 1967 by replacing cooperative bank, which was created for the same purpose under the cooperative bank act, 1963.

The second commercial bank the Rastriya Banijya Bank was established in 1965. The two-development bank and RBB are fully government owned bank. In the case of Nepal Bank Limited, the government, 54.59% by private sector and 4.92% by NCC Bank are holding 40.49% of the total share capital.

1.2 Role of Nepal Bank Limited in Nepalese Economy

Commercial Banks play the vital role in economic development of any nation. Capital is the most important factor and foundation for not only the economic development but also for the overall growth and prosperity of the nation. Domestic capital formation is very difficult in the developing countries like Nepal, whose people and society are extremely backward in every aspect.

The modern banking does not only perform the traditional functions of lending and borrowing (ascending deposits) but also helps in economic development works required by the country. The role of commercial banks is significant not only in making investment on the development of different sectors of economy but also important in reducing poverty, providing employment opportunities and minimizing disparity in income., wealth etc. It has been already stated that banks especially commercial banks are the most effective means for mobilizing the nation's resources in accelerating the development of an economy.

The commercial banks are therefore called the engine of economic growth in the modern time and they play as much important role for capital formation as the heart plays in circulation of blood in the human body. As the fist bank of the nation, Nepal Bank Limited has been playing a significant role in the development of Nepalese economy. It has developed a sound infrastructure in the economy of Nepal. Nepal Bank Limited is highly successful in creating banking habits among the people and create monetized in the non-monetized area of the country.

The contribution of Nepal Bank Limited to sustain and improve the economic aspect of nation cannot be underrated. Since the establishment, it has been helping communities and government in many ways. Because of it being the first bank, it discharged the functions of central bank too for stability in the economy until the establishment of the Nepal Rastra Bank.

The contributions made by the bank at that time in creating banking habits among the people, widening monetized area and helping business communities and government have helped the bank to be glorious in its field.

"Nepal Bank Limited, established in 1937 A.D. with a single banking office with a view to providing banking facilities and to help in economic welfare of the general public is now offering its services to the people with 106 branches all over the country.

Besides the main functions of deposit collection and mobilization, Nepal Bank Limited has served nation's economy in many ways by investing on the shares of government and non-government organizations like, Rastriya Beema Sansthan, Nepal Oil Corporation, Nepal Industrial Development Corporation, Economic service center, Nepal Housing Development and Finance Company. All of five Rural Development Banks, Citizen Investment Trust, Nepal Insurance Company, agricultural Project Service Center, credit Security Corporation etc.

On other side, Nepal Bank Limited has been serving its customers by means of services like money transfer, collection, purchase and remittance of bills. Cheque and notes, opening of Letter of Credit etc.

Without these services, commerce of today cannot even dream of surviving. Secondly, it has been service tourism industry by purchasing and issuing traveler's cheque, receiving and sending remittance. The underdeveloped counties like Nepal are always facing the acute problem of resource gap. In such a situation, the mobilization of domestic resources is very important which signifies the collection of small savings of people and than tapping those savings into the needy sectors of the economy for the development purpose.

The main objective of domestic resources mobilization is to finance development expenditure. Nepal Bank Limited has contributed largely for mobilizing domestic resources. It has been collecting small savings from the people and utilizing them in the needy sectors of the country favorably to bank's resource mobilization capacity.

Hence, it can be concluded that being the oldest bank. Nepal Bank Limited has played a vital role and contributed immensely not only for the development of banking sector but also for the aggregate and balanced economic growth and development of the nation.

1.3 Statement of the Problem

In the past, along with its wide range of services its overall financial performance was quite remarkable and it has set itself an example for other commercial banks. Before July 2002, financial position of Nepal Bank Limited is not found satisfactory.

The financial position of this bank has become headline of almost all newspapers and it has become a topic of discussion from common people to parliament. It is known that millions of rupees from bank's investment are likely to be bad debts. The bank has been unable to earn profit, pay dividend to shareholders, contribute to government revenue and all these things have negatively affected market price of the shares and as it has the largest set of connections in the banking structure of the country.

Its financial position is rapidly declining. As the financial position of the bank has been deteriorating, the government had assigned the KPMG Barents group, an international company to study the financial performance of the bank. The study report of the group concluded that the financial position of the bank is very critical.

The report showed the management had not been able to speed up the reform of the bank, further more loan management and Board of Directors being very weak is the main reasons for the bank to be in the critical condition. The group also warned that bank's existence would be questioned if the concerned authorities were not alert about the loan advancement, its management and loan recovery. It has also hampered the nation's economy.

This is happening day by day. The bank can have on negative balance so the NBL decided to give the management team to the foreign hand. A management team "ICCMT" consisting of International Bankers from Bank of Scotland (Ireland) has been appointed in NBL to restructure the bank. This ICCMT has taken over the management control and responsibilities of NBL on July 22, 2002 to 2005. This study concentrate on the questions that,

1. Can only the foreigner do best or our own human resources can do well?
2. What is the financial performance before and after management change?
3. What is the difference between before and after financial position?
4. What is the major factor effecting in financial performance after and before management change?

To go through such questions, it has been felt essential to study and analyze bank's financial position for different periods and from different angles.

1.4 Objectives of the Study:

The main objective is to evaluate financial performance of NBL before and after the management change.

The specific objectives of this study are as follows:

1. To analyze the profitability of NBL for the year 2056/57 to 2066/67.
2. To evaluate the liquidity position of the Bank before management change (2056/57 to 2058/59) and after management change (2059/60 to 2066/67).
3. To evaluate the turnover ratio of bank before management change and after management change.
4. To assess the major banking performance before and after the management change of NBL.

1.5 Importance of the Study

The result of this study would be proved important for the following stakeholder as follows:

1. **Management of the Bank**: With the help of the report of this study, management may apply corrective measures for the improvement of the bank's performance.
2. **Shareholders of the Bank:** The shareholders will be able to now how their investment has been fluctuating. With the help of the study the shareholders will know their real position in the bank.
3. **Potential Investors**: Potential investors in the markets may know whether to invest on bank's share or not.
4. **Policy Formulators**: The policy formulators of the bank may gain something with the help of the result of this study. The financial position which has been analyzed through this study has the result of their past policy and decision. Hence, if necessary and not satisfied with the concluded financial position, they may bring the changes in their future policies.
5. **General Public**: Being the oldest bank of the country, which has contributed a lot for nation's economic development general public also may be interested about the financial position of this bank. The result of this study may provide something to conclude about bank's financial position.
6. **Other Commercial Banks**: The vicissitudes in the financial position of this bank may be useful and guidelines for other commercial banks formulating their plans and policies.
7. **Other Concerned Parties**: The government, customers, depositors, borrowers and all other parties who want to know about the Nepal Bank Limited may obtain some useful information with the help of the report of this study.

Hence, we are studying the performance of new management of NBL and the impacts of NBL to the shareholders of the bank, potential investors, policy formulators, general public, other commercial banks and other concerned parties.

1.6 Limitations of the Study:

The study will be bounded by the following limitations:

1. Among various banks, the study has focused only on Nepal Bank Limited. Hence, the result of the study will not be applicable for other banks.
2. The analysis is based on secondary data provided by the bank. Hence, secondary data themselves are limiting factors or, research based on secondary data is not far from limitation due to inherent character of these data.
3. The study covers six years period for fiscal year 2056/57, 2057/58, 2058/59 (before management change) and 2059/60, to 2066/67 (after takeover change)
4. The study concentrates on financial position of the bank for said period and has been analyzed with the help of various financial, accounting and mathematical tools. As it focuses only on financial aspects of the bank, it does not cover all the aspects of the bank.
5. The study concentrates on financial position of the bank for fiscal year 2063/64 to 2066/67.
6. The study has been stated with a view to submit the report for the partial fulfillment of the MBS degree. Hence, the report of the study bases on the format required for the purpose.

1.7 Chapter Plan:

The plan of work for this research would be as follows:

Chapter I- Introduction, includes statement of problems, objectives of the study, need and significant of the study, limitations of the study and organization of study.

Chapter II- Review of Literature is done to know what research had been done in the related topic in previous days and what is to be done at present or in future. This chapter has been divided into two main aspects (1) Conceptual framework and (2) Review of related materials i.e. review of books of the thesis, review of newspaper, magazine, journals etc.

Chapter III- Research methodology it includes research design, population and sampling, sources of data, procedure of data collection and tools used for analysis.

Chapter IV- Presentation and analysis of data will be collected from various sources will be tabulated in their sequential order and data will describe, analyze and projected with statistical tool as well as financial tools.

Chapter V- consists of brief summary, conclusions and_recommendations of the study. Lastly, essential appendices and bibliography have been presented as the end of the study.

CHAPTER-II
REVIEW OF LITERATURE

2.1 Conceptual Framework

The term bank basically refers to a commercial bank. Broadly speaking, it is institution that operates runs and facilitates various monetary transactions. The concept of bank was evolved in Western Countries since early 19th century whereas in our country it was evolved from mid 20th century.

The main objective of the Commercial Bank is to mobilize idle resources and productive areas after collecting them from scattered sources and maximization of profit. Other financial institutions are also paying important role in overall economic development of a country. Other financial institutions may be classified as Industrial Banks and Corporation to provide long term and medium term credit for the development of industries, agricultural bank to provide financial assistance for agricultural development, cooperative societies for the development of rural and sub-urban areas, hire purchase companies, finance companies, insurance companies etc, all such type of financial institutions have different types of structure, objective and functions.

They deal with credit and credit instruments. The bank must gain the confidence and trust of the public to create credits. It is said that the flow of credit is as much important in the economy as the circulation of blood is in human body. Unsteady, unhealthy and unevenly flow of credit harms the economy and becomes obstacle in its development. For smooth flow and circulation of credit, commercial bank play amazing role in the economy of any country.

It is however noteworthy those bankers are to be considered not only the dealers in money but also the leaders in overall development of the country. They are just the storehouse of the country's wealth but are reservoirs in the sense that they accepts deposits from public and give loan to the needy ones for productive purpose.

"A commercial bank is one which exchange money, accepts deposits, grants loan and performs commercial banking function and which is not a bank meant for specific purpose." (*Commercial Bank Act; 1974*).

"A bank is an institution which collects money from those who have it spare or who are saving it out of their income and lends this out to those who require it." (*Crowther; 1981:35*).

A commercial bank by name is a profit seeking financing institution, it receives and holds demand deposits, acquires earning through the process of lending and investing. Thus, the commercial bank creates additional deposits and credits. In simple words, the business of banking consists of two components: Borrowing and Lending. The bank always does its business through people's fund. Borrowing and lending are traditional and ever most important functions of commercial bank. Nevertheless, modern commercial banks work for overall development of industries, trade and commerce, service and agriculture also. Even then borrowing and lending are foundation for all other functions in the absence of which existence of commercial and any other bank almost impossible.

The main functions of a commercial bank may be listed as:

1. Accepting deposit: It accepts deposits made by individual and institutional customers under following accounts and may also pay interest on the deposit besides providing security under existing regulation:

a) Current Accounts
b) Saving Accounts
c) Fixed Deposit Accounts

2. **Advancing Loans**: The second major function of the commercial bank is to accept deposit from the public. The commercial bank not only protects it but also provides the depositors with a convenient method for transferring funds through the use of cheques, it accepts deposits from every class and from every source and in all cases, without exception, it undertakes to repay the money, either in part or in full, in legal tender money. Deposits are of various type- demand deposits, saving deposits and fixed deposits.

3. **Agency service**: Under this fall these functions:

a) Foreign exchange
b) Serving as an agent on behalf of its client
c) Issuing L.C
d) Circulating notes, bank drafts, traveler's cheque etc
e) Purchase and sale of different types of securities and remittance of fund
f) Underwriting of securities
g) Collection of payment of cheques, bills promissory notes, coupons, dividend and other instruments
h) Acting as executors
i) Discounting of bills
j) Providing safeguard to valuable of credits keeping in safe custody etc

4. **Credit Creation**: Credit creation is one of the most important functions of the commercial banks. In order to perform profits, they accept deposits and advance loans by keeping small amount of cash in reserve for day to day transactions. When a bank advances a loan, it opens as account to draw money by cheque according to his needs. By granting a loan, the bank creates credits or deposits.

5. Facilities for the Financing of Foreign Trade: The other primary function of commercial banks is making arrangement for the amount of foreign exchange needed by business organization to pay in the foreign country. Bank provides more satisfactory guarantee to an individual or firms brought the issuance of a commercial letter of credit, drafts, telegraphic transfer (T.T) and accepting traveler's letter of credit or traveler's cheques.

6. Safekeeping of Valuables: The safe keeping of valuables is one of the oldest services provided by commercial banks. The protection of valuables falls into two areas or a department of a bank: safe deposit boxes and safekeeping. Safe deposit boxes are made available to customer on a rental basis that nay be useful provides a place for securities, deeds, insurance policies and personal items of valuable only to the owner. On other hand, safekeeping differs from safe deposits box services in that the bank has custody if the valuables and acts as an agents for the customer.

7. Making venture Capital Loans: Increasingly, banks have become active in financing the start-up costs of new companies, particularly in high-tech industries. Because of the added risk involved such loans, this is generally through a venture capital firms that is subsidiary of a bank company, and other investor are often brought in to share the risk.

8. Financial Advising: The customers have long asked bankers for financial advice, particularly when it comes to the use of credit and saving or investing of funds. Many banks offer a wide range of financial advisory services, from helping financial planning to consulting to business managers and checking on the credit standing of firms.

9. Offers Security Brokerage Services: In today's financial market place, many banks are striving to become true "financial super market" offering a sufficiently wide array of financial services to permit customers to meet all of their financial needs at one location. This is one of the reasons many banks began to market security brokerage services offering customers and opportunity to buy stocks, bands and other securities without having to go to security dealer or broker.

10. Offering Investment Banking and Merchant Banking Services:
"Banks today are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financial acquisitions of other companies, dealing in security underwriting, providing strategic marketing, advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changes interest rates." (*Vaidya; 1999:27*)

Commercial banks play an important role in directing affairs of the economy in the various ways. The operating of commercial banks records the economy pulse of the economy. The size and composition of their transaction mirror the economy happening in the country. For example, the mass failure of commercial banks during the 1930s has reflected the phenomenon of several global depressions in the world. Commercial banks have a vital role in giving a direction t financing the requirements of trade and industry in the country.

2.2 Context of Nepal

A Bank is a financial institution, which plays significant role in the development of a country. It facilitates the growth if trade and industry of national economy. However, Bank is a resource for economic development, which maintains the self-confidence of various segment of society and extends credit to the people.

Banks is a business organization that receives and holds deposits of fund from other, makes loans or extend credits and transfer funds by written orders of depositors. The business of banking is one of collection funds from the community and extending credit to people for useful purpose. Banks have played a pivotal role in making money from lenders to borrowers. Banking is a profit seeking business, not a community charity profit seeker it is expected to pay dividend and otherwise, add to the wealth of shareholders.

Foreign exchange also used to be done by such goldsmiths, merchant and money lenders. *(Regmi; 1969: 16)*

In Nepal, Banking transaction took place only after the establishment of Nepal Bank Limited in 1994 B.S. being only bank at that time; it performed the activities of central bank to some extent. The central bank was essential to establish but no activity was done until 2007 AD. The country, then, realized to established under-Nepal Rastra Bank Act2012. Before that, the credit need of people for commercial and other purpose was mostly performed by the unorganized market of private moneylender. (Nepal Rastra Bank, central office, KTM)

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

1) It deals with money; it accepts deposits and advances loans.
2) It also deals with credit; it has the ability to credit; the ability to expand its liability.
3) It is a commercial institution; it aims at earning profit.
4) It is a unique financial institution that creates demand deposits that serve as a medium of exchange and as a result, the bank manages the payment system of the country.

2.3 History of Nepal Bank Limited

His Majesty King Tribhuvan inaugurated Nepal Bank Limited on kartik 30, 1994 Bikram Sambat. This marked the beginning of an era of formal banking of Nepal. Until then all monetary tractions were carried out by private dealers and trading center.

Then Prime Minister Maharaja Juddha Shumsher J.B.R. speaking on the occasion with the kind permission of His Majesty the king stated this work which id being done in the larger interest of the nation is a great moment for me. Until today a bank could not be opened in Nepal. Therefore this bank, which is being established under the name of Nepal Bank Limited to fill that, need and to be inaugurated by His Majesty the King, is a moment of great joy and happiness. The bank's objective to render service to the people whether rich or poor and to contributes to the nations development will also need the support and best wishes of all, which I am confident will be forthcoming.

In that era, very few understood of had confidence in this new concept of formal banking. Rising equity share were not easy and mobilization of deposits even more difficult. This was evident when the bank floated equity share worth Nrs. 2,500,000, but was successful only in raising NRs. 842,000. In the absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing service to the people and for the betterment of the country. This law in hereby promulgated for the establishment of the Bank and its operation.

"The total deposits for the year 1994 were NRs. 17,02,025 where current deposits was NRs. 12,98,898 fixed was about NRs. 3,88,964 and saving was NRs. 14,163. Loan disbursed and outstanding at the end of the first year 1994 B.S. was NRs. 1,985,000. From the very conception and its creation, Nepal Bank Ltd. was as joint venture between the government and the private sector. Out of 2500 equity share of NRs. 100 face value. 40% was subscribed by the government and the balanced i.e. 60% was offered for the sale to private sector. There were only 10 shareholders when the bank first started." *(www.nepalbank.com.np)*

2.4 Overview of Nepal Bank Limited

Nepal Bank Limited (NBL) was established on November 15, 1937 A.D. (Kartik 30, 1994 B.S.). This marked the beginning of an era of formal banking in Nepal. NBL is the pioneer financial institution of Nepal. At present the bank is operating through 106 branches is the 56 district of the country with 2985 staffs.

It seeks to provide an environment within which the bank can bring unique financial value and service-seekers receive prompt and attentive service at responsible cost; employees are paid adequate compensation with professional career growth opportunities and stockholder receive satisfactory return for their investment.

The bank is providing various types of loan and advance facilities with low interest, which are as follows –

Commercial loan
Industrial loan
Project loan
Term working capital loan
Consumption loan
Margin loan
House loan
Hire purchase loan
Auto loan

2.4.1 Management Team

"NBL was experiencing difficulty in terms of unpaid loan and profits. KPMG, in its diagnostic review of the bank, concluded that the bank is in need of complete restructuring. His Majesty's Government of Nepal, in consultation and agreement with the world Bank has come forward to restructure the bank and reform it to profitability. The bank was put under control of Nepal Rastra Bank and hired the service of The Bank of Scotland (Ireland) Ltd., ICC Consulting effective July 22, 2002 for the management of the bank for the bank of an initial period of 2 years. The contract was renewed subsequently for one more year. The team of consultants comprises mix of both foreign and Nepal nationals." (www.napalbank.com.np)

2.4.2 Restructuring Effort

In its effort to restructure the bank, the ICC team has been successful in providing leadership to return the bank to its former position of financial leadership within the country. Numerous systems in every functional are of bank management e.g. Credit, Accounting, Human Resources, Internal Audit, and Treasury have been modernized. Voluntary Retirement schemes were successful launched reducing the staff size by almost half. Large numbers of employees are provided with training in various disciplines. Online computerization of 44 bank branches is nearing completion. Sustainable has been restored with impressive NPA recoveries. (www.nepalbank.com.np)

2.4.3 Overview of Loan Management

Management is the system which helps to complete the every job effectively. Loan management is also the system which helps to manage loan effectively. In other words. Loan management refers management of loan exposures arising from loans, corporate bonds, and loan derivative. Loan exposures are the main source of investment in commercial banks and the return from such investment is supposed to be the main source of income.

Loan/Credit management strongly recommends analyzing and making the credit risks. The goal of loan management is to minimize the bank's risk by maintaining credit risk exposure within acceptable parameters. The performing loans have multiple benefits to society whereas non-performing loan erodes even existing capital. So. the bank has to strongly analyze the proposals before lending loan in order to minimize credit risk

The loan/credit policy of a bank provides the framework to determine whether or not to extend loan and how much to extend. The credit policy decision of a bank has two dimensions, credit standard and credit analysis. The bank has to establish and use standards in making loan decision. Develop appropriate source of loan information and methods of credit analysis. The bank has to consider five criteria while lending loan such as character, capacity, capital, condition and collateral of the borrower.

2.4.4 Definition of Loan

Webster's Dictionary defines loan as "Something lent; esp. a sum of money lent, often for a specified period and repayable with interest". (Webster’s Dictionary, 1992:279) Financial institutions land money out of deposit, they have received. They must increase money by advancing loans since they have to pay interest on deposits.

Banks do not keep cent percent reserve against deposit for meeting the demands of depositors, as all depositors do not need money at the same time. Banks with a small reserve than depositors need to needy feasible subscriber.

Loans and advances are the important item on the assets side of the balance sheet of commercial banks. "Banks earn interest on credits and advances, which is one of the major sources of income for the banks. Banks prepare credit portfolio, otherwise it will not only add bad depts. but also affect profitability adversely." *(Varshney & Swaroop; 1994:6)*

Loan is financial asset resulting from the delivery of cash of other assets by a lender to a borrower in return for an obligation to repay on specified time on demand. Usually loan comprises

Consumer installment, overdraft and credit card loan
Residential mortgages
Non-personal such as commercial loans to business, financial institutions, government and their agencies
Direct finance leasing
Other financial management that are in substance loans

2.4.5 Types of Loans

Mr. Satish Munjal has classified loan as *(Munjil S; 1997:76-77)*

Overdraft
Cash credit
Bills discounting

Similarly, Johnson and Johnson has classified loans as *(Johoson; 1940:158)*

Commercial loan
Consumer loan
Mortgage loan

Whereas Nepal Bank Limited provides following types of loans

Commercial loan

Industrial loan

Project loan

Term loan

Working capital loan

Consumption loan

Margin loan

Housing loan

Hire purchase loan

Auto loan

1. Term Loan

It refers to money lent in lump sum to the borrowers. It is principal form of medium term debt financing having maturity of 1 to 8 years. The term loans are usually repaid in installment basis. Banks can accommodate repayment patterns to the anticipated cash flows of the sorrowing firms. The rate of interest on it is sometimes fixed not only for the life of loan but also as per prime rate.

Barely and Myers urge that banks loans with maturities exceeding I year are called term loans. The firm agrees to pay interest based on the bank's prime rate and to repay principal in the regular installments. Special patterns of principal payments over time can be negotiated to meet the firm's special needs.

2. Overdraft

Overdraft connects the excess amount withdrawn over their deposit. The situation of overdraft evolves when banks honor the cheques to an agreed limit. It is a kind working capital loan and allowed only in current accounts. Hence, it is an agreement by which he bank allows the customer to draw above the current account balance. The account balance fluctuates frequently since withdraw and repayment of money took place and interest on overdraft is charged on debit balance on daily basis.

3. Cash Credit

It is a common type of lending done by the bank. The loan is not given directly in cash but account is being opened on the name of loan taker and the loan amount is credited in the account. In this way, every loan creates deposit.

4. Working Capital Loan

Working capital means the difference between current assets and current liabilities. It is granted to the customers to meet their working capital gap for supporting production process. A natural process develops wherein funds moving through the cycle are generated to repay a working capital loan.

5. Hire Purchase Loan

Hire purchase loans are characterized by periodic repayment of principal and interest over the maturity of the loan. Hirer agrees to take the goods on hire at a stated rental including the repayment of principal as well as interest with an option to purchase.

Majority of installment loans are made at fixed rate with the interest rare remaining constant over the life of the loan. The survey of the commercial banks indicates that banks are planning to offer installment loans on a variable rate basis.

6. Project Loan

Project loan is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project loan. "Construction loans are short term loans made to developers for the purpose of completing proposed projects." *(Johnson; 1940:242).*

Maturities on loans range from 12 months to as loan as 4 to 5 years, depending on the size of the project." The basic guiding principal involve in disbursement policy is to advance funds corresponding to the completion stage of the project.

Hence, what percent of the loan will be disbursed at which stage of completion must be spelled in the disbursement policy? Term loan and working capital loan needed for project fall under it.

7. Priority of Deprived Sector Loan

Commercial banks are required to extend advances to the priority and deprived sector. 12% of the total loan must be flown towards priority sector including deprived sector. Rs. 2 million for agriculture cum service sector and 2.5 million for single borrower are limit sanctioned to priority sector. Institutional support to "Agriculture Development Bank" and Rural Development Bank" are also considered under this category. Deprived sector lending includes;

Advance to poor, downtrodden, weak, deprived people up to Rs. 30000 in generating income or employment.

Institutional loan to Rural Development Ban"

Loans to NGOs those are permitted to carryout banking transaction lending up to Rs. 30000.

8. Consortium Loan

No single financial institution grant loan to the project due to single borrower limit or other reason and two or more such institution may consent to grant loan facility to the project of which is called as consortium loan. It reduces the risk of the project among them. Financiers have equal charge on the project's assets.

9. Bills of Purchase and Discount

Purchasing of bill of exchange of customer to which favor limit is prescribed, is known as purchasing of bill. Such bills may be either documentary bills of which contains documents of title to the goods like airway receipt, airway bill, bill of landing, truck receipts or clean bills of which do not have any documents concerning with title of goods. Indeed, it is the form of advance granted by discounting the bill keeping the bill as security. The holders of bill of exchange can come to bank for discounting their bills when they need cash.

10. Home Loan

Banks also extend home loan to their customer. This type of loan is granted for residential building, commercial complex, and warehouse construction to those customers who have who regular income or can revenue from housing project itself. According to NBL policy the home loan will be provided to purchase land and building, construction of house, to renovate and repair and repair existing houses. In it the maximum amount of loan will be 70% of the total cost or 5 million which one is less and minimum loan amount is 2 million. The maturity period for this loan is 10 years to 20 years.

11. Auto Loan

Now day's banks provide auto loan to their customers. It is granted for the purchase of new vehicles or old vehicles. It is given to the customers having regular income. NBL policy says that auto loan will be provided to purchase new vehicle up to 80% and 70% will be provided to purchase old vehicle, and the minimum loan amount of this loan is 2 million. The maturity period in this loan range from 4 years to 7 years.

12 Share Loan

NBL also provides share loan to the customers by keeping shares as security. It provides maximum 70% of the market price of the share of Standard Charted Bank and 60% of the companies listed in Nepal Stock Exchange and the minimum loan in this type is 5 million.

13. Off Balance Sheet Transaction

In fact, bank guarantee and letter of credit refers to off balance sheet transactions. It is also known as contingent liability. Contingent liability pinpoints the liability, which may or may not arise during the happening of certain event. It is non-funded remunerative facilities but more risky than the funded until adequate collateral are taken. It is described below:

a. Bank guarantee

It is used for the sake of the customers in favor of the other party up to the approved limit. Generally a certain percent amount is taken as margin from the customer and the customer's margin account is credited.

b. Latter of credit

It is issued by the bank on behalf of the buyer in favor of the seller, expressing its definite undertaking to effect payment for the specified amount provided the seller complies with the terms and conditions stipulated in letter. It is also known as importers letter of credit since the bank of importer opens it. However, the same import L/C is known as export L/C to exporter's bank and exporter himself. This clarifies the fact the exporter and importer do not open separate L/C for trade of same commodities.

2.4.6 The Management for Providing Loan (Disbursement Management)

The following are inevitable for loan:

2.4.6.1 Proposal for Loan

Printed loan proposal stating essential things should be kept ready and any in coming old or new customer should be given it. Necessary thing in it are: name, occupation, address, kind of loan, amount of loan, and securities. After filling aforesaid, it should be given to loan department where it is to be reviewed carefully to know correctness.

2.4.6.2 Deed of the Loan

Loan department prepares it and included name, address of the loan taker and year of loan taken. Quality of loan, interest rate, loan recovery date and date of loan agreement (deed) etc. such deed has to be registered from related office.

2.4.6.3 Securities

It is dealt in 2.1.7 under element to be dealt in loan policy. Any reliable securities such as movable or immovable should be kept as security to provide cushion for loan beside cash generated.

2.4.6.4 Granting Loan Based on Guarantee

Bank grants loan taking movable or immovable properties of third person if the debtors security is less needed or unacceptable or do not meet bank's limit. However, al legal process related to it should be fulfilled.

2.4.6.5 Commitment Deed

After approval of proponent's proposal, loan department prepares separate commitment deed to be signed by the debtor. It portrays loan condition and the rules of bank abiding the borrowers.

2.4.6.6 Contract of Indemnity

Contract deed of indemnity needs to be prepared by the same department. The loan proponent signs in it and puts his thumbs over it. Such contract abides the debtor to pay debt and any breach of rules makes him liable for payment to bank.

2.4.6.7 Invoice

The debtor must submit all bills, vouchers and documents relating to business on item as per demand of the bank.

2.4.7 Management for Loan Recovery (Recovery Management)

Bank desires the proper utilization of loan by the debtors. Indeed, recovery of loan denotes sequences lay down to get back loan amount with all due interest including remedial and punitive actions to be taken if necessary.

2.4.7.1 Audit of Credit

Credit audit refers to keeping eyes on the granted loan to decide how property this is utilized. It is done until the loan is recovered. It is done from time to time to know plight of debtor, proper use of the loan and profit loss position. It comprises:

Verification of loan documents
Field visit
Forms of credit to be prepared
It may be of different forms such as: Internal credit, External credit audit and credit audit by central bank

2.4.7.2 Recovery of Interest on Loan

The borrower should bay interest and principle on time as per the deed of the loan and time assigned by the bank. Otherwise, bank adds interest according to rule of bank. It charges the interest on interest if borrower does not pay the interest and loan in fixed time.

2.4.7.3 Loan Recovery Process

Bank recovers the granted loan as per the terms and conditions stated in the deed of the loan. Loan should be prepaid on either installment basis or lump-sum basis as per the deed of loan. Loan recovery period can be extended making new agreement if borrower's situation goes beyond his control.

2.4.8 Handover of Securities

Bank needs to return movable or immovable properties taken as securities from borrower or security received from persons as guarantee.

2.4.8.1 Process of Recovering Date-Expired Loan

The bank recovers principal and interest of not recovered as per commercial ban act 2013 (1934). After recovering the loan, according the remaining cash from sale of property (security) should be return to the borrower. Good, acceptable, low qualities, doubtable and bad are the classification of loan by NRB.

2.4.8.2 Maintenance of Data

A report must be prepared containing clear-cut information loan from release data to recovery data. This works as guidance to current and future management.

2.4.9 Methods and mechanism of Project Appraisal

Project appraisal is the process of judging the soundness of credit proposals by careful assessment of the risks involved in extending credit to the proposals submitted by the borrowers. Generally, project appraisal is determination of quantum of credit to be given and the safety of such credit. Banks should study managerial, technical, economic and financial feasibility to determine whether to extend loan or not. The techniques of project appraisal are as follows *(Dahal; 2002:147)*

a. Managerial Competence

The ability of an enterprise to move ahead of others depends upon the quality of its management. The project cannot be successful unless it is properly managed. Basically, the repayment prospects of a loan highly depend upon the competence and integrity of the management. The bank ,evaluates the management on the basis of following factors:

- Competence
- Qualification
- Experience
- Honesty

b. Technical Feasibility

Technical feasibility is review to find out the availability of resource, costs and physical facilities. Resources and resourcefulness of the borrower are both studied to see that there would be no wastage of men, material and money. The bank must ensure that there is a suitable infrastructure to procedure, procedure, market and profit. The following things are studied in it.

- Location
- Incentives from building
- Plant and fuel
- Raw material, stores, package, material
- Power and fuel
- Labor
- Technology
- Legal

c. Economic Feasibility

Economic feasibility is done to find the pulse of the economy and the market in terms of demand, supply, competitions, marketability, market intelligence, business environment etc. on the basis of which the investment is returned safety on time. The entire study is to ensure that the products can be sold easily with desire surplus. It includes

- Demand
- Supply
- Price
- Economic Policy
- Market
- Nature, Style and quality of the product
- Sales method
- Distribution system

d. Financial Viability

The study of this technique shows the actual investment, its return and serving of debts and equity. The bank grants loan only to viable and profitable project because that exists high possibility of loan recovery from generated income of the project.

The following elements are considered in it.

- Project cost
- Sources of finance
- Future cash generations

2.5 Historical Development of Banking System in Nepal

The history of banking in Nepal may be described as a component of the gradual and orderly evolution in the financial and economic sphere of the Nepalese life. Even now the financial system is still in the evolutionary phase. The existence of unorganized money market consisting of landlords, Shahukars (rich merchants), shopkeepers and other indigenous individual money lenders has acted as barrier to institutionalized credit.

These institutions although quite under developed could still mobilize funds from a wide range of different sources. For many years, the indigenous individual, wealthy agriculturists, landlords, merchants and traders conducted some banking activities along with their other business occupations. The activities were fragmented and mostly localized.

Nepal has no longer history on the development of the banking sector. Tejarath Adda established in 1876 A.D. by the Rana Prime Minister Ranodheep Singh used to lend loans to civil servants and to general public by pledging gold and silver is supposed to be first financial institution. The establishment of this institution marked the beginning of extending credit through any organized financial institution in Nepal. Thus, the establishment of the "Tejarath Adda" could be regarded as the premier foundation of modern banking in Nepal.

However, the installations of "Kausi Toshi Khana" as a banking agency during the regime of Prithivi Narayan Shah could also lie claim to be regarded as the first step towards initiating banking development in Nepal. The origin of banking history in Nepal was stated through the establishment of "Nepal Bank Limited" in 1994 B.S as commercial bank as per company act 1964 and new commercial bank act 1974. It is established with the objective of economic development if the country. It is first indigenous commercial bank undertaking all banking business for the general public.

It is well-established bank and has a wide network of its branches throughout the country serving in various sectors of economy.

Nepal Rastra Bank was established as the central bank of Nepal under the Nepal Rastra Bank Act, 1955 on April 26th 1956 as a non-profit organization fully subscribed by the government. It undertakes the major financial operations of the government and which by its conduct of these operations and by other means, influences the behavior of financial institutions so as to support the economic policy of the government.

About three decades later in 1966 Rastriya Banijya Bank was established as second commercial bank in Nepal and it has also been playing an important role in the economy of Nepal. It has also gain confidence of the public and has range branches throughout the country. The other indigenous subsidized bank is the Agriculture Development Bank, which also has wide networks throughout the country was established in 1968. The main objectives of this bank are to accept public deposits and provide financial assistance and service to the agricultural sectors. It performs very little other commercial banking activities.

From 1957 to 1977, institutions providing long and medium term loans to agriculture and industrial sector were also established. Institutions like the Provident Fund Corporation (PFC) and the Nepal Insurance Corporation (NIC) also into being during the evolutionary stages of commercial and central banking institutions. Various institutions established during this period underwent different stage of merger with a view to avoiding duplication and overlapping of functions.

With the advent of new commercial policies, the Nepal government has encouraged various foreign to invest in Nepal, which in turn has led to the establishment of few joint venture companies among which banks have gained a wide popularity. In this context, three of the most dramatic reforms were carried out in eighties, which were allowing the foreign banks to operate as joint venture, lifting of control on interest rate and introducing of the auctioning of government's securities.

Nepal government deliberate policy of allowing joint venture banks to operate in Nepal is targeted to encourage local traditionally run commercial banks to enhance their bankable through competition efficiency, modernization, and mechanization via computerization and prompt customer service.

The foreign commercial banks with full-fledged banking function in Nepal have been formed under the company Act 1974. Accordingly they have joint venture schemes between Nepalese investors and their parents banks, each supplying minimum 40% and maximum 50% of the total investment (except for Himalayan Bank Limited which has only 20% share of foreign bank). The domestic portion of investment has been shares by financial and non-financial institutions as well aspirate investors. (*Annual Publication of NRB; 1996:36*)

2.5.1 Concept of Financial Performance

"Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account." (*Pandey; 1991:109*)

"The focus of the financial analysis is on key figures contained in the financial statements and the significant relationship that exist between them. It is key tool for financial decision. All other organizations are directly influenced by the financial policies in their growth and development. Rational evaluation of the financial performance of the organization is essential to set sound financial policies." (*Khan and Jain; 1991:79*)

Financial performance is the main indicator of the success of failure of the enterprise. There are different persons or group who look for the financial performance of the enterprises such as shareholder, owner, managers, creditors, investors, employees, customers, tax authorities etc. They have direct concerned to the financial position of the enterprise. Similarly, trade union, competitors etc, are also indirectly concerned to the financial position. Although, the type of analysis varies according to the specific interest of the party involved.

Stockholders of the enterprise are concerned with the present and expected future earning and the stability of the earning as well as variation with the earning of other enterprises. In short, they concentrate their analysis on the profitability of the frame sound financial management system and to bring internal control. Trade creditors are interested to evaluate and analyze the liquidity position of the enterprise to serve their short-term claim. Long-term creditors are eager to see the cash flow ability of the firm to serve debt over a long period of time.

So, all the concerned groups are interested directly or indirectly about the financial strength and weakness of the firm. In this way, financial analysis is the act is identifying the financial strength and weakness of the firm. The performance is evaluated by establishing the relationship between the components of balance sheet and profit and loss account.

So, we can conclude financial performance as nothing but the process of evaluating relationship between component parts of financial statement to draw better understanding of a firm's position and performance. It should be remembered that unlike other non-bank financial companies, commercial bank does not produce any physical goods. They produce loan and financial innovations to facilitate trade and transaction.

Because of special role they play in the economy, the concerned authorities heavily regulate them. Analysis of banks financial statements is different than other companies due to the special nature of assets and liabilities structure of the banking industry. Balance sheet, profit and loss account and the accompanying notes are the most widely used of financial statement of a bank. We need to understand the major characteristics of the bank balance sheet and profit and loss account.

“The bank’s balance sheet is composed of financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets account for a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off balance items. Interest received on loan or advances and investment and paid on deposit liabilities are the major components of the profit and loss account. The other sources of income are fees, commissions, discounts and service charges.” (*Poudel; 1997:63*)

2.6 Review of Journal and Articles

In addition to financial performance, various articles were published on financial aspect, which deals in the context of Nepalese commercials banks and financial sectors of Nepal.

The major findings of the approaches used in those important articles are reviewed briefly:

Karki (2059 B.S) *"Challenges of a Non Performing Loan Management in Nepal"* has mentioned the course of increasing trend of non-performing loan. She identifies the major courses such as poor loan analysis guarantee oriented loan system, desire platoon of valued assets, misuse of loan, lack of regular supervision of loan.

Thakur, (2059) In his article *"Risk Management in the Banking Sector"*. According to him, risk should be taken as one of the challenges of the banking industry but it is not sufficient to minimize the potential disasters. Banking risk should be managed as a separate part of the management.

Bhattarai (2059 B.S.)in his article has tried to indicate the problem of bank's bad debt and NPA, Acc. to him; if a bank cannot receiver, its loan-lending bank's cash flow will be badly affected. Similarly, it can affect the lease relationship between depositors.

A decrease in CD ratio (the percentage of the deposit mobilization over the credit) signifies the presence of high liquidity and comparatively lower fund mobilization and vase versa. High liquidity and idle funds will result in lower profits. HBL has the highest growth of 18.47% in CD ratio over the last year. Similarly, NABIL, Everest Bank Ltd (EBL) and Nepal SBI Ltd (SBI) have recorded growth ratio of 6.28%, 11.83%, and 7.45% respectively in their CD ratio. However, this ratio of other commercial banks has declined, largely due to factors external to the banks. As per the NRB directives, all commercial banks have to maintain Loan Loss provision according to the size of overdue loans.

Nepal Credit and Commerce Bank (NCCB) were able to decrease to its loan provision by 27.63% as compared to the previous year indicating a good recovery of interest as well as principal. In cash of Nepal Investment Bank (NIBL), growth in loan loss provision (which in fact decreased by 6.73%) was much less than the growth of the total credit (which in increased by 53%). Similarly, NBL and HBL were able to maintain a healthy composition of loan loss provision (decreased by 9.49% and 0%) and credit (increased by 3.70% and 26.78%), again signifying good results from their loan recovery efforts. In cash of remaining banks, the situation is not satisfactory as the growth of loan loss provision is higher than the growth of credit.

Dhungana, (2004) in his article, *"Financial Sector Reform (FSR) program in Nepal"*, has concluded that Nepalese Financial sectors are being strengthened under the financial reform program. The expediting of the liberalization and privatization process within the financial reforms programs has succeeded to place the private sector rather than the government in charge of determining who gets credit and the credit and at what price. The FSR has also been able to establish the system of prudential regulation and supervision design to restrain the private sectors so that we can be reasonably sure that their decisions will also be broadly in the general social interest. Many Ac t s are being promulgated to obtain and maintain a strong legal environment requires for the system. It is also equally important that the enforcement aspect in all respect play a vital role, which is continuously improving.

Within this reform program the two largest commercial banks NBL and RBB are being restructured, institutional building program are being lunched, greater autonomy and responsibility have been provided to the central bank, entry and exit norms are being prepared, laws are being prepared for the banking sector. There all are positive aspects to boosts up the system.

It has been widely recognized that less government involvement in the financial sector, a strong central blank, a strong banking environment, adequate banking services to the poor, adequate legal framework and enforcement of law are six basic pillars for the development of the healthy financial architecture. The government has lunched this program to eliminate financial problems. Except some aspects, the progress made within FSRP seems are satisfactory.

Panthi (2005) highlights in his article entitled, *"The Importance of Human Resources Management"* published in Souvenir of RBB 2061, that the human resources management always plays key role in a commercial bank like RBB where the banking services are only made by human skills. If the size of the employee is suitable and skillful, the optimum objectives of the bank will be nearer to the achievement. The objectives of the profitability and the liquidity of the bank may be fulfilled if and only if its human resources are perfect in and suitable in quality. So, the selecting process of human resources should go through the straightway of identifying workforce requirement Recruiting - Selecting – Placing – Promoting – Appraising – Training and Retirement.

2.7 Review of Thesis

Various writers' and researchers have conducted various studies on various aspects of Nepal Bank Limited. The conclusion of some of them has been given below which may help in summing up this thesis work.

Poudyal (2005) study on *"A Case Study on Capital and Assets Structure of Nepal Bank Limited"* The major objectives of the study are as follows:

- To analyzed the composition, trend, and interrelation between capital and assets.
- Concluded that the loan/deposit, net profit/total assets, net worth/total deposit and liabilities decreases during the study period.

The research findings of the study are as follows:

- The net worth of the bank must be increased on order to reduce the fluctuation on net profit.
- The bank needs to have productive used of its fund either by increasing net worth or by reducing its other unproductive assets.
- Also has suggested that branch-opening expenses must be minimized to level up the profit margin.

Pradhan (2006) study on *"Investment Policy of Nepal Bank Limited"* The major objectives of the study are as follows:

- To show the relationship of deposit of Nepal Bank Limited with their lending activities.
- To analysis the deposit of the bank and the loan and advances
- To recommend that the lending policy of the bank should not be security mined while approving loans.

The research findings of the study are as follows:

- The bank must take some risk while granting the loans and advances.

- He also suggested that abolition of lengthy process of advancing loan and adoption of clear-cut policy of loan so that the borrowers feel grater convenience and facilities to get loan in short period.
- He also suggested the bank to expand its operation to the rural areas by opening more branches.

Pradhan (2007) study on *"A study on Resources Mobilization and Utilization of Nepal Bank Limited"* The major objectives of the study are as follows:

- To evaluation with as emphasis on resource mobilization potentially along with their utilization.
- To reported that total utilization of resources of bank
- To suggested the bank resource mobilization

The research findings of the study are as follows:

- He concluded his study revealing the fact that the bank has more than 25% of the idle resources: the profit ratio has decreased with increase in the cost of operation.
- To efficiency in the mobilization of resources and in the utilization side, the bank has been able to utilize 74.5% on the average of total resources.
- He recommended that Nepal Bank Limited should extend the credit for the long-tern period along with short and medium term period.
- He suggested opening branches in rural areas to add facilities to the depositors and to level up the marketing and publicity.

Pradhan (2008) study on *"Nepalma Banijya Bank: Upalabdhi Tatha Chunauti",* The major objectives of the study are as follows:

- The researcher has pointed out some issues in our local commercial banks against foreign joint venture banks,
- The study focused completely in commercial banking system in Nepal with respect of their performance and profitability.

His major findings were:

a) The deposit collection rate of local banks is very poor as compares to foreign joint venture banks. The annual average deposits collection rate of local banks is 17.9%betweem the year 1985 to 1989 B.S, whereas the same of foreign joint venture bank is 79.7% between the year 1987 and 1989.

b) The pattern of deposit is also different between these two types of commercial banks the ration of current deposit in local banks is only 19.34% whereas the same in the foreign joint venture bank is 52.5%. But, the fixed deposit ratio is very high in local banks. It occupies 80.64% of total deposit and this portion is 47.5% in foreign joint venture banks. This indicates that local banks must bear the cast of fixed deposits as interest than foreign joint venture banks. This reduces the profit margin of local banks.

c) The foreign joint venture banks are in better position than local banks in profit making. In average, no foreign bank has suffered till now. But local banks have earned negative profits two times during the study period, in 1998; the banks have suffered a loss of 25% over the year 1987.

Adhikari, (2009) study on *"A Comparative Analysis of Investment Structure of Rastriya Banijya Bank and Nepal Bank Limited"*, The major objectives of the study are as follows:

- To finds the liquidity diversification and profitability of Nepal Bank Limited as indicated by him is fixed deposit of customers.
- Also finds high degree of correlation between deposit and investment of Nepal Bank Limited.

His major findings were:

- To suggested the bank to replace the traditional methods of carrying out activities with scientific ones and to expand the scope of its activities.
- The main gap was to compare the investment structure to two different banks but this study is focused on only one bank i.e. NBL.

2.8 Research Gap

All the above studies were focused on the comparison of the financial position of the NBL with other commercial banks or financial position analysis of the NBL only or other aspects of the NBL. But, this study is quite different from other studies. It has taken a single bank, i.e. the NBL and for the purpose of study, it has been tried to comparatively analyze the financial position of the bank for three different periods separately by dividing a period on nine years into three equal parts of three years each.

The main gap of the above studies was to compare the financial position of the bank only on annual basis or to compare the bank's performance between two subsequent years. However, this study focuses on the performance of the bank before and after management change.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

The main objectives of this study is to examine the major component of the portfolios of the balance sheet and income statement of the Nepal Bank Limited as well as evaluate the financial position of the bank before and after the management change during the period of study. This chapter is to focus on the different research method and conditions, which are used while conducting this study. Every study needs a systematic methodology to show the better results of the research. To achieve the objective, the study requires an appropriate research methodology.

3.2 Research Design

Most of the data and information of the study will be concern with past phenomena of the performance either they are numerical or opinions. So it can be regarded as historical research design too. After the collection of past data and experience this study will analyze and describe its own procedure. Thus this study will also follow an analytical as well as descriptive research design. As this research will not strictly base on the particular research, it can be said as combination of various research designs. This study is based on research questions set for the purpose of the study. For the sake of drawing the conclusion different type of financial ratio and percentages analysis, have been computed and interpreted for clear analysis of financial management.

This study is concerned with past phenomena, so the past information are collected, verified and analyzed systematically.

3.3 Population and Sample

Among 31 commercial banks, Nepal bank limited has been selected as sample for the present study. At present, altogether there are all total 109 branches of Nepal Bank Limited operating in Nepal. Nepal Bank Limited was the first organized banking institution. Nepal Bank Limited has been contributing to the Nepalese economy to a great extent by collecting and mobilizing the scatters small saving of the people. Overall financial of the bank was quite remarkable. It was successful to help the government develop economic infrastructure of the country. There was excessive problem in the bank then new management from foreign country has been introduced to make it competitive in the country. Now this study was analysis before management change and after management change. Data are taken as sample for study, since it is time-consuming and cumbersome to census the whole population. All Nepal Bank Limited data published by Nepal Rastra Bank and itself for the study period is taken as population of the study.

3.4 Sources of Data

3.4.1 Both Primary and Secondary

The study is based on the facts and figures collected from profit and loss account and Balance Sheet of the Nepal Bank Limited. Hence, most of the data used is these works are secondary in nature and profit and loss accounts and Balance Sheet are main sources of data.

According to the needs and objectives of the study, collected data are tabulated into various forms and formats. These data are based on the information provided by the officers of concerned departments of Nepal Rastra Bank and Nepal Bank Limited. The study attempts to draw a conclusion for six years periods fiscal year 2056/57, 2057/58, 2058/59 before management change and 2059/60, 2060/61 2061/62 after management change and the analysis the fiscal year 2063/64 to 6066/67. The staid period has selected and classified into two periods before and after the management change of NBL and present condition.

3.5 Methods of Analysis

Different kinds of financial and statistical tools are available to meet the purpose of any study or to check and analyze the facts and data colleted for the purpose of the study. These tools may be from very simple average to highly sophisticated ones. Because of limited time, resources and nature of the study simple analytical statistical tools such as arithmetic mean (simple average), percentage, graph and standard deviation are adopted in this study. Simultaneously, according tool such as Ratio Analysis has been used for the analysis.

3.5.1 Ratio Analysis

A ratio is mathematical relationship between two related items expressed in qualitative form. It may be expressed in proportional, in rate or times, or in percentage. Hence, an analysis of financial statement with the help of ratios may be termed as ratio analysis. It implies the process of computing determining and presenting the relationship of items of group of items of financial statement (i.e. Income statement and Balance Sheet).

The ratio analysis also involves the comparison of these ratios and use of them for future projection. Various types of ratios used for the analysis and the models used for calculation of them are briefly mentioned below:

1) Liquidity Ratios

These ratios show the short-term solvency of a firm or liquidity position of a firm. To show the liquidity position following ratios can be calculated:

a) Cash and bank balance t current assets ratio:

This ratio shows the percentage of cash and bank balance in total of bank's current assets and calculates as:

$$\frac{\text{Total Cash \& Bank Balance}}{\text{Total Current Assets}} \times 100\%$$

b) Investment on Government securities to current assets ratio:

Government securities are those marketable securities, which can be converted into cash in a very short period generally without suffering any loss. This ratio shows the portion of such securities in total Current Assets and Computed as:

$$\frac{\text{Investment on Government Securities}}{\text{Total Current Assets}} \times 100\%$$

c) Loans and advanced to current assets ratio:

This ratio shows the relationship between loans and advances and total current assets and computed as

$$= \frac{\text{Loan and Advances}}{\text{Total Current Assets}} \times 100\%$$

d) Cash and bank balance to total deposit ratio:

It shows the ability of the bank's immediate available funds to cover or return the deposit. It is calculated as

$$= \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}} \times 100\%$$

e) Cash and bank balance to current deposit ratio

This ratio shows the capacity of the bank to meet unanticipated calls on current account. It is calculated as

$$= \frac{\text{Cash and Bank Balance}}{\text{Total Current Deposit}} \times 100\%$$

Other liquidity ratios may be:

a) Fixed deposit to total deposit ratio
b) Saving deposit to total deposit ratio
c) Short-term loan to total deposit ratio etc.

2) Turnover ratio

The efficiency of a firm depends largely on the efficiency with which its assets are managed and utilized. Turnover ratios also known as activity ratios and sometimes as efficiency ratios are concerned with measuring the efficiency of assets and resources management. The following ratios may be calculated and analyzed under this category:

a) Loans and advances to total deposit ratio:

It shows bank's efficiency in investing its deposit in terms of loan and advances, and calculated as:

$$= \frac{\text{Total Loan and Advances}}{\text{Total Deposit}} \times 100\%$$

b) Loans and advances to fixed deposit ratio:

This ratio is calculated to show the relationship between the bank's investment in terms of loans and advances and its fixed deposit and computed as:

$$= \frac{\text{Total Loan and Advances}}{\text{Fixed Deposit}} \times 100\%$$

c) Loans and advances to saving deposit:

The ratio is calculated as:

$$= \frac{\text{Loan and Advances}}{\text{Saving Deposit}} \times 100\%$$

3) Profitability Ratios

The management of the firm is naturally eager to measure the operation efficiency of the firm. Similarly, the owners invest their fund in the expectation of reasonable return. The operating efficiency of a firm and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by it. The crucial importance of profits for a firm cannot be under stressed. Hence, profitability ratios indicate profit-earning capacity of a firm. For measuring profitability of a bank, following ratios of this type may be calculated and analyzed.

a) Interest earned to total assets (working funds) ratio:

This ratio shows ability of bank in earning on its total working fund and calculated as

$$= \frac{\text{Interest Earned}}{\text{Total Working Fund}} \times 100\%$$

b) Interest paid to working fund ratio:

This ratio shows percentage of total fund is paid as interest and calculated as

$$= \frac{\text{Interest Paid}}{\text{Total Working Fund}} \times 100\%$$

c) Cost of services to working fund ratio:

It shows percentage of total operating cost on the bank's working fund and calculated as:

$$= \frac{\text{Cost of Services}}{\text{Total Working Fund}} \times 100\%$$

d) Net profit to working fund ratio:

This ratio indicates how successfully the bank has utilized its total assets. It is calculated as

$$= \frac{\text{Net Profit}}{\text{Total Working Fund}} \times 100\%$$

e) Net profit to total deposit ratio:

Net profit is the reward for the bank for proper utilization of deposit. This ratio shows how successfully the bank has mobilized its deposit and calculated as

$$= \frac{\text{Net Profit}}{\text{Total Deposit}} \times 100\%$$

4) Capital structure or Leverage ratios

Capital structure or leverage ratios can examine the long term solvency of a firm. Leverage ratios are financial ratios which throw light on the long term solvency of a firm as reflected in its ability to assure long term creditors with regard to periodic payment of interest during the period of the loan and repayment of principal on maturity or in pre-determined installment at due dates.

These ratios have been calculated and analyzed by classifying into two groups as:

1. Stability Ratios
2. Structural Ratios

1. Stability ratios:

These ratios show the relationship between shareholders fund and various items and the types of the ratios which may be calculated under this category are:

a) Shareholder's reserve to share capital ratio:

This ratio shows how shareholders fund has been increasing in the firm in relation to their investment. It is calculated as:

$$= \frac{\text{Shareholder sReserve}}{\text{Share Capital}} \times 100\%$$

b) Net worth to total assets ratio:

It indicates the claim of shareholders on total assets of the firm and determined as

$$= \frac{\text{Net Worth}}{\text{Total Assets}} \times 100\%$$

c) Current assets to net worth ratio:

It shows that percentage of shareholders' fund has been invested on current assets. It is determined as

$$= \frac{\text{Current Assets}}{\text{Net Worth}} \times 100\%$$

d) Total deposit to net worth ratio:

It shows by what percentage total deposit exceeds shareholders fund or what percentage of net worth of various types of deposit. It is calculated as

$$= \frac{\text{Total Deposit}}{\text{Net Worth}} \times 100\%$$

2. Structural ratios:

These ratios show the proportion of various items of owners' equity and liabilities. The ratios under this type are:

a) Long term debt to net worth ratio

This ratio show the relative claims of creditors (long terms) and shareholders on firm's total assets and calculated as

$$= \frac{\text{Long Term Debt}}{\text{Net Worth}} \times 100\%$$

b) Net fixed assets to long term debt ratio:

It shows the capacity of fixed assets in discharging long term liabilities. It is computes as

$$= \frac{\text{Net Fixed Assets}}{\text{Long Term Debt}} \times 100\%$$

c) Total dept (Liabilities) t net worth ratio:

It indicates the relative claim of outsiders and shareholders on firm's total assets. It is calculates as:

$$= \frac{\text{Total Debt}}{\text{Net Worth}} \times 100\%$$

5) Market value ratios

These are other types of profitability ratios under which following ratios may be calculated:

a) Earning per share ratio:

It shows the percentage of earning on the face value per share and calculated as:

$$= \frac{\text{Earning per Share}}{\text{FaceValue per Share}} \times 100\%$$

3.5.2Average

The average are the measure which condense a huge unwieldy set of numerical data into dingle numerical values which are representatives of the entire distribution, stated other way, averages are the typical values around which other items of the distribution congregate. They are the values which lie between the two extreme observation, (i.e. the smallest and the largest observation), of the distribution and give us as idea about the concentration of the values in the central parts of the distribution.

Accordingly, they are also sometimes referred to as the measure of central tendency. Among the various measures of central tendency, the arithmetic mean or simple average has been used in the process of analyzing the financial position of the NBL. Arithmetic mean of the given set of observation is their sum divided by the number of observations and given by,

$$\bar{X}\ \mathrm{X}\frac{X}{n}$$

Where,

$\bar{X}$ = Arithmetic mean or simple average

X = Sum of observations

N = Number of observations

3.5.3 Standard Deviation:

The standard deviation is a measure of dispersion which implies that it helps to measure, by how much the observations, at an average, during a period, (or, given set of observation), are dispersed form one value to another.

It is defined as the positive square root of the arithmetic mean of the square of the deviation of the given observations from their arithmetic mean.

$$\pm X\sqrt{\frac{1}{n}}\quad (X\ Z\bar{X})^2$$

Where,

$\pm$ = Standard deviation

$\bar{X}$ = Arithmetic mean or simple average

N = Number of observations

3.6 Data Presentation

The presentation of the data is the basis organization and classification of the data for analyze. There are a number of methods, which can be used to simplify the data. The easiest way to understand data is by examining it in tables, diagrams and graphs. Before presenting and analyzing the data, they should be corrected by editing, coding classification and tabulation.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

4.1 Financial Position Analysis

It is the process of identifying the financial strength and weakness of a firm by property establishing the relationship between the items of balance sheet and income statement parties interested in financial position analysis of a firm may be management creditors, share -holders and their interest may be from different angles.

4.2 Ratio Analysis

A ratio is a mathematical relationship between two related items expressed in qualitative forms. A ratio may be proportion, in rate of in percentage. Hence, analysis of financial statement with the help of ratio is termed as ration analysis. It implies the process of computing, determining and presenting the relationship of items or groups of items of financial statement (i.e. income statement and balance sheet). The ratio analysis also involves the comparison and interpretation of these ratios and the use of them for future projection.

Ratio analysis is one of the important tools broadly used in financial position analysis of a firm. For this research study also, the ratio analysis has been taken as an important tool. Hence, various types of ratios have been calculated for the financial position analysis. The ratios which can be used for financial position analysis of a bank have been mentioned in brief.

4.2.1 Liquidity Ratios

Liquidity is a pre-requisite for the survival of a firm. The short -term creditors of the firm are interested in the short-term solvency or liquidity of a firm. However, liquidity implies, form the view of utilization of the funds of the firm that funds are idle or they earn very little. A proper balance between the two contradictory requirements, i.e. liquidity and profitability is required for efficient use of financial resources. The liquidity ratios measure the ability of a firm to meet its short-term obligations and reflect the short-term financial strength or solvency of a firm.

According to the nature of the business of the firm, various ratios may be calculated to indicate their liquidity position. Below here have been calculated some liquidity ratios, which have been thought to be important to indicate the liquidity, position of a bank and have been to analyze the financial position of Nepal Bank Limited in terms of its liquidity.

A. Current ratio:

It is the ratio of total current assets to total current liabilities and calculated by dividing total current assets by total current liabilities. The current assets of a firm represent those assets that can in the ordinary course of business, be converted into cash within a short period of time, normally not exceeding one year. The current assets of a bank include cash and bank balance, money at call and short notice, bills discounted and purchased, short term investment, interest receivable etc.

Simultaneously, the current liabilities of a firm represent those liabilities that have short-term maturing obligations to be met, as originally contemplated, within a year. The current liabilities of a bank may include deposit under various account, bills payable, dividend and bonus payable, interest, payable, short-term loan etc.

The following table shows the current ratios of NBL from fiscal year 2056/57 to 2058/59 Before Management Change and 2059/60 to 2066/67 after management change and their analysis by classifying into two groups.

Table No: 4.1
Current Ratio

(Rs. In ‘0000’)

Before Management Change				**After Management Change**			
F.Y	**C.A**	**C.L**	**Times**	**F.Y**	**C.A**	**C.L**	**Times**
2056/57	38366.77	42722.56	0.89804473	2059/60	43966.83	53176.4	0.826811
2057/58	38071.04	44568.66	0.85421101	2060/61	46858.07	54470.68	0.860244
2058/59	39253	48947.29	0.8019443	2061/62	35727.2	42220.36	0.846208
				2062/63	36521.3	36982.24	0.8793761
Average			0.85140001	2063/64	38298.28	34872.51	1.098261
Standard Deviation			0.04811185	2064/65	37813.09	33597.35	1.12549
				2065/66	34692.03	24996.79	1.387896
				2066/67	25722.99	42538.24	0.604638
				Total			7.628924
				Mean			1.695316
				S.D			0.239849

Source: Annual Reports of Nepal Bank Limited

C.A= Current Asset, C.L= Current Liability

This table can be presented clearly in the following chart.

Figure No: 4.1 (A)
Current Ratio

Figure No: 4.1 (B)
Current Ratio

Above table and diagram, reveal current ratios of the NBL, for the periods of the six years 2056/57 to 2058/59 before management change and 2058/69 to 2066/67 after management change. As per the objectives of the study, they have been classified into two groups of three years each.

The condition of current ratios for the first period (Before management change) is worse. The ratios less than 1, i.e. to discharge the current liabilities of the 1, the bank has Rs 0.89, Rs. 0.85

and Rs. 0.80 in F.Y 2056/57 B.S. to 2058/59 B.S. respectively which indicates that the bank has not been maintaining liquidity properly.

The average of current ratio for the first period is only 0.85. However, the standard deviation for the first period is 0.048. The standard deviation for first period shows that the current ratios for first period are fluctuating more.

Similarly, the second condition of current ratios for the second period (After management change) is much worse as compared to the first periods. The ratios less than 1 i.e. to discharge the current liabilities of Rs. 1, but in year from 2063/64 more than, 1.09, 1.12, 1.38 in year 2063/64, 2064/65, 2065/66 respectively. But in year 2066/67 times of current ratio is 0.60. The average of current ratio for the second period is only 1.69, which is less than that of the first period. The ratios of the second period are more than the average. Standard deviation of the ratios for the period is 0.23, which is less than that for the period. The lower standard deviation for the period shows that the current ratios for first period are fluctuating more than the second period. Hence, it can be concluded that the bank has not been holding large amount of resources idle in term of current assets, i.e. they have been utilized somewhere else. However, a very low current ration shows bank's inability to discharge its current liabilities liquidity. However, the liquidity position of the bank is better for the first period.

B. Cash and Bank Balance to Current Assets Ratio.

It is the ratio of total of cash and bank balance to total of current assets. Cash and bank balance are to measure components of current assets. These are ready cash, which can be used anytime and anywhere according to the need of a firm. By nature, almost all the current assets of a firm remain idle of earn very little.

Therefore, there is no chance of the earning form cash balance held in the business, bank balance refers to that balance which can be converted into cash at any needed time, and it also generally remains idle.

Hence, the cash and bank balance to current assets ratio represent how much cash from total current assets can be used to discharge short-term obligations of the bank. The table shows the bank balances to current assets ratios of the bank.

The following table shows the cash and bank balance to current assets ratio of NBL form fiscal year 2056/57 to 2058/59 Before Management Change and 2059/60 to 2066/67 after management change and their analysis by classifying into two groups.

Table No.2
Cash and Bank Balance to Current Assets Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**C.B**	**C.A**	**Times**	**FY**	**CB**	**CA**	**Times**
2056/57	5471.88	38366.77	0.14262029	2059/60	5861.07	43966.83	0.133307
2057/58	6266.79	38071.04	0.1646078	2060/61	6159.33	46858.07	0.131447
2058/59	6627.12	39253.78	0.16882756	2061/62	6464.92	35727.2	0.180952
				2062/63	9250.95	36253.21	0.025517
Average			0.15868522	2063/64	1592.61	38298.7	0.41584
S.D			0.01407171	2064/65	1892.43	37813.9	0.500458
				2065/66	2186.35	34692.5	0.630208
				2066/67	2552.08	25720.3	0.992244
				Total			3.009972
				Mean			0.376246
				S.D			0.325366

Source: Annual Reports of Nepal Bank Limited

C.B= Cash and Bank Balance, C.A= Current Assets

This table can be presented clearly in the following chart.

Figure No. 2 (A)
Cash and Bank Balance to Current Assets Ratio

Figure No. 2 (B)
Cash and Bank Balance to Current Assets Ratio

Above, table and diagram indicate that the average of the cash and bank balances to current assets to be 0.15 for the first period (Before management change) and 0.37 for the year 2066/67. However, the first shows the standard deviation of 0.01 and second period shows it to be 0.32 after management change.

The table shows that out of total current assets cash and bank represent 0.14 in F.Y 2056/57 B.S. it is 0.16 and 0.168 from F.Y. 2057/58 to 2058/059 respectively. During the period, first year has the ratio below the average and other two years have above the average of the period. The table also shows that there is a deviation of 0.01 in the cash and bank balances to current assets ratio.

Similarly, the second part of the table (after management change) shows the cash and bank balance to current assets ratio of the bank for the second period of study. The ratio for the first year of the second period is 13.33%. The others are 0.13, 0.18, 0.02, 0.41, 0.50, 0.63 and 0.99 for the remaining years 2059/60 to 2066/67 respectively. The cash and bank balance to current assets ratio for first year and second is below the average and that for third years are above the average of the period. The standard deviation shows that this ratio has been more deviated in second period than the first period.

C. Loan and Advances to Current Assets Ratio:

It is the ratio of total of loans and advances to total of current assets. The main business of bank is mobilization in term of loan and advances and by investing on various types of securities and projects.

The major part of the collected fund is invested in the form of loan and advances i.e. loan is granted to needy persons or needy sectors of the economy, which is also a main business if any converted into cash on the desire of the investors. Loans and advances cannot be converted into cash on the desire of the investors. Loan and advances pay interest at a certain rate. But, it is not always sure that the principal and interest of the loans and advances will be recovered in the started time. Hence, third ratio indicated the percentage to total current assets, which have lent to the customers with a promise to be paid.

The following table shows the loan and advances to current assets of NBL from fiscal years 2056/57 to 2058/59 Before Management Change and 2059/60 to 2066/67 after management change and their analysis by classifying into two groups.

Table No.3
Loan and Advances to Current Asset Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**L & A**	**C.A**	**Times**	**FY**	**L & A**	**CA**	**Times**
2056/57	14922	38366.77	0.38893032	2059/60	8881.82	43966.83	0.202012
2057/58	11918.9	38071.04	0.31306999	2060/61	8218.9	46858.07	0.1754
2058/59	8638.44	39253.78	0.22006645	2061/62	9756.2	35727.2	0.273075
				2062/63	9384.5	36521.5.3	0.256951
Average			0.30735558	2063/64	9151.07	38298.7	2.389393
S.D			0.08457684	2064/65	10105.48	37813.9	2.924447
				2065/66	10325.96	34692.5	3.819835
				2066/67	11761.90	25720.3	6.848637
				Total			16.88975
				Mean			2.111219
				S.D			2.399725

Source: Annual Reports of Nepal Bank Limited

L&A= Loan and Advances, C.A= Current Asset

This table can be presented clearly in the following chart.

Figure No. 3 (A)
Loan and Advances to Current Asset Ratio

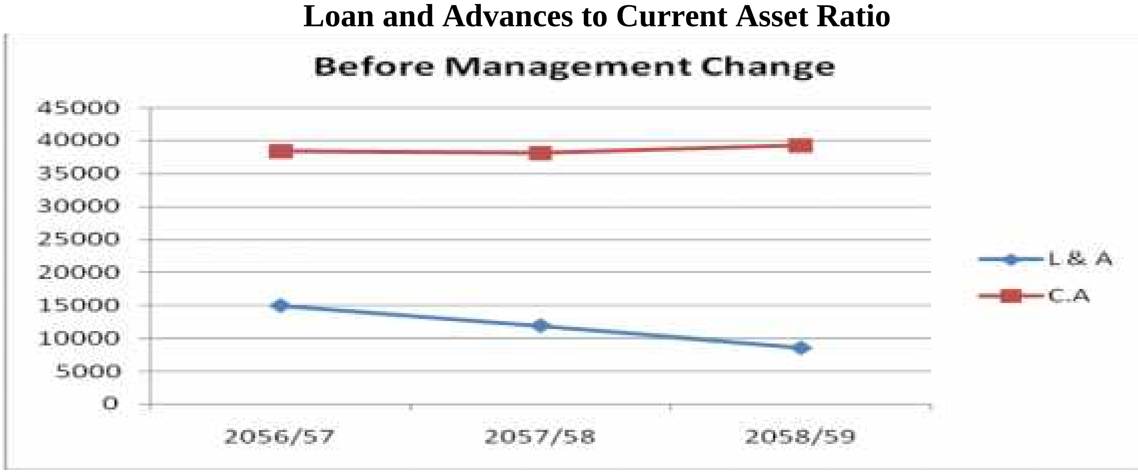


Figure No. 3 (B)
Loan and Advances to Current Asset Ratio

The above table and diagram reveal that for the first year of first period (Before management change), loan and advances to total current assets ratio is 38.89%. However, the average of this ratio for the first period of the study is 0.30. The highest of this ratio for the period is 38.89% in the F.Y. 2056/57 B.S. and lowest being 0.22 in the F.Y. 2058/59 B.S. The table also indicates the ratios for the period fluctuating by 0.30 in average.

Similarly, the second part of the table shows the ratio of first year of second period (After management change), the average of this ratio for the period of the study is 2.11. The highest of the ratio for the period is 6.84 in the year 2066/67 and lowest being 0.17 in the year 2060/61. Standard deviation for the period is 2.39.

Comparing the ratios for two periods, the average of first period shows higher loan and advances to current assets ratio over the second period. As already stated, loan and advances earn returns at a certain rate and to invest more amounts of resources in the portfolio yielding return at a fixed rate is always a positive aspect from viewpoint of maximizing profit it there is no risk of recovering principal and interest from them. However, the trends of recovering loan have shown that a very large amount of loan has been facing difficulties to be recovered. Failure in recovering the loan has been the main reason for decreasing trend of profitability for the first period then second period.

D. Fixed Deposit to Total Deposit Ratio.

It is the ratio, which shows the percentage of fixed deposit on total deposit. Fixed deposit is one of the major sources of fund, which bears costs at a certain rate and ahs certain maturity. Though termed as current liabilities, it should not be paid back before maturity.

But, a serious drawback of this type of deposit is paying of interest on this ratio shows the percentage of total deposit which bears cost at a fixed rate and calculated by dividing fixed deposit by total deposit ratio for the entire period of the study.

Table No.4
Fixed Deposit to Total Deposit Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**FD**	**TD**	**Times**	**FY**	**FD**	**TD**	**Times**
2056/57	12287.07	35768.07	0.34352063	2059/60	7815.59	35735.04	0.218709
2057/58	10171.13	35618.59	0.28555678	2060/61	6191.01	35934.2	0.172287
2058/59	9766.27	34264.85	0.28502299	2061/62	6595.2	35829.8	0.18407
				2062/63	5834.2	35929.7	0.162378
Average			0.30470014	2063/64	5222.48	34215.1	0.152637
S.D			0.0336206	2064/65	5393.45	39014.2	0.138243
				2065/66	4757.92	41829.4	0.113746
				2066/67	3586.19	45194.2	0.079351
				Total			1.221422
				Mean			0.152678
				S.D			0.04297

Source: Annual Reports of Nepal Bank Limited

F.D= Fixed Deposit**,** T.D= Total Deposit

This table can be presented clearly in the following chart.

Figure No. 4 (A)
Fixed Deposit to Total Deposit Ratio

Figure No. 4 (B)
Fixed Deposit to Total Deposit Ratio

The above table and diagram indicate NBL's fixed deposit to total deposit ratios calculated six years, i.e. form F.Y. 2056/57 B.S. to F.Y. 2066/67 B.S. divided into two groups of three years each. During the whole period of the study (before management change) the first year of first period, i.e. F.Y 2056/57 B.S. has the highest ratio of fixed deposit to total deposit in average 0.30.

The second period of the bank average of this ratio is 0.15. However, the highest is 0.21 in the year 2059/60. In the year 2066/67 the ratio is 0.07 which is the lowest ratio of first year (i.e. F.Y. 2056/57 B.S). The standard deviation of the times of after management change is 0.04.

On the other hand, the deposits accepted under amount other than fixed deposits are termed as more current liabilities i.e. they normally have no maturity and should be paid -off anytime or on the demand of customers. Hence, form viewpoint of liquidity greater portion of fixed deposit may be termed as favorable one. The ratio of fluctuation ratios is more in the first in comparison to and second period.

E. Cash and Bank Balance to Total Deposit Ratio

The ratio shows the percentage of total deposit which can be immediately discharged by the bank from its ready cash. Total of the deposit is the most important sources of bank's fund. This fund should be utilized into various sectors in a profitable manner and cash and bank balances is that part of bank's fund which has not been invested anywhere with a view to generating income. Excess cash and bank balance, from viewpoint of profitability to maintain excess cash and bank balance, following table shows the cash and bank balance to total deposit ration of the bank for the period of study.

Table No.5
Cash and Bank Balance to Total Deposit Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**C.B**	**T.D**	**Times**	**FY**	**CB**	**TD**	**Times**
2056/57	5471.88	35768.07	0.15298225	2059/60	5861.07	35735.04	0.164015
2057/58	6266.79	35618.59	0.17594155	2060/61	6159.33	35934.2	0.171406
2058/59	6627.12	34264.85	0.1934087	2061/62	6464.92	35829.8	0.180434
				2062/63	9484.61	35948.2	0.263841
Average			0.17411083	2063/64	10712.3	34215.1	0.500457
S.D			0.0202753	2064/65	15012.3	39014.2	0.474502
				2065/66	21853.2	41829.4	0.522436
				2066/67	25215.7	45194.2	0.557941
				Total			2.835031
				Mean			0.354379
				S.D			0.174692

Source: Annual Reports of Nepal Bank Limited

C.B=Cash and Bank Balance, T.D= Total Deposit

This table can be presented clearly in the following chart.

Figure No. 5 (A)
Cash and Bank Balance to Total Deposit Ratio

Figure No. 5 (B)
Cash and Bank Balance to Total Deposit Ratio

The above table and diagram show cash and bank balance to total deposit ratios of the bank for eleven years divided into two periods of three years each. During the whole period of study three year of the first period, (Before Management Change) i.e. F.Y. 2066/67 B.S. shows the highest ratio.

The average ratio of year of the first period i.e. 0.17 is much lower than the average for the period of 0.35. The table shows relatively high fluctuation in the ratios for the three years of the first period. Due to the high difference between the average of the ratio for the period and the first year, the period has recorded the standard deviation of the 0.02.

Similarly, the second part of the table shows the ratio of the after management change is 0.35. The highest of this ratio for the periods is 0.55 in the year 2066/67 and lowest being 0.16 in the first year of 2059/60 and standard deviation for the period is 0.17. The standard deviation of second period is more than that of first period, which indicates less fluctuation in the ratios during the second period.

As stated earlier the amount of cash held in the office earns nothing and bank balance also remains idle or unchanged, less amount of cash and bank balances shows bank efficiency in mobilizing its resources and vice versa. Now it is difficult to sum up, ratios that bank's percentage of idle resources has decreased during the second period of study.

F. Total Investment to Total Deposit Ratio

As stated earlier total deposit in the main sources of bank's fund is the amount accepted by the bank from its customers under various accounts. The fund so collected should be utilized properly into different sectors of the economy with a view of the economy with a view to achieve the objectives of the bank. A wise utilization of such fund results in maximization of profit. By nature, major part of the total deposit of a bank is invested on loan and advances.

Investment of a bank refers to that part of bank's fund, which is invested on the securities, issued by governmental and non-governmental organization and on other various projects. Utilization of fund on investment has possibility of capital gain along with regular income (regular income may of may not be at fixed and pre-stated rate).

There is less risk of not recovering investment from these sectors. Following table shows the total investment to total deposit ratio of the bank for various years of study.

Table No.6
Total Investment to Total Deposit Ratio

(Rs. In'0000')

Before Management Change				After Management Change			
F.Y	**TI**	**TD**	**Times**	**FY**	**TI**	**TD**	**Times**
2056/57	5462.07	35768.07	0.15270799	2059/60	11004	35735.04	0.307955
2057/58	6776.33	35618.59	0.190247	2060/61	14199.2	35934.2	0.395144
2058/59	7151.38	34264.85	0.20870892	2061/62	14490.2	35829.8	0.404418
				2062/63	16390.4	35948.2	0.455945
Average			0.18388797	2063/64	18298.2	34215	0.534798
S.D			0.02853689	2064/65	20124.4	39014.2	0.515822
				2065/66	21541.2	41829.4	0.514978
				2066/67	23005.4	45194	5.090347
				Total			8.219408
				Mean			1.027426
				S.D			1.64345

Source: Annual Reports of Nepal Bank Limited

T.I=Total Investment, T.D= Total Deposit

This table can be presented clearly in the following chart.

Figure No. 6 (A)
Total Investment to Total Deposit Ratio

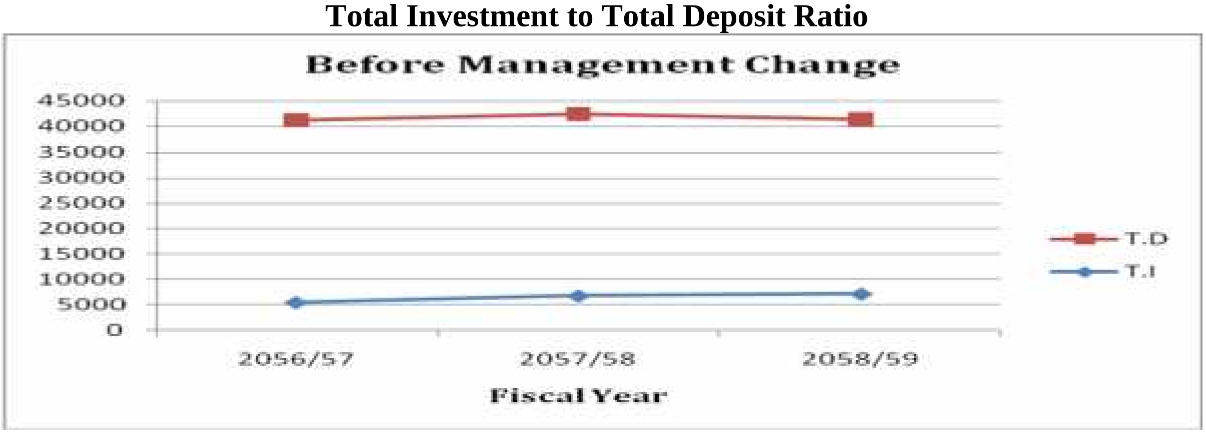


Figure No. 6 (B)
Total Investment to Total Deposit Ratio

The first part of the table and diagram shows the total investment to deposit ratios of the bank for the first period of study (Before management change**).** The highest ratio for the period is 0.20 during F.Y. 2058/59 B.S. and lowest being 0.15 during F.Y. 2056/57 B.S. The average ratio of this period is 18.38%, due to which the period has indicates the standard deviation of 0.02.

The second period (After management change**)** shows the highest ratio of 5.09 during the F.Y. 2066/67 B.S. and the lowest of 0.30 during the F.Y. 2059/60 B.S. The average of ratios of this period is 1.02. The two ratios of this period are above the ratio and remaining one is only the below of the ratio. The standard deviation of the period has to be 1.64.

A comparison between the ratios of two periods clearly reveals that the bank has been able to invest a large amount of its total deposit on various securities and projects averaging to 1.027 for the second period, which is double to the average of first period. As mentioned already, these investments bear less risk as compared to loan and advances. However, during the second period of study, the ratio of investment has dramatically increased.

Hence, the bank does not seem to be successful in making investment on profitable sectors other than loan and advances. Due to recovery problems of loan and advances and year-by-year decreasing ratios of investment the profitability of the bank has been negatively affected during the first period. After management change, the ratios have increased. Hence, investment position of bank far better during first period than during the second period.

4.2.2 Turnover ratio

A. Loan and Advances to Total Deposit Ratio:

Loan and advances is the main item of utilization of bank's collected fund. Accepting deposits and granting of loans are main business of any commercial and other type of bank. This ratio shows the percentage of total deposit that has been utilized of loan and advances. The collected fund must be mobilized somewhere else in the form of loans and advances or investment or in any other forms to generate income.

The utilization of fund in the form of loan and advances generate income in terms of interest at a fixed rate. Mobilization of fund in the sector with a fixed rate of interest is always a positive aspect from viewpoint of profitability if there is no risk recovering them.

The table shows the loan and advances to total deposit ratios of the NBL, for the years of study.

Table No.7

Loan and Advances to Total Deposit Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**LA**	**TD**	**Times**	**FY**	**LA**	**TD**	**Times**
2056/57	14922	35768.07	0.41718773	2059/60	8881.82	35735.04	0.248547
2057/58	11918.9	35618.59	0.33462582	2060/61	8218.9	35934.2	0.228721
2058/59	8638.44	34264.85	0.25210792	2061/62	9756.2	35829.8	0.272293
				2062/63	9345.1	35948.2	0.25996
Average			0.33464049	2063/64	9151.07	34215.1	0.267457
S.D			0.08253991	2064/65	11058.5	39014.2	0.283447
				2065/66	13252	41829.4	0.31681
				2066/67	17611.9	45194.2	0.38976
				Total			2.266994
				Mean			0.283374
				S.D			0.050086

Source: Annual Reports of Nepal Bank Limited

L.A=Loan and Advances, T.D= Total Deposit

This table can be presented clearly in the following chart.

Figure No. 7 (A)
Loan and Advances to Total Deposit Ratio

Figure No. 7 (B)
Loan and Advances to Total Deposit Ratio

Above table and diagram show the loan and advances to total deposit ratio for eleven years from F.Y. 2056/57 B.S. to F.Y. 2066/67 B.S. divided into two parts of three years each, average ratios for the periods and their standard deviation.

During the first period (before management change) of the study the average of the ratios are much lower that is 0.33. It shows that at an average, 0.33 of total deposit has been mobilized as loans and advances. However, the highest and lowest ratios for the periods are 0.41 and 0.25 during first and third year of the first period respectively. The fluctuating in the ratio during period is 0.08.

During the second period (after management change) of the study, the average of the ratios is much lower that is 0.22. It shows that at an average 0.28, of total deposit has been mobilized as loans and advances. However, the highest and lowest ratios for the periods are 0.38 and 0.22 during year 2066/67 and 2060/61 respectively

Accounting records of recent some years of NBL shows that large amount of loan advances forms the customers. The ratios calculated above shows that the percentage of loan and advances of the first period is higher than that for the second periods. It implied that fund mobilization efficiency of the bank has decreased and succession of bank in recovering the mobilized fund has pushed up the bank toward profit in recent some years. Hence, during the period, bank's investment on risk less sector has increased.

B. Loan and Advances to Fixed Deposit Ratio.

Loan and advances in that part of banks fund which income at a certain rate and fixed deposit is that part of bank's fund such bears cost at a certain rate and fixed deposit is that part of bank's fund such bears costs at a certain rate.

Hence, it is the ratio, which indicates the relationship between the investment of bank earning interest at a fixed rate and the liabilities of bank bearing interest at certain rate. In other words, it shows the ratios of fixed returns generating investment and fixed cost bearing liabilities.

Table No.8
Loan and Advances to Fixed Deposit Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**LA**	**FD**	**Times**	**FY**	**LA**	**FD**	**Times**
2056/57	14922	12287.07	1.21444738	2059/60	8881.82	7815.95	1.136371
2057/58	11918.9	10171.13	1.17183636	2060/61	8218.9	6191.01	1.327554
2058/59	8638.44	9766.27	0.88451784	2061/62	9756.2	6595.2	1.479288
				2062/63	9345.1	5823.3	1.604777
Average			1.09026719	2063/64	9151.07	5222.3	1.752306
S.D			0.1794534	2064/65	11058.5	5393.2	2.050447
				2065/66	13252	4757.9	2.785254
				2066/67	17614.9	3586.1	4.911991
				Total			17.04799
				Mean			2.130999
				S.D			1.233364

Source: Annual Reports of Nepal Bank Limited

L.A=Loan and Advances, F.D=Fixed Deposit

This table can be presented clearly in the following chart.

Figure No. 4.8 (A)
Loan and Advances to Fixed Deposit Ratio

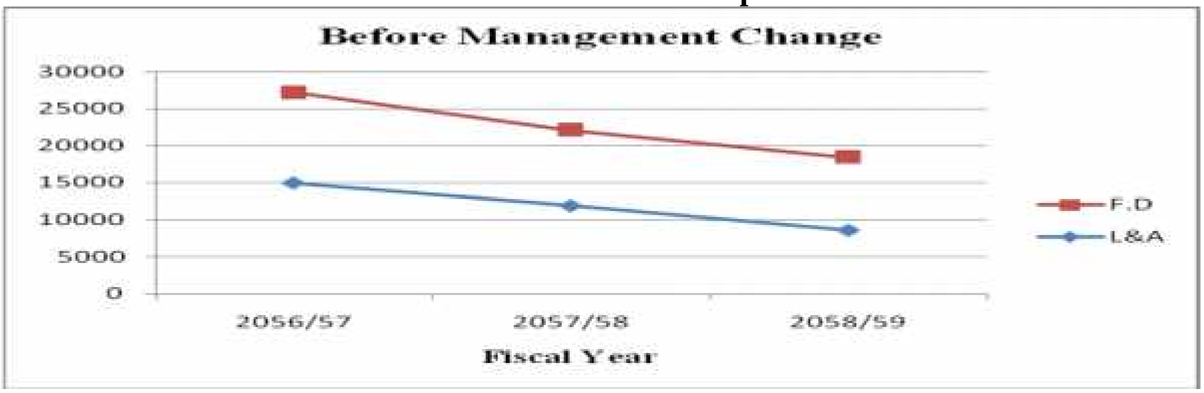


Figure No. 4.8 (B)
Loan and Advances to Fixed Deposit Ratio

Above table and diagram shows the loan and advances to total deposit ratios of the bank for six years divided into two parts of three years each before and eight years of after management change.

During the first period (before management change), the average of this ratio is 1.09. The highest ratio for the first period has been observed to be 1.21 in the first year and the lowest of 0.88 in the third year of the study. The standard deviation of first period shows relatively very high fluctuation of ratios in the later period.

In the second (after management change), the average of this ratio is 2.13 i.e. more than that of the first period. The highest ratio for the first period has been observed to be 4.91 in the third year and the lowest of 1.13 in the first year of the study. The standard deviation of second period has been recorded to be 1.23 is slightly more than that of first period which shows relatively very high fluctuation of ratios. As increase in the investment generating income at a fixed rate should be taken as a positive factor viewpoint of profitability, it there is not risk. It is also a major business of a bank to increase the percentage of loan and advances.

However, relatively high fluctuation in the ratios indicates bank's inefficiency in investing activities. If other things remain constant (i.e. interest and principal of loan are recovered on time without any risk of loss), third period. In average shows bank's improving position in this portfolio.

Since the percentage of matured loan of the bank has been increasing year by year, it is the main reason for low profitability of the bank. Even then increase in the ratio of loan and advances should not be taken negatively. Bank should find out other ways to recover the amount of loan and advances.

4.2.3 Profitability Ratios

A firm should produce profits to survive and flow over long period of time. Profits are indispensable but it would be wrong to assume that every action initiated be management of a firm should be aimed at maximizing profits, irrespective of social magnitude and responsibilities. Even then, profit plays a fundamental role to make a firm stand strong to meet its social responsibilities. Profit is the difference between revenue and expenses over a period of time. Profit is the ultimate output of a firm, and it will have no future if it fails to make sufficient profit. The profitability ratios are calculated to measure the operating efficiency of the firm.

Beside the management of the firm, creditors and owners are also interested in the profitably of the firm. To measure the profitability of the NBL a number of ratios have been calculated and analyzed underneath.

A. Operating Profit to Net Worth Ratio

Net worth is the total claim of owners' shareholders in a firm and operating profit, which is earned by the firm from its usual and regular business. Higher operating profit to net worth ratios shows better operating efficiency of a firm and vice versa. Following table shows the operating profit to net worth ratio of the NBL calculated and expressed in percentage of the whole period of study.

Table No.9
Operating Profit to Net Worth Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**OP**	**NW**	**Times**	**FY**	**OP**	**NW**	**Times**
2056/57	-267.14	993.69	-0.26883636	2059/60	44.03	9394.91	0.004687
2057/58	-0.12	1030.46	-0.00011645	2060/61	252.47	7805.93	0.032343
2058/59	1097.05	9553.88	0.11482769	2061/62	260.4	6681.83	0.038971
				2062/63	280.3	6457.3	0.043408
Average			-0.05137504	2063/64	291.2	6137.5	0.047446
S.D			0.19690126	2064/65	298.3	5897.6	0.05058
				2065/66	309.5	5543.6	0.05583
				2066/67	313.8	5349.8	0.058656
				Total			0.331922
				Mean			0.04149
				S.D			0.017182

Source: Annual Reports of Nepal Bank Limited

O.P=Operating Profit N.W= Net Worth

This table can be presented clearly in the following chart.

Figure No.4.9 (A)
Operating Profit to Net Worth Ratio

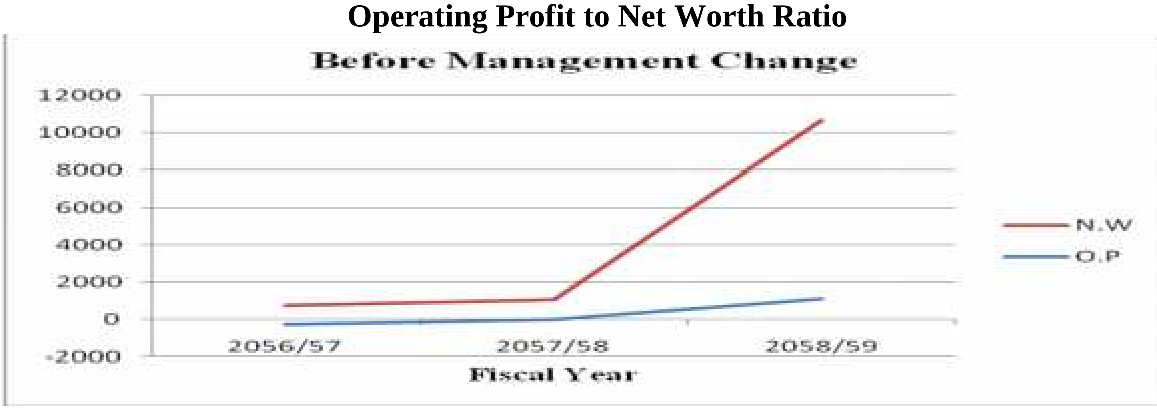


Figure No. 4.9 (B)
Operating Profit to Net Worth Ratio

The table and diagram show the operating profit to Net worth ratios of the bank for eleven years. It also reveals that the period of eleven year has been divided into two parts of three years each. All the parts indicate the average and standard deviation of the ratios respectively.

The first part of the table shows first period of the study. All ratios of the period were negative value. Therefore, the average of the ratios was to be negative i.e. -0.05. Due to the heavy fluctuation standard deviation of the period was also very high i.e. 0.19.

The second part of the table shows average of the ratios for the second period to be 0.04 and standard deviation for the period of 0.01. During the second period operating profit to net worth, ratios are positive.

Comparing the ratios of two periods, the first period, even if there are three negative ratio during the period, shows an average of negative i.e. -0.05. Here the second period is improving in its efficiency to reduce positive average than first period. Regarding fluctuation in the ratios, there is extremely high fluctuation in the ratios during second period. Hence, the comparison shows that the operating efficiency of the bank though not good in either period.

B. Interest Earned to Total Assets Ratio.

Interest is the main source of income of a bank. Interest is earned on the loan, advances and investment made by the bank. The difference between the amount of interest earned and interest paid will be operating margin of the bank. On the other side, total assets refers to the total working fund or total utilization of fund by the bank, which is collected from various sources. Interest earned and total assets have a deep relationship. The amount or ratio of interest earned shoes hoe efficiently and effectively the bank has utilized its assets.

The table shows the interest earned to the total assets ratios of the NBL for various years of the study.

Table No.10
Interest Earned to Total Asset Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**I.E**	**TA**	**Times**	**FY**	**I.E**	**TA**	**Times**
2056/57	2477.57	43718.01	0.05667161	2059/60	1825.04	44161.88	0.041326
2057/58	2368.35	45599.13	0.05193849	2060/61	1987.12	47045.2	0.042239
2058/59	1526.99	39393.42	0.03876256	2061/62	2049.02	35918.9	0.057046
				2062/63	2229.3	33255.2	0.067036
Average			0.04912422	2063/64	2423.8	29562.6	0.081989
S.D			0.00928028	2064/65	2725.6	28325.2	0.096225
				2065/66	2958.6	26942.1	0.109813
				2066/67	3225.5	25356.2	0.127208
				Total			0.622881
				Mean			0.07786
				S.D			0.031543

Source: Annual Reports of Nepal Bank Limited

I.E=Interest Earned, T.A= Total Asset
This table can be presented clearly in the following chart.

Figure No. 4.10 (A)
Interest Earned to Total Asset Ratio

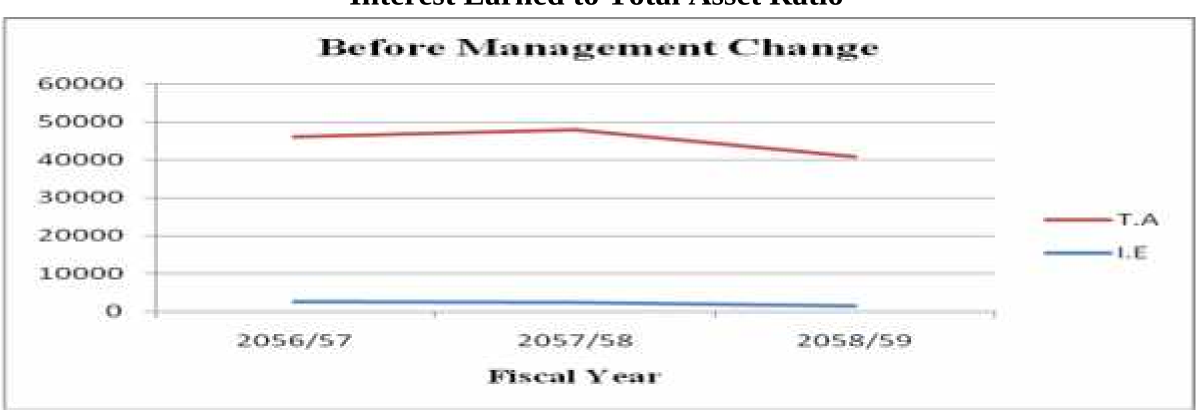


Figure No. 4.10 (B)
Interest Earned to Total Asset Ratio

The above table shows the interest earned to total assets ratios of the bank for eleven years divided into two parts of three years each.

The average of ratios for the first period (before management change) is 0.04 percentage. The first period has recorded the highest and lowest ratio of 0.056 and 0.051 in the first and second year respectively. The average ratios of two periods explain that bank's asset utilization efficiency has decreased during the second period. The standard deviation of this period is very lower.

Similarly, the average of ratios for second period (after management change) is 0.07, the second period has recorded the highest and lowest ratio of 0.12 and 0.041 in the last and first year respectively. The average ratios of two periods explain that bank's asset utilization efficiency has increased during the second periods. The standard deviation of this period is 0.03, which is grater than that of first period.

As interest, main source of income of a bank, the profitability of the bank largely depends on its interest earning capacity. As already said, making loan and advances at an attractive rate of interest is not only the rationale to improve profitability. To increase and improve the profit margin, the bank should be able to earn the interest from loan, advances and investment in time. Higher interest earned to total assets ratio shows bank's better position. Hence, based on ratio, the second period of the study can be said to be better than the first period.

C. Interest Paid to Total Assets Ratio

If interest earned id the main source of income of a bank, interest paid is its main head of expenditure. Large amount of banks earning is utilized in paying interest to the deposits accepted by the bank under various accounts. As interest earned, Bank's profitability also depends on interest paid. This is that type of cost of a bank, which can never be avoided.

After accepting deposits, the bank must pay interest on deposit according to the existing rules and bank's commitment made at the time of accepting deposits. Instead of trying to avoid this cost, the bank should try to lessen it. The lesser interest paid to total assets ratio shows bank's better profitability position.

Table No.11
Interest Paid To Total Asset Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**IP**	**TA**	**Times**	**FY**	**IP**	**TA**	**Times**
2056/57	1957.22	43718.01	0.04476919	2059/60	1025.53	44161.88	0.023222
2057/58	1744.65	45599.13	0.0382606	2060/61	748.95	47045.2	0.01592
2058/59	1713.2	39393.42	0.0434895	2061/62	774.3	35918.9	0.021557
				2062/63	765.6	33255.2	0.023022
Average			0.0421731	2063/64	698.5	29562.6	0.023628
S.D			0.00344821	2064/65	652.3	28325.2	0.023029
				2065/66	615.8	26942.1	0.022856
				2066/67	584.9	25356.2	0.023067
				Total			0.176301
				Mean			0.022038
				S.D			0.002543

Source: Annual Reports of Nepal Bank Limited

I.P= Interest Paid, T.A= Total Asset

This table can be presented clearly in the following chart.

Figure No. 4.11 (A)
Interest Paid To Total Asset Ratio

Figure No. 4.11 (B)
Interest Paid To Total Asset Ratio

The above table and diagram point out the average of the interest paid to total assets ratios. The average of the ratios for the first period (before management change) is 0.421. The lower interest paid to total assets ratio in the first period indicates proportionately lower cost of interest during the period. From view point of profit, to decrease the costs is to help maximize profit. Or, lessening of cost positively affects the profitability of the bank. Hence, the table shows at an average lower cost of interest. During the first period, the uppermost ratio is 0.44 in the first year lowest ratio is 0.38 in the second year. The standard deviation is very lower.

Similarly, the average of the ratios for the second period is 0.02% which is lesser than the average of the first period. The lower interest paid to total assets ratio in the second period indicates proportionately lower costs of interest during the period. Form viewpoint of profit, to decrease the cost is to help maximize profit. Or, lessening of cost positively affects the profitability of the bank. Hence, the table shows at an average lower cost of interest in the second period than the first period.

During the second period, the uppermost ratio in the first year and lowest ratio is 0.01 in the third year. Like average standard deviation of the second period, i.e. 0.002 is higher than first periods. The ratios are decreasing dramatically which refers the bank on profitability. Hence, based on the interest paid to total assets ratio the bank is in better position during second period.

D. Net Profit to Total Assets Ratio

Net profit is the tax profit of a firm, which can be utilized by the firm for its own purpose or for the benefit of owners. Total assets also termed, as working fund is the total utilization of a firm's fund. Net profit state other way, is the reward to a firm for efficient utilization of its various assets. The net profit to total assets ratio, therefore, points out how successfully a firm has utilized its total assets. It indicates profit-earning capacity of the assets. A superior net profit to total assets ratio shows firm's better position and wise management of various assets and vice versa. Therefore, a firm should always try to maximize this ratio. Following table shows the profit to total assets ratio of the bank for the episode of study.

Table No.12
Net Profit to Total Assets Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**NP**	**TA**	**Times**	**FY**	**NP**	**TA**	**Times**
2056/57	-2307.94	43718.01	-0.05279152	2059/60	689.56	44161.88	0.015614
2057/58	-2192.27	45599.13	-0.04807701	2060/61	1704.43	47045.2	0.03623
2058/59	-3086.83	39393.42	-0.07835903	2061/62	1207.26	35918.9	0.033611
				2062/63	2269.65	33255.2	0.068249
Average			-0.05974252	2063/64	2392.56	29562.6	0.080932
S.D			0.01629378	2064/65	5942.32	28325.2	0.209789
				2065/66	6732.21	26942.1	0.249877
				2066/67	8942.52	25356.2	0.352676
				Total			1.046978
				Mean			0.130872
				S.D			0.124041

Source: Annual Reports of Nepal Bank Limited

N.P= Net Profit, T.A= Total Assets

This table can be presented clearly in the following chart.

Figure No.4.12 (A)
Net Profit to Total Assets Ratio

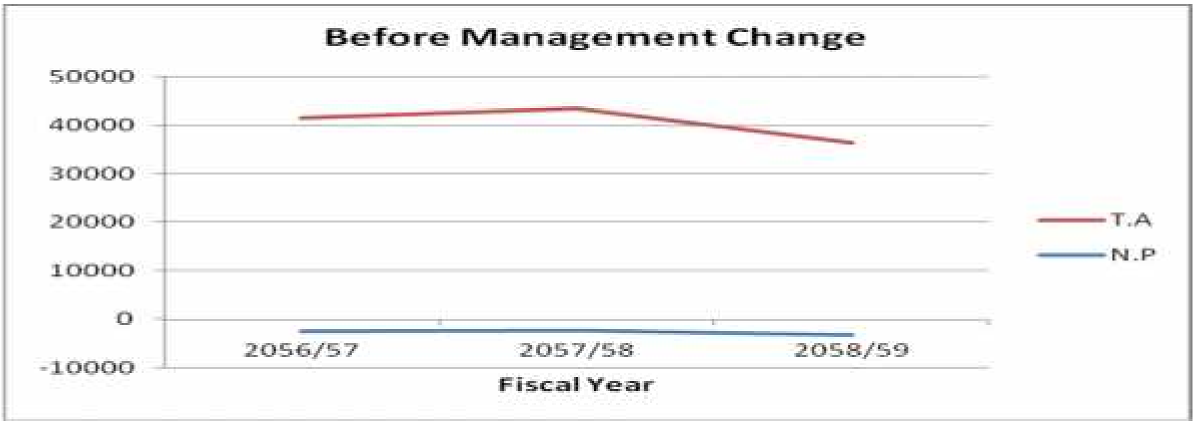


Figure No.4.12 (B)
Net Profit to Total Assets Ratio

Above table and diagram show very poor profitability of the NBL throughout the period of study. The higher net profit to total assets ratio for the whole period is only 0.35 in F.Y. 2066/67 B.S. it means the bank has earned maximum only 0.35 on its total assets during the period of study.

Bank's profit earning capacity is worst during the first period. The three years of the period has shown negative net profit to total assets ratio. I.e. -0.52, -0.48 and -0.78 in the first, second and third year of the period respectively. The average of the ratios for the first period is negative, i.e. -0.05. The negative average ratio of the period says that at an average, bank's total utilize in such an easy that their earning are not sufficient even to meet the operating and other expenses.

The assets of the banks are earning nothing, to meet the operating and other expenses, i.e. the assets of the banks are earning nothing, and to meet the increased cost or to compensate the deficiency in revenues, capital has been used. Similarly, the ratios of the first period have exposed high fluctuation, for which standard deviation is 0.01.

Similarly, the second part of the table (after management change) shows the second period of study. The bank's profit earning capacity is rapidly increased during third period. The F.Y. 2060/61 B.S has ratio of 0.36 for the period. The average ratio of the period says that at an average, bank's total assets are earning 0.13 during the point period. In other words, the assets have been utilized in such a way that their earning are sufficient even over meet all expenses and take profit. The standard deviation of the period is 0.12.

Hence, it can be summed to be that any year of the first period shows negative ratios and the second period shows the positive ratio. The ratios indicate bank's success to utilize its assets. Based on net to total assets ratio, the second period is better than first periods.

E. Net profit to Total Deposit Ratio:

The sum of deposit accepted by the bank under various accounts is termed as total deposit. According to the terms and condition of the deposit, the bank should pay interest on this deposit. The deposits so accepted are mobilized by the bank into various sectors in the form of investment, loan and advances from which it generates earning in the form of interest or other. The difference between the interest received and paid by the bank is its profit. Hence, if defined in other ways, net profit is a reward to the bank for efficient mobilization of its total deposit.

So it would also be responsible, meaningful and important from every angle to show the relationship between the net profit and total deposit, for which the net profit to total deposit ratio has been calculated in the following table making two groups of the study period and they have been comparatively analyzed afterward.

Table No.13
Net Profit to Total Deposit Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**NP**	**TD**	**Times**	**FY**	**NP**	**TD**	**Times**
2056/57	-2307.94	35768.07	-0.06452515	2059/60	689.56	35735.04	0.019296
2057/58	-2192.27	35618.59	-0.06154848	2060/61	1704.43	35934.2	0.047432
2058/59	-3086.83	34264.85	-0.09008736	2061/62	1207.26	35829.8	0.033694
				2062/63	2269.65	35948.2	0.063137
Average			-0.07205366	2063/64	2392.56	34215.14	0.069927
S.D			0.0156884	2064/65	5942.32	39014.2	0.152312
				2065/66	6732.21	41829.39	0.160944
				2066/67	8942.52	45194.23	0.197869
				Total			0.744611
				Mean			0.093076
				S.D			0.067169

Source: Annual Reports of Nepal Bank Limited

N.P= Net Profit, T.D= Total Deposit

This table can be presented clearly in the following chart.

Figure No. 4.13 (A)
Net Profit to Total Deposit Ratio

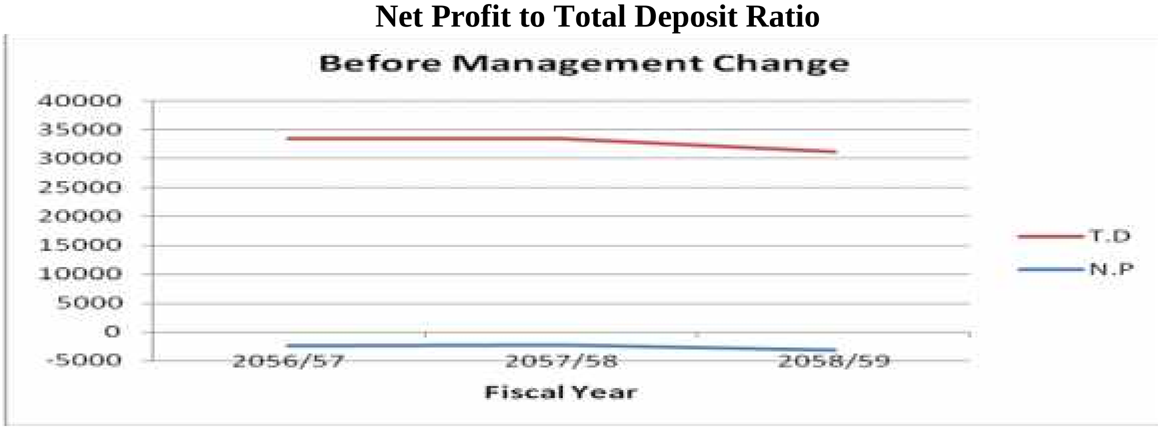


Figure No. 4.13 (B)
Net Profit to Total Deposit Ratio

The table and diagram show net profit to total deposit ratio for the whole period of study classification of whole periods into two groups, an average and standard deviation of ratios for all groups unconnectedly.

In the first period, the ratios seem to be mush reduces. For the period, all ratios were in negative. Due to negative ratios in all years, the average of the ration for the period was also negative, i.e. -0.07, which is very. The standard deviation for the period is 0.01.

In the second period, the ratios seem to be slightly increasing. For the period, second year shows the highest ratio of 0.19 and first year shows lowest ratio 0.01. The average ratio seems to be 0.09 and out of the standard deviation is 0.06.

It states the bank has been facing problems in mobilizing its deposits. Deposits are the main sources of the bank's fund. A negative profit to total deposit ratio indicates banks failure or inefficiency in mobilizing its deposit. Stated other ways, after accepting deposits, interest most be paid according to the agreement but negative ratios shows that bank has been just paying interest and has been able to mobilize the deposit or to average income from mobilized fund. The high positive ratio shows the bank ability to pay interest and mobilize find generating income.

Hence, on the basis of the net profit to total deposit ratios, at an average, the second period (after management change) of the study is better than the first and period (before management change). It is because the net profit to total deposit ratio is higher in second period than first period.

4.2.4 Leverage Ratios

The short-term solvency of a firm is examined by its liquidity ratios. A liquidity ratio shows a firm's short term financial position. A firm should have a string short term as well as long term financial position. To judge the long term financial position or long-term solvency of the firm, leverage ratios are calculated. These ratios also known as capital structure ratios point out funds provided by owner and lenders.

So, leverage or term solvency of a firm as reflected in its ability to assure long term creditors with regard to periodic payment of interest during the period of the loan and repayment of principal on maturity or in per-determined installment at due dates.

Leverage ratios have been calculated and analyzed by classifying into two groups as:

A. Stability Ratios

B. Structural Ratios

A. Stability Ratios

These ratios illustrate the relationship between shareholder's fund and various items of balance sheet. The stability ratios an analyzed is:

a. Net worth to Total Assets Ratio

Net worth is the total book value of investment made by the shareholder in the firm. In other words, net worth, which is also known, as shareholder’s fund is the total claim of shareholder’s in the firm. Total assets, also known as total working fund is the uses of the firm's total fund-collected from various sources. Thus, the net worth to total assets ratio shows the total claim of shareholder or owners on the total assets of the firm. A higher net profit to total assets ratio shows healthier position of the firm.

The following table shows the shareholder's claim on the firm's total assets during the period of the study.

Table No.14
Net Worth to Total Asset Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**NW**	**TA**	**Times**	**FY**	**NW**	**TA**	**Times**
2056/57	993.69	43718.01	0.02272953	2059/60	9394.91	44161.88	0.212738
2057/58	1030.46	45599.13	0.02259824	2060/61	7805.93	47045.2	0.165924
2058/59	-9553.88	39393.42	-0.24252477	2061/62	6681.83	35918.9	0.186025
				2062/63	6457.3	33255.2	0.194174
Average			-0.06573233	2063/64	6137.5	29562.6	0.20761
S.D			0.15310675	2064/65	5897.6	28325.2	0.20821
				2065/66	5543.6	26942.1	0.20576
				2066/67	5349.8	25356.2	0.210986
				Total			1.591428
				Mean			0.198928
				S.D			0.016136

Source: Annual Reports of Nepal Bank Limited

N.W= Net Worth, T.A = Total Assets

This table can be presented clearly in the following chart.

Figure No. 4.14 (A)
Net Worth to Total Asset Ratio

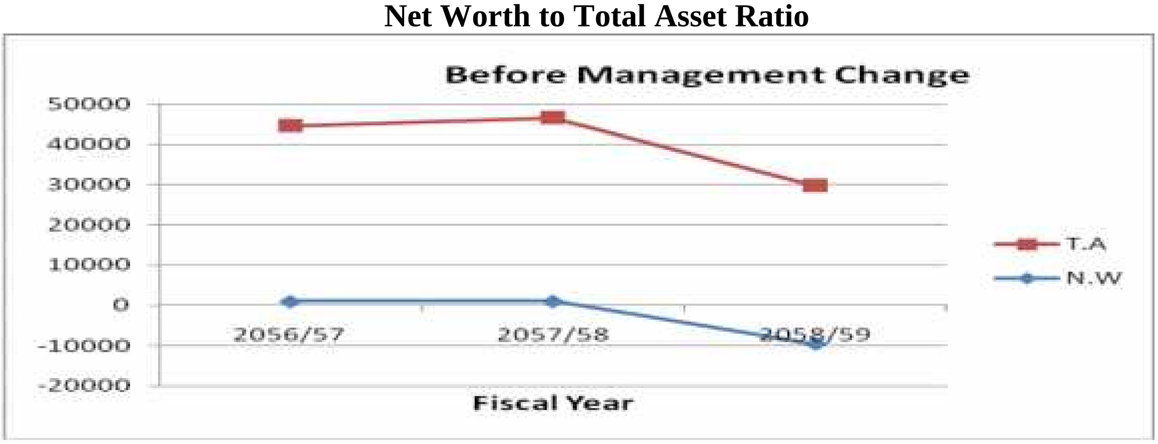


Figure No. 4.14 (B)
Net Worth to Total Asset Ratio

The first part of the table (before management change) shows the net worth to total assets ratio of the bank for the different years, their average and standard deviation for the period. According to the table, the average of the ratios for the period is -0.07. The fluctuation of the ratio indicates high standard deviation 0.01 in first periods.

The second part of the table (after management change) shows the net worth to total assets ratios of the bank for different years their averages and standard deviation for the period. According, to the table, the ratio of the period shows negative. The standard deviation of the period is 0.06. The negative ratios in the second period indicate that bank performance is seriously worsening.

A negative net worth to total assets ratio says shareholders/owners have no claim on the assets of the bank i.e. bank's assets are insufficient even to discharge its liabilities. During the second period, the ration has extremely fluctuated negatively during all years.

Hence, on the basis of the net worth to total assets ratios the position of the bank during the first period if far better than that during the second period. The second period is worsening in these ratios.

b. Total Deposit to Net worth Ratio

Total deposit of a bank represents total of deposit accepted by the bank under various accounts and net worth is the claim of shareholders on total assets of the bank or it is that part of total sources of fund, which have been invested by owners in the bank.

Hence, this ratio indicates the proportion of total deposit and shareholder's fund in the total sources of fund of the bank. There is no doubt that in addition to share capital, deposit collected from customers is the main sources of fund of any commercial bank, which also represent the largest portion of total sources.

So, they said ratio shows the percentage of total deposit accepted by the bank on total of net worth. The table below shows the total deposit to net worth ratios of the Nepal Bank Limited for the whole period of the study presented as per the objectives of the study.

Table No.15
Total Deposit to Net worth Ratio

(Rs. In '0000')

Before Management Change				After Management Change			
F.Y	**TD**	**NW**	**Times**	**FY**	**TD**	**NW**	**Times**
2056/57	35768.07	993.69	35.9951997	2059/60	35735.04	9394.91	3.80366
2057/58	35618.59	1030.46	34.5657182	2060/61	35934.2	7805.93	4.603449
2058/59	34264.85	-9553.88	-3.58648528	2061/62	35829.8	6681.83	5.362274
				2062/63	35948.2	6457.3	5.567064
Average			22.3248109	2063/64	34215.14	6137.5	5.574768
S.D			22.4512206	2064/65	39014.2	5897.6	6.615267
				2065/66	41829.39	5543.6	7.545528
				2066/67	45194.23	5349.8	8.447835
				Total			47.51984
				Mean			5.939981
				S.D			1.525006

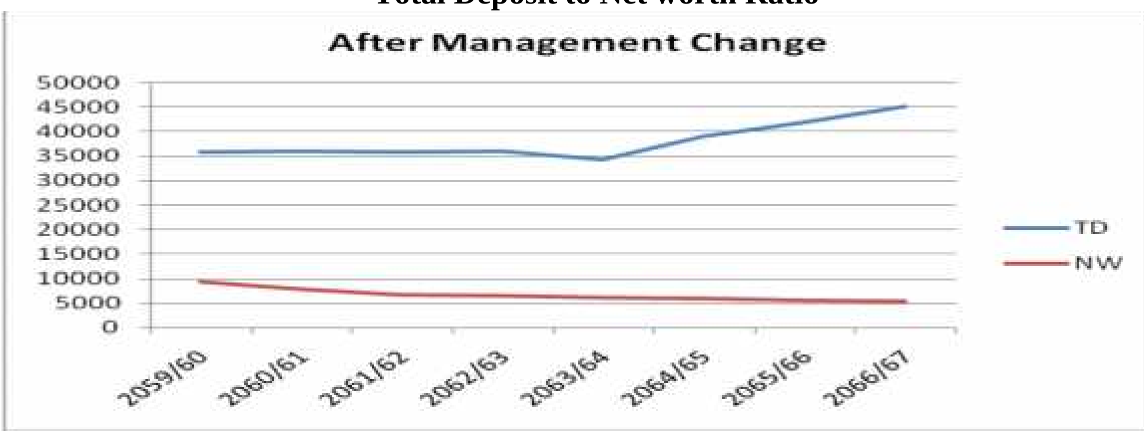
Source: Annual Reports of Nepal Bank Limited

T.D= Total Deposit, N.W = Net Worth

This table can be presented clearly in the following chart.

Figure No. 4.15 (A)
Total Deposit to Net worth Ratio

Figure No. 4.15 (B)
Total Deposit to Net worth Ratio



The table and diagram has been divided into two equal parts of three year each. All the parts indicate the total deposit to net worth ratios, their average and standard deviations for the two periods of study separately.

The table shows the average of the ratios for the two years of the first period to be 0.35 The last year of the period have negative net worth and therefore, the ratio has not been calculated for this year. Like first period, the second period has all negative net worth. The average of the ratios of the first period is greater than that of the second period. On the basis of the total deposit to net worth ratio would be in better position during the first period.

Due to the negative net worth ratio would be in better position during the first period, Due to the negative net worth in the last year of the first period. The bank's position has worsened in the first period. The highest and lowest ratio for first period are 8.44 and 3.80 in first and last years not including the last year with negative net worth.

B. Structural Ratios:

These are other types of Leverage ratio, which show the proportion of shareholders' fund, and various types of liabilities. In other word, those ratios indicate the proportion of various sources of fund in the capital structure of a firm. Under this type of Leverage ratios, following ratios have been calculated and analyzed for the financial position analysis of the bank.

a. Total Debt to Net worth Ratio

Total debt refers to the total of liabilities of a firm or it is the total of creditor ship capital in the capital structure of a firm. From viewpoint of ownership, total capital of a firm may be divided as ownership capital, i.e. invested by outsider other than shareholders.

Now, total debt of a firm represents total of creditor ship capital and net worth represent total of ownership capital. Hence, in the total capital of a firm, these ratios indicate the proportion of total of creditor ship capital and total capital.

In other words, this ratio clearly shows the proportional claim of outsider and shareholders/owners on the total assets of the firm. Remaining other thing unchanged, a lower total debt to net worth ratio is desirable. Following table shows the total debt to net worth ratios of the NBL for the entire period of study.

Table No.16
Total Debt to Net worth Ratio

(Rs in '0000")

Before Management Change				After Management Change			
F.Y	**TD1**	**NW**	**Times**	**FY**	**TD1**	**NW**	**Times**
2056/57	42724.29	993.69	42.9955922	2059/60	53176.39	9394.91	5.660128
2057/58	44568.66	1030.46	43.2512276	2060/61	54470.68	7805.93	6.978115
2058/59	48947.29	-9553.88	-5.12328918	2061/62	55570.8	6681.83	8.316704
				2062/63	59625.3	6457.3	9.233782
Average			27.0411769	2063/64	63521.58	6137.5	10.34975
S.D			27.855538	2064/65	71452.58	5897.6	12.11554
				2065/66	76235.8	5543.6	13.75204
				2066/67	79548.25	5349.8	14.86939
				Total			81.27544
				Mean			10.15943
				S.D			3.241914

Source: Annual Reports of Nepal Bank Limited

T.D Total Debt, N.W= Net Worth

This table can be presented clearly in the following chart.

Figure No. 4.16 (A)
Total Debt to Net worth Ratio

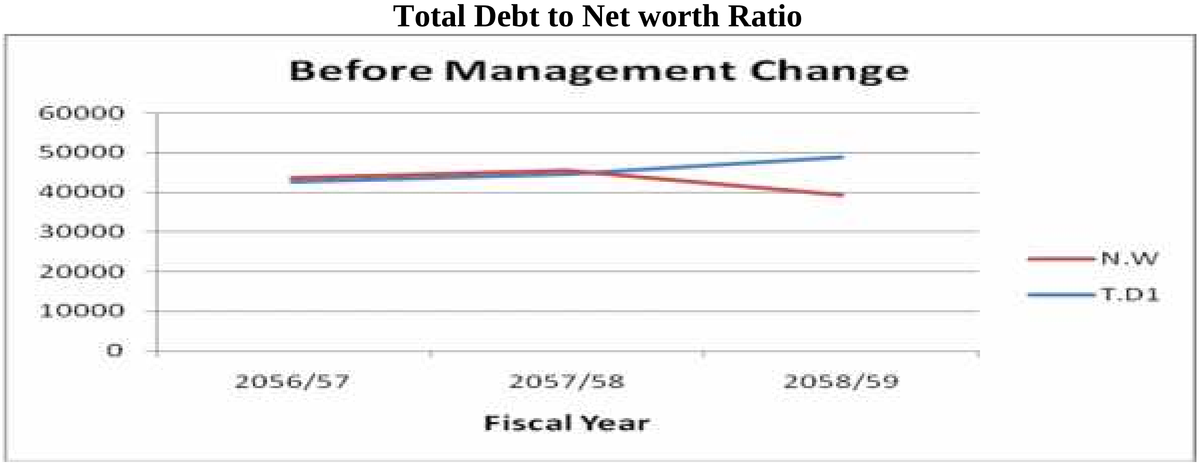


Figure No. 4.16 (B)
Total Debt to Net worth Ratio

The above table and diagram has been divided into two parts to represents the total debt to net worth ratios for the period of study independently. The table also shows average of these ratios and their standard deviation for the two periods separately.

According to the table, the average of the ratios for the period is 22.32 and the standard deviation is 22.45. The table also reveals the highest of these ratios to be 35.99 in the first year and the lowest to be -3.58 in the second year of the period. The average and standard deviation for the first two years of first period is 22.32 and 22.45 in before management change in bank.

Like other ratios related to net worth as denominator, this ratio also has not been calculated for the last year of the first period. In the ratio also has not been calculated for the last year of the first period. In the last year of first period, the net worth of the bank is negative which is said to be the worst condition. The highest and the lowest of the ratios for the first period seem to be 8.44 and 3.80 in the last and first years of the period which does not count the last year of the period.

The second part of the table represents yearly total debts to net worth ratios, their average and standard deviation. However, not all are calculated because of negative value of net worth. Remaining other things stable, a decrease in the total debts to net worth ratios can be taken as positive aspect. But it should be planned way. However, continuous decrease in this ratio does not show any systematic plan and policy of the bank. The rates of decrease have also highly fluctuated.

4.3 Major Findings

To examine the short term solvency of the NBL, the help of liquidity ratios was taken while comparing the ratios of two periods at an average. The current ratios of first period (just before the management change) was higher than second period (after management change), the average current ratio of the first period was 85.13% and 84.44% of the second respectively. Through the proportion of the current assets greater than the current liabilities, at an average during the first period but in second period the current liabilities greater than that of current assets, at an average which is completely sickness of bank.

The bank didn’t have healthy short term solvency. There is no difference between before and after management change on solvency. So we can say during all period the liquidity position of the bank was worsening. Other major findings of the study are as follows:

1. Regarding the cash and bank balance to current assets ratio there were significant difference between two periods. The ratio for the first and second periods were 15.86% and 14.85% respectively, which means in second period the idle money was less than first period so it was better. This condition had taken after management change. If observed the loans and advances to current assets ratio, during the first period the bank invested, at an average 30.73% of current assets in term of loan and advances where as it was 21.86% during the second period.
2. The ratio is fluctuated more in first period than in the second period. Remaining other things constant, it is positive aspects to invest assets on loan and advances which gives return at a fixed rate. So, on the basis of this ratio, the bank is in better ratio, the bank is in better position during the second period followed to period first. But the low recovering capacity made bad to high loan and advances on current assets that’s why the second period is better than the first period.

3. The next type of liquidity ratio is fixed deposit to total deposit indicated that during the first period compared with second, the first period had a higher fluctuation in ratios. During the second period the portion of fixed charge bearing fund had decreased for the bank. On the other hand the ratio of saving deposit to total current asset has increased during second period. Similarly, the percentage of cash and bank balance on total deposit had decreased during the second period. The averages of these ratios for the first and second periods were 17.37% and 17.19% respectively. The ratios had highly fluctuated during the first period. During the period the highest and lowest ratios were 18.04% and 16.40% in the first and second year respectively. But before management change, the second period the highest and lowest ratios were 19.34% and 15.19% in third and first years. It has indicated that the bank had adopted specific policy regarding cash and bank balance.
4. The bank seems to have no particular policy regarding investment as well before second period. There was unexpectedly high difference between the averages of total investment to total deposit ratios of two periods. The all periods had experienced a high fluctuation, even than the second period had shown less fluctuation as compared to the other two periods. On the basis of the ratios, the bank seems to be unable to invest on the securities with high return and capital gain in the first period but it was able in second period by the new management whose policy is better to the bank.
5. Hence on the basis of liquidity ratios expect current assets to current liabilities, all other ratios showed bank’s better position during second period i.e. after management change. The current ratio didn’t show the better position during second period. The main fact, there was significant difference in total investment to total deposit but in other there was not significant difference but it is going to improvement in its performance.
6. On the basis of turnover ratios, the bank’s position was batter during the first period than that during the second periods. The average percentage of loan and advances on total deposit was 33.46 during first period was 23 during the second period. Corresponding, the average percentage of loan and advances on fixed deposit was greater in the second period as compared to the first periods they were 109.02% and 131.44% during the first and second period respectively.

7. Investing the available resources in the bank on loan and advances means to reduce the risk regarding the rate of return. Hence, if other things remain constant i.e. if interest on loan and advances were received on time, the bank should be said to be in better position during the second period. But, the second period should higher fluctuation in the loan and advances to fixed deposit ratio. The standard deviation of loan and advances to total deposit ratio for the first period were 6.76 and 1.78 respectively.
8. While talking about profitability ratios, second period had experienced the net profits were also negative but the other two years showed positive operating profit and net profit also high. Interest earned interest earned to total assets ratios were also fluctuated during all periods and it was slightly lesser in second period than in first period.
9. The average of interest paid to total assets ratio was lesser in second period than in first period. The condition of this ratio was even critical during the first period. At an average the period had shown negative net profit to total assets ratio of -5.97%. The highest and lowest ratios for the periods were -7.83% and -4.80% in the first and second year respectively. The standard deviation ratios for the first and second period were 1.33 and 0.92 respectively. Net profit to total deposit ratio had also followed the same trend that followed by the net profit to total assets ratios.
10. Net worth to total assets ratios had fluctuated during first period. The standard deviation of these ratios for first period was 12.50 against the standard deviation of 1.92 of second period respectively. The average ratios for the first and second periods were -6.57% and -18.82% respectively. The highest of this ratio was -24.25%, was observed in first year. During the second period the ratio was -21.27%, indicates the worsening condition of bank’s net worth. The net worth equally hampered the total deposit to net worth ratio as well.
11. The total debt to net worth ratio also shows bank was in better position during the first two years of the first period. Whereas the period was cancelled by negative net worth. During the first period, the ratio was only 4312.34%. Like other ratio related to net worth, here also, for the cost one year of the first period, net worth was negative when total of liabilities were 48947.29 millions.

12. NBL’s financial position during the first period (before management change) of the study was worse than second period (after management change) in all aspects. The books of account were not audited in time in first period. It was gradually improved in second period.
13. According to the study the book of account could not be audited due to the failure of book in collecting accounting data from head office also. The main reasons for suffering the loss were increase in the authorities accepted that amount of over-matured loan was increased due to the bank’s poor supervision and inspection aspect and due to the lack of specific policy for advancing and recovering loan. By these reasons, the bank’s performance was poor in first period. But at second period, after the management change, it is changed. The non -performing assets also recovered and the bank showed highly profitable.
14. The current assets(CA) of a bank include cash and bank balances, money at call and short notice, bills discounted and purchased, short term investment, receivable ,other assets etc. simultaneously, the current liabilities (CL)of a firm represent those liabilities that have short-term maturing obligations to be met, as originally contemplated, the current assets and the current liabilities of NBL. In the year 2063/64 the CR is 1.1 times. Similarly in the year 2064/65, 2065/66 and 2066/67 the CR is 1.12, 1.38 and 0.60 times respectively. In spite of increment in the amount of current assets and current liabilities as compared to preceding years, there is no significant difference in the ratio from 2063/64 to 2065/66 as both assets and liabilities have increased. In year 2066/067 CL increase then CR decrease. The average (avg) ratio is 1.68 which seems quite satisfactory and the standard deviation is 0.32% for the period. The standard ratio is 2:1.
15. Loan and advances is that part of bank’s investment which generates income at a certain rate and fixed deposit is that part of bank’s fund which bears cost at a certain rat. Hence, it is the ratio which indicates the relationship between the investment of bank earning interest at a fixed rate and the liabilities of bank bearing interest at a certain rate. In other words, it shows the ratios of fixed returns generating investment and fixed cost bearing liabilities. The table shows the loan and advances to fixed deposit ratio of the bank from year 2063/064 to 2066/067.The ratio is increasing trend over the five years. The ratio during the last five years ranged from 175% in 2063/064 to 491.18% in 2066/067.

16. The loans and advances to total deposit ratios for 4 years (2063/064 to 2066/67). There is a bit fluctuation in ratios. The ratio in FY 2062/063 is 26.74% which is lowest ratio during the period. That shows that 26.74% of the total deposits are lending out as loan to customers. It is clear that loans and advances and Total deposit has increased every year by certain percentage .In FY 2066/67 the ratio has increased to 59.50%, which is the highest ratio of the during the period. The loan and advance to total deposit ratio shows that the fund mobilization ratio of the bank. The average of the ratio is 38.97 percent; it means the NBL mobilization of its fund 50.29 % of its total fund.
17. The ratio of total cash and bank balance to total of current assets. Cash and bank balance are two major components of current assets. These are ready cash, which can be used anytime and anywhere according to the need of a firm. By nature, almost all the current assets of a firm remain idle or earn very little. So, there is no chance of earning from cash balance held in the business and bank balance refers to that balance which can be converted into cash at any needed time and it also generally remains idle.
18. The cash and bank balance to current assets ratio shows what portion of total of current assets represents cash or how much from total current assets can be used as ready cash to discharge short term obligations of the bank. the average of the cash and bank balance to current assets ratio is 1.01 percent. It can be said that at an average of 1.01 percent the bank is holding cash and bank balance .To keep more than 6.98 percent as cash is a positive aspect from viewpoint of liquidity but negative aspect from viewpoint of profitability. The ratio has fluctuated dramatically. The study period shows the standard deviation of 0.25%.
19. The Net Income to Total deposit ratio for 4 years. As it is clear that the net income of the bank is in increasing trend but in the year 2063/64 the income of the bank decreased and further that year the bank has increased its NI At last year NI is highly increase then other year. The average ratio for the four years period is 1.39% and standard deviation is 0.75%
20. The ratio of total of loans and advances to total of current assets. The main business of a bank is mobilization of resources. The resources/fund collected from different sources is mobilized in terms of loan and advances and by investing on various types of securities and projects. The major part of the collected fund is invested in the form of loan and advances, i.e. loan is granted to needy persons or needy sectors of the economy which is

also a main business of any commercial bank. In the year 2063/064, 2.39% of the current assets have been lent as loan and advances. As already stated, loan and advances earn returns at a certain rate and to invest more amounts of resources in the portfolio yielding return at a fixed rate is always a positive aspect from view point of maximizing profit if there is no risk of recovering principal and interest from them. But, the recent trends of recovering loan have shown that a very large amount of loan has been facing difficulties to be recovered.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The role of commercial banks becomes crucial in the task of capital formation, which is no doubt, a key variable in the economic development of a country. Scattered resources have no meaning and importance until and unless they are mobilized and utilize efficiently in some productive sectors of nation's economy. Commercial banks contribute a lot in the process of capital investment in order to aid industry, trade commerce, agriculture and other sector of the economy for the economic and there by overall development of nation. It is oblivious a strong capital base and the commercial banks have a pivotal role in forming such base.

Nepal does not have a long banking history. Nepal Bank Limited was the first was the first organized banking institution established in 1974 B.S. with the objectives of removing financial inconveniencies of the people and assisting in trade and commerce of the country. Ever since its establishment Nepal Bank Limited has been contributing to the Nepalese economy to a great extent by collecting and mobilizing the scatters small saving of the people. In the early stage of economic development of Nepal, it was as alone in the financial scenario of country. The bank has played an immense role from every angel and side to help the country arrive at his situation. Therefore, the contribution made by Nepal Bank Limited in the country's overall development should not be over emphasized any more.

Nepal Bank Limited, the eldest and largest commercial bank of the country, has already spent 69 years in serving the nation. A part from its traditional function, it has also served the nation as a major institution of development by enhancing and promoting industrial and commercial activities in the country. The bank, since its establishment has been functioning not with the main objectives of making profit but giving main priority to the well being of the nation. Thus, there is no debt that the NBL has contribution a lot to the betterment of the country's economy.

In the past, overall financial performance of the bank was quite remarkable. It was successful to help the government develop economic infrastructure of the country. From F.Y. 2051/52, it has been seriously felt that in spite of its success in collecting scattered saving in the form of deposits, the bank has not yet been able to utilize them most saving in the form of deposits, the bank has not yet been able to utilize them most productively.

Therefore, this study was undertaken with the objectives of analyzing and evaluating the financial position of NBL in order to trace out gaps and drawbacks in its performance. So, the six years of two fragment periods starting from F.Y. 2056/57 B.S. – F.Y. 2058/59 B.S. before management change and from F.Y. 2059/60 B.S to F.Y. 2061/62 B.S. after management change had been selected for the study.

The current ratio of first period (before the management change) was higher than second period (After management change), the average current ratio of the first period was 85.13% and 84.44% of the second period respectively. Though the proportion of current assets greater than that of current liabilities at an average, during first and second period the current liabilities greater than that of current assets, at an average which is completely sickness of bank. The bank did not have healthy short-term solvency. Even then, the first period of the study had better short-term solvency than the second period.

There is no difference between before and after management change on solvency. The highest and lowest current ratios for the first period were 89.8% and 80.19% in the F.Y 2056/57 B.S. and 2058/59 B.S. respectively and for second period, it was 86.02% and 82.68% in F.Y. 2061/62 & 2060/61 B.S. respectively. Therefore, we can say during all period the liquidity position of the bank was worsening. . In the year 2063/64 the CR is 1.1 times. Similarly in the year 2064/65, 2065/66 and 2066/67 the CR is 1.12, 1.38 and 0.60 times respectively. In spite of increment in the amount of current assets and current liabilities as compared to preceding years, there is no significant difference in the ratio from 2063/64 to 2065/66 as both assets and liabilities have increased. In year 2066/067 CL increase then CR decrease. The average (avg) ratio is 1.68 which seems quite satisfactory and the standard deviation is 0.32% for the period. The standard ratio is 2:1.

Regarding the cash and balance to current assets ratio, there were significant differences between two periods. The ratios for the first period and second periods were 15.86% and 14.85% respectively, which means in second period the idle money was less tan other periods so it was better, this condition had taken after management change.

In the first period it has 1.15 against the standard deviation of 2.29-second period it was shown the low fluctuation of standard deviation on first period, which is better than other periods. If observed the loan and advances to current assets ratio, during 30.73% for the second period and the average 21.68% during the second period. The highest and lowest of this ratio, the first period was 38.89% in first year and 22.00% in third year.

The next type of liquidity ratio is fixed deposit t total deposit indicated that during the first period, the ratios were 30.46% and 19.17% during the second period respectively. As compared the first period with second, the second period had a higher fluctuation in ratios.

On the other hand, the ratio of saving deposit to total current asset has increase during first period than second period. Similarly, the percentage of cash and bank balance on total deposit had decreased during the first and second periods.

But before management change the highest and lowest ratios were 19.34% and 15.19% in third and first years. But the ratios after management change the highest ratio was 18.04% and the lowest 16.40% indicate the idle money was in first period than second period. So, second period was taken upward to the bank. It has indicated that the bank had adopted specific policy regarding cash and bank balance.

The bank seems to have no particular policy regarding investment as well before second period. There was unexpectedly high difference between the averages of total investment to total deposit ratios of three periods.

The ratios for the first period were 20.87% and 15.27% in the third year and first year of the period. The same ratios for the second period were 39.51% and 30.79% in third year and second year respectively. The all periods had experienced a high fluctuation, even than the first period had shown less fluctuation as compared to the other periods. On the basis of ratios, the bank seems to be unable to invest on the securities with high return and capital gain in the first period but it was able in second periods by the new management whose policy is better to the bank.

In FY 2066/67 the ratio has increased to 59.50%, which is the highest ratio of the during the period. The loan and advance to total deposit ratio shows that the fund mobilization ratio of the bank. The average of the ratio is 38.97 percent; it means the NBL mobilization of its fund 50.29 % of its total fund.

Investing the resources available in the bank on loan and advances, which mean to lessen the risk regarding rate of return? Hence, if other things remained constant i.e. if interest on loan and advances were received on time, the bank could be said to be in better position during the second period.

According to the study, the book of account could not be audited due to the failure of book in collecting accounting data from head office also. The main reasons for suffering the loss were increase in the authorities accepted that amount of over mature loan was increased due to the bank's poor supervision and inspection aspect and due to the lack of specific policy for advancing and recovering loan. By these reasons, the bank's performance was poor in first period. But, at second period, after management change, it is changed. The non-performing assets also recovered and the bank showed highly profitable.

Hence, it can be summed up that all financial aspects of the NBL are poorer in first period than that in the second period. The bank, therefore, should care of its improving financial position and should improve further.

5.2 Conclusion

The Nepal bank Limited has maintained a balance ratio among its deposit liabilities during the second period of the study. As compared the second period with first period, the bank is seemed to be able to utilize its high cost resources in high yielding investment portfolio. During first period, there are negative operating profits. Similarly, first year show negative operating profit in second period. But, the years of first period enjoyed positive net profits due to the non-operating incomes.

Hence, there is a lack of demarcation between operational and non-operational activities. Decreased in interest paid and earned to total assets ratios in the first period indicates decreased operating activities of the bank during the period. The first period indicates decreased operating activities of the bank during the period. The first period, at an average shows negative net profit. The only positive aspect is if risk should be managed during the first period percentage of loan and advances on total deposit has greater than third period.

But, due to the bank's failure in collecting earned interest and matured loan, it has suffered continuous loss. The performance of new management is to decrease non-performing assets and make profit to the bank. The last two years of the bank performed well showing by positive operating profit and net profit.

The net worth of the bank for all years of second period and last year of second period are negative due to the heavy loss before management change. The net worth is strong at second year but heavy carry over the loss make negative.

Further, more the liquidity position of bank, the current ratio is satisfactory in first period other periods show sickness on it. The other cash and bank balance to current assets ratio shows the second period kept less idle money than any other years. The nest ratio loan and advances to current assets shows highest average in first period and lowest in this period which means good in first period and worst in second period. Whereas recovering capacity has increased fast after management change.

The other liquidity ratios like fixed deposit to total deposit, cash and bank balance to total deposit, total investment to total deposit also show the significant role played by new management. It has adopted better policy after new management.

But he negative net worth of all years of first period and first year of second period has made negative EPS but in the other years of second period increased in profit after new management. Despite this, the bank is unable to pay dividend during first and second period due to its high negative net worth.

Thus, we can conclude that the financial position of NBL is being better after change management due to its policy of utility its resources efficiency and due to its affectivity in risk management recovering the past loan. The overall financial position of the bank is satisfactory during second period and is in improving trend.

The services provided by NBL are similar to those provided by other Commercial Banks. Therefore, it is recommended to NBL to formulate new schemes and techniques in order to attract more and more people towards the bank. The bank needs to provide more facilities like, easy to withdraw, easy to deposit, fast services, cooperation, friendly towards customers. The credit worthiness of debtors must be extensively evaluated before granting them loans. The Bank should diversify the sectors of deposit mobilization because it is not satisfactory in that sector, The Bank should try to collect more non-interest bearing deposits.

5.3 Recommendations

It has been reiterated several times that the role of commercial banks is vital for the economic development of any country. This is possible when they are able to make handsome profits out of their successful operation and better financial performance. The operationally weak position of commercial banks not only impedes the attainment of higher profitability but also degrades the services rendered to the people as they cannot provide better facilities to their staff and arrange for improved and modern technology such as fully computerize banking service, ATM services and other modern banking facilities.

In such a situation, the contribution of commercial banks in the mobilization and utilization of resources becomes not effective and consequently, the goal of commercial bank to achieve growing prosperity and to contribute to the economic development of the country remains unfulfilled. It is therefore, in order to be the instrument if development, commercial banks are required to make better profit and better profit is possible only through better performance. The new management may have tried to take the opportunities from the financial market and build up the position of the bank to earn profit.

But, the achievement of bank is still not sufficient. Therefore, the new management can be recommended to think seriously in the following aspects for the further improvement of the performance of NBL.

1. In the second period, the idle money was less than first period so make it better to reduce idle money for invest it trustworthy sector.
2. The condition of liquidity ratio is highly fluctuation so the bank had adopted specific policy regarding cash and bank balance.
3. While making any type of investment (especially advancing of loan) proposal of loan should be seriously studied and the most important factors is, securities against which loan is going to be provided should be value fairly and properly. And, the person involved in valuation of securities should be made responsible if anything is harmed form the securities.
4. Due to the NBL being a very large organization, there may be irregularities in various aspects on the side of staff. Hence, for effective performance there should be provision of punishment and reward among them, which will certainly lead the bank toward better performance.
5. The bank should engage reputable audit firms to install proper record keeping accounting, reporting and investigation process.
6. Books of accounts should be made up to date. It helps the bank to reduce the manipulation of accounts, gain the trust of customers. For which, computerized accounting system be introduced in the technically favored branches.

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APPENDIX

List of Licensed of Commercial Banks

S. No.	*Name of the Banks*	*Est. Date*
1.	Nepal Bank Ltd.	1937
2.	Rastriya Banijya Bank	1966
3.	NABIL Bank	1984
4.	Nepal Investment Bank Ltd.	1986
5.	Standard Chartered Bank Nepal Ltd.	1987
6.	Himilayan Bank Limited	1993
7.	Nepal Bangladesh Bank Ltd.	1993
8.	Nepal SBI Bank	1993
9.	Everest Bank Ltd.	1995
10.	Bank of Kathmandu	1995
11.	Nepal Credit & Commerce Bank Ltd.	1996
12.	Lumbini Bank Ltd.	1998
13.	Nepal Industrial & Commercial Bank Ltd.	1998
14.	Machhapuchhre Bank Ltd.	2000
15.	Lumbini Bank Ltd.	2001
16.	Laxmi Bank Ltd.	2002
17.	Siddhartha Bank Ltd.	2002
18.	Agriculture Development Bank Ltd.*	2005
19.	Global Bank Ltd.	2007
20.	Citizen International Bank Ltd.	2007
21.	Prime Commercial Bank Ltd.	2007
22.	Bank of Asia	2007
23.	Sunrise Bank Ltd.	2007
24.	Kist Bank Ltd.	2003
25.	NMB Bank Ltd.	1996
26.	Development and Credit Bank Ltd.	2001
27.	Janata Bank Ltd.	2010
28.	Mega Bank	2010
29.	Civil Bank Limited	2010
30.	Commertz and Trust Bank Ltd.	2010
31.	Century Bank Ltd.	2011