CHAPTER- I

INTRODUCTION

1.1. Background of the Study

Nepal is one of least developed countries in the world. Its economy is dominated by agriculture. Economic growth of the country greatly depends on the development of agriculture sector and subsequently, on the establishment and development of agro-based industries. The first and foremost important factor for the purpose of any development project is capital. The economic development of any country is possible only when domestic or internal capital mobilization becomes possible for financing development expenditure. Due to the lack of proper education, information about opportunity and other facilities majority of country's working-age population has been facing the problem of unemployment and the of unemployment is destructively growing year by year. The unemployment has a great negative impact on the economic growth ad development of a country. Unemployment and poverty are the two sides of a coin and the main roots of all the problems of the under development countries like Nepal. Goverment of Nepal has been trying with best of its efforts to breakdown the vicious circle of unemployment and thereby poverty by improving the social, material and economic well being of the community as a whole. Poverty alleviation has been taken as a sole objective by the ninth plan. According to the plain, "to reduce the poverty in the long run effectively the regional and targeted programs about the poverty alleviation will be advanced by means of co-operation, integration and effectiveness.

Among the various factors, economic factor plays tremendous role for over all development of country. The economic factor exclusively helps to level up all the development and general works of the country. Hence, for the overall development of a country is economic activities have a great effect.

Banking plays a significant role in overall economic development of a country. Among the various types of bank, the importance of commercial banks may not be exaggerated for smooth financial development of industries, trade and commerce. Therefore, it is said that all the economic activities of a country are greatly influenced by commercial banks of the country. Truly speaking commercial banks have changed the economic structure of the world.

The first public bank “The Bank of Venice” was established in Italy in 1357 A.D. Different countries in the world followed the footsteps of this bank to in corporate banking institutions in their countries. The evolution of “The Bank of England” in the United Kingdom in 1694 A.D. brought remarkable change in the process of establishing banking institutions in the world. The establishment of this bank was a big milestone in the history of banking development. It is believed that the idea of commercial banks rapidly spread all over the world only after the inception of this bank.

Today, there are altogether 22 commercial banks established and operating in out country. Most of these commercial banks have been established in joint venture of country’s private sector with foreign banks or with active participation of private sector of the country. There are only two commercial banks which were established by the government, one bank having full ownership of government i.e. Nepal Bank Limited. “These two commercial banks represent 43% of total deposits. 48.7% of total loan and advance. 5 5.2% of total investment and 47.3 2% of total of sources and uses of fund in the market”(Nepal Rastra Bank Khabapatrika Baisakh 2058 B.S.).Nepal Bank Limited, a pioneer commercial bank is the oldest bank in the history of modern banking system of Nepal. The bank was established on 13th of Kartik. 1994 B.S. (1937 A..D.) in the technical assistance of Imperial bank of India under “Nepal Bank Act. 1993”. The establishment of Nepal Bank Limited laid the foundation of modern financial system in the country. The significance of launching of this bank was highlighted in the speech by the then Prime Minister Juddha Shumser Janga Baadur Rana on the on 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 till thai need and to be inaugurated by His Majesty the King. is a moment of great joy happiness. The bank’s objective to render service to the people whether rich or poor and to contribute to the nation’s development will also needs the support and best wishes of all. Which I am confident. Will be forthcoming”.

All the time of inception it had and authorized capital of Rs. 10 million and issued capital of Rs. 2.5. Million. Presently, they are Rs. 500 million and 380.4 million respectively. Simultaneously. it had started the banking business with Rs. 0.842 million (Rs. 8 lakh 42 thousand) as its paid up capital. Along with the authorized capital, The paid up capital is also being changed froi-n time as per the need of the business activities. At present, it amounted to be Rs. 20 million. Till some years back, government had held majority of its share but recently the government sold some parts of its share to the staff of bank and common people, reducing its ownership to 40.49% present condition of ownership on its shares is 40.49% and 59.51% held by government and general public respectively. The bank, which was stated with a single branch in 1994 B.S. currently, has 167 offices together with head office, regional offices, and branch and sub branch offices spread through out the country.

As this bank was established prior to the Nepal Rastra bank i.e. the Central Bank, it used to perform the functions of a commercial banks as well as of a Central Bank until the inception of Nepal Rastra Bank. Now, in the presence of a separate central bank, it carries out the functions of a commercial bank only.

Being the oldest bank in the banking history of the country, it has played a vital role in the development of banking system of the country. It has expanded its branches throughout the kingdom including far remote areas having very poor profitability and some of the parts having income not sufficient to meet breakeven. The bank has given more priority to the service of common and poor class people rather than to the profit and it has been able to achieve some objectives, which were set at the time of its inception. The main objectives of setting up the Nepal Bank limited under the circumstances prevailing at that time were highlighted in the Nepal Bank Act. 1993, as 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 services for the people and for the betterment of the country. This is hereby promulgated for the establishment of the bank and its operation".

Accordingly, Nepal Bank Limited was established to provide the service to accept deposits. to extend credit facilities for the promotion of trade, cottage industries and agriculture, to render customer-related service, i.e. issued of bill of exchanges. hundis etc. to invest on government bond and securities, to carry Out agency functions and to act as banker to the government.

Nepal Bank Limited, the first bank in Nepal was originally incorporated under a special charter "the Nepal Bank Limited Act 1993 B.S." After the enactments of commercial Bank Act. 203 1 B.S. ‘Nepal Bank Limited was brought under this act.

1.1.1 Development of Banking System in Nepal

Developed Western Countries have and age-old institutional banking history. The first public bank was ‘The bank of Venice’ established in 1357 .A.D. in Italy ‘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 world, in Nepal. Nepal bank Limited was the first organized bank of the country was started only from 1973 A.D., banking activities in the form of lending and borrowing was there among the people before 18th century”. (Jp ojha and RP rajbahak. banking currency of Nepal). Before the establishment of the Nepal Bank Limited, there was no organized financial institution in Nepal.’ Tegarath Adda’ play role and it is regarded as the father of banking system of the country. “During the prime Minister ship of Randodip Singh around 1877 A.D. a number of economic and financial reforms were introduced. The establishment of ‘Tegarath Adda’ fully subscribed by the government in the Kathmandu Valley was one of them. The main purpose of this “Tegarath Adda’ was to proved credit facilities to the general public at a very concessional rate of interest, i.e. 5 percent p.a. The establishment of this institution marked the beginning of extending credit through an organized financial institution in Nepal. However, the setting up of ‘Kausi Tosha Khana’ as a banking agency during the regime of late king Prithvi Narayn shah could also lay claim to be regarded as the first step towards initiating banking development in Nepal. “For a few decades, following the establishment of “Tegarath Adda’. Neither was there any step taken to set up other financial institutions nor was there any effort to expand the services of Tegarath Adda’ to more parts of the country. Moreover, as the Tegarath Adda’ was set up with the sole objective of providing credit, it did not accept deposits from the public and in the absence of saving mobilization, the Adda’ faced financial problems making it impossible to eater to the credit need of the general population throughout the country. Truly speaking, the concept of modern banking institution in Nepal was introduced with the establishment of the Nepal Bank Limited as a semi-government organization. Due to the lack of central bank, it was established under special charter ‘Nepal Bank Ac. 1937’ and along with the functions of a commercial bank, it had to act as a bank of government, a Central bank and it had to keep enough resources in hand for tacking emergencies. It had an initially authorized capital of Rs. 10 million and paid-up capital or Rs. 842 thousands ownership of which was divided into 5 1 percent and 49 percent between the government and private sector respectively. Later in 1955. Nepal Rastra Bank was established as the central bank, which since its inception has been occupying central position in overall economic structure of the country. It supervises, Protects, Directs and controls commercial and other financial institutions and acts as a bank of governrnent. Until the establishment of Rastria Banijya bank in 1966 AD.. Nepal Bank Limited remained as the only commercial banking institution in the country. Because of economic liberalization policy of the government, Nepal Arab Bank Limited was established in 1984 A.D. as the first joint venture commercial bank in the country. Now there are altogether 17 commercial banks. The main aim of these is to contribute to trade and commercial sector of the country.(40 years of Nepal Rastra Bank by Nepal Rastra Bank)

1.1.2 Concepts, Meaning and Definition of Bank

The term bank basically refers to a commercial bank. Broadly speaking, it is an 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.

Now days every country has similar type of banking concept categorized as central Bank. Commercial bank, Developmental bank and other financial institutions. Central Bank guides, directs, supervises, controls and influences the operations and behaviors of all other financial institutions and commercial banks for he economic growth and balance of the country. Commercial banks deal with the activities of trade, commerce, industry and agriculture. The main objective of the commercial bank is to mobilize idle resources in productive areas after collecting them from scattered sources and maximization of profit. Other financial institutions are also playing important role in overall economic development of a country. Other financial institutions may be classified as Industrial banks and corporations to provide long term and medium term credit. For development of industries, Agricultural Banks 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 types of financial institutions have different types of structures, objectives and functions.

Principally commercial banks accept deposits and provide loans, primarily to business firms there-by facilitating the transfer of funds in the economy. R.S. Sayers has defined bank in terms of its business as" 'Ordinary banking business consists of changing cash for bank deposit and bank deposits for cash, transferring bank deposits from one person or corporation (one 'depositor') to another, giving bank deposits in exchange for bills of exchange government bonds, the secured and unsecured promises of businessmen to repay "(R.S. Sayers, Modern Banking).

A bank business is basically to buy and sell credit. Also, on the basis of its own credit a bank creates money transferred by credit instruments" (ES. Klise, Money and Banking)"

A commercial bank is one which exchanges money, accepts deposits, grants loan and performs commercial banking functions 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 of who are saving it out of their income and lends this out to those who require it.

From the definitions, it has been clear that banks are such type of institutions that deal in money and substitute for money. 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 banks play amazing role in the economy of nay country.

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

1.1.3 Functions / Business of a Commercial Bank

A commercial bank by name is a profit seeking financial institution. It receives and holds demand deposits. Acquires earnings through the process of lending and investing. Thus, the commercial bank creates additional deposits and credits. In simple words, the business of banking consists 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 a 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 is almost impossible.

The main functions of a Commercial Bank may be listed as

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

ii. Saving Accounts
iii. Fixed Deposit Accounts

2. Providing loan: It provides loan to the individual and institutional customers for the development of industry, trade and commerce, service and agriculture.
3. Agency service: under this fall these functions:
   i. Foreign exchange
   ii. Serving as an agent on behalf of its client.
   iii. Issuing L.C.
   iv. Circulating notes, bank drafts, travelers' cheque etc.
   v. Purchase and sale of different types of securities and remittance of fund
   vi. Underwriting of securities
   vii. Collection and payment of cheques, bills, Promissory notes. Coupons. Dividends and other instruments.
   viii. Acting as executors
   ix. Discounting of bills
   x. Providing safeguard to valuable of clients by keeping in safe custody etc.

1.1.4 Role of Nepal Bank Limited in Nepalese Economic

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 -accepting 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 sector of economic but also important in reducing poverty, providing employment opportunities and minimizing disparity in come

& 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 first 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 to create magnetization in the monmonetized 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 Rasta Bank. The contributions made by the bank at that time in creating banking habits among the people, widening magnetized area and helping business communities and government have helped the bank to be glorious pioneer 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 98 branches all over the country. Besides the main functions of deposit collection and mobilization. Nepal Bank Limited has served nations economic in many ways by investing on the shares of government and non-government organizations like, Rastriya Beema Sanstha. Nepal Oil corporation, Nepal Industrial Development Corporation, Nepal Grind lays Bank. Economic service centre. Nepal Housing development and finance Company, all of five Rural development Banks. Citizen Investment Trust. Nepal insurance Company, Agricultural Project service centre. Credit Security Corporation etc. What is more, it has been investing well among on other government 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 note, opening of letter of Credit etc. Without these services, commerce of today cannot even dream of surviving. Secondly, it has been serving tourism industry by purchasing and issuing traveler's cheque Receiving and sending remittance.

The underdeveloped countries 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 saving of people and then tapping those savings into the needy sectors of the economic 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's economy. The extension of branch offices throughout the country has contributed favorably to banks recourses 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.

1.1.5 Capital Structure of Nepal Bank Limited

Nepal Bank Limited

Balance Sheet

As on end of Ashadh 2064 (Mid July 2007)

Capital and Liabilities	Schedule	Current Year Rs.	Previous Year Rs.
1. Share Capital	1	380,382,600	380,382,600
2. Reserve and Fund	2	(6,627,898,343)	(6,681838,285)
3. Debentures and Bonds	3	1,604,868,196	1,717,442,160
4. Borrowings	4	39,014,204,359	35,829,765,050
5. Deposits	5	60,726,059	100,984,226
6. Bills Payables	6	2,083,097	1,115,686
7. Proposed and Dividend Payable		4,824,427,537	4,571,053,671
8. Income Tax Liabilities			
9. Other Liabilities	7		
Total Liabilities		39,258,793,505	35,918,905,108

Assets	Schedule	Current Year Rs.	Previous Year Rs.
1. Cash Balance	8	1,086,066,645	1,110,953,183
2. Balance with NRB	9	5,224,859,643	5,353,964,032
3. Balance with Banks/Financial Institution	10	806,366,796	709,140,353
4. Money at Call and Short Notice	11	200,000,000	14,490,247,108
5. Investment	12	16,072,179,882	9,756,162,747
6. Loan Advances and Bills Purchase	13	11,058,477,657	191,705,831
7. FixedAssets	14	205,768,262	4,306,731,854
8. non-Banking Assets	15	-	
9. Other Assets	16	4,605,074,620	
	Total Assets	39,258,793,505	35,918,905,108

Contingent Liabilities	Schedule 17
Declaration of Directors	Schedule 29
Statement of Capital Fund	Schedule 30
Statement of Risk Weighted Assets	Schedule 30(A)
Principal Indicators	Schedule 31
Principal Accounting Policies	Schedule 32
Notes to Accounts	Schedule 33

Schedules it 17 form integral parts of the Balance Sheet

Date: 4 January 2008 Kathmandu

1.2 Statement of the Problem

n the past, along with its wide range of services its overall financial performance was quite remarkable and it had set itself an example for other commercial banks. But nowadays, financial position of Nepal Bank Limited is not found satisfactory. in the recent some years, 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 marked price of the shares and as it has the largest set of connections in the banking structure of the country, it has also hampered the nation's economy from different angles. Its financial position is rapidly declining. As the financial position of the bank has been deterioration, the government had assigned the KPMG Barents group, an international company to study the financial performance of the bank. The study 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 are 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 are not alert about the loan advancement, its management and loan recovery. What is actually happening to this bank? What is the difference between yesterday's and todays financial position? When did the bank start to decline and form when declining rage worsened'? To go through such questions. it has been felt essential to study and analyze bank's financial position for different periods and from different angels.

Hence, for financial position of the bank a period of ten years has been taken. This whole period has been analyzed by dividing into two equal parts of five years each

1.3 Significance of the Study

The result of the study is through to be significance for the following groups:

i) Management of the bank: With the help of the report of this study. the management may apply corrective measures for the improvement of the bank's performance.

ii) Shareholders of the bank: The shareholders will able to know how their investment has been providing return and how the share price in the market has been fluctuating. With the help of the study the shareholders will their real position in the bank.

iii) Potential investors: Potential investors in the markets may know whether to invest on bank's share or not.

iv) Policy formulators: The policy formulators of the bank may fain something with the help of the result of this study. The financial position which has been analyzed through this study is the result of their past policy and decision. Hence, if necessary and not satisfied with the concluded financial position, they may bring the change in their future policies.

v) General Public: Being the oldest bank of the country. which has contributed a lot for nation's economic development general public also may interested about the financial position of this bank. The result of this study may provide something to conclude about bank's financial position.

vi) Other commercial banks: The vicissitudes in the financial position of this bank may be useful and guidelines for other commercial banks in formulating their plans and policies.

vii) Other concerned parties: The government, customers and all other parties who want to know about the Nepal Bank Limited may some useful information with the help of the report of this study.

1.4 Objectives of the Study

The objectives of the study have been classified into two groups. via: main objectives and sub objectives:

(a) Main Objective: the main objective of the study is to comparatively analyze the financial position of the Nepal Bank Limited for two different periods. The first period being from fiscal year 2051/052 B.S. to 2056/057 B.S. and the second period being from fiscal year 2057/058 B.S. to 2061 / 062 B.S.

(b) Sub-Objectives: To achieve the main objective the study aims at achieving the following.

i) To analyze the annual financial position for the entire period of the study.

ii) To analyze the financial strength and weakness of the bank.

iii) To suggest the necessary reforms for the effective and efficient performance.

1.5 Limitation of the Study

The study will be bounded by the following limitations:

i. 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.

ii. The analysis is mostly 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.

iii. The study covers only a period of ten years from fiscal year 2051/052 B.S to 2061/2062 divided into before and after the study period.

iv. 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.

CHAPTER - II

REVIEW OF LITERATURE

This chapter highlights the literature related to the present study available from libraries, documents collection centers and other information managing bureaus. This chapter highlights the literature that is available in concerned bank review of research works, review of books, review of articles and relevant study on this topic and review of thesis works performed previously.

2.1 Financial Performance

Financial performances Analysis focus on financial statement and the significant relationship that exists among the various contained in this regard. Met calf and titard says analyzing financial performance is a process of evaluating financial statements to obtain a better understanding of a firm's position and performance."

Profit is one of the basic indicators of sound financial performance. It is usually the result of sound business management, Cost control, credit risk management and general efficiency of operation. Profit is essential for an enterprise for its survival, growth and maintain capital adequacy through profit retention.

Thought profit is important for any business concern including joint venture banks but profit cannot be the sole objective, for example neither the bank nor the community will be best serve is the banker on reasonably sacrifice the safety of its fund or the liquidity of the banking is an effort to increase income.

Financial statements provide information about a firm's position as well as its operation over same period. However, the real value of financial statement uses in the fact that they can be used to predict the firms' financial position in the future, and dividends. From an investors stand points, predicting the future is what financial statement analysis is all about, while managements stand points financial statement is useful to anticipate future conditions and for planning actions that will influence the future course of events (American inti1ute of' Banking Op. Cit. P 149).

Authorities of commercial banks should be able to make rational decision regarding the elements of assets and liabilities. Among the various items of fund and liabilities, proportion of these items should be wisely arranged so that the aggregate cost of capital could be minimized. If possible, managers of finance department should try to reduce the proportion of fixed charge bearing components of capital. On the other hand, the capital gathered from different sources should be invested in such a way that they can earn the return at least at a rate that is paid for them. Hence, collected fund from different sources should be invested on various assets in a sensible manner so that the profit can be maximized.

The Nepal bank limited has been providing its services to different sectors of country's economic through its 98 offices throughout the country. Presently, there are 22 commercial banks (not including the commercial banking branches of Agriculture Development bank) in the country. Towards the end of chaitra 2057 B.S. the Nepal Bank limited solely represented around 21% of total deposits, 34% of total investment. 21.2% of total loan and advances and 21.37% of total sources and application of fund in the market. 1. (Banking Khabar Patrika, Vol. 12, 2058, Baishakh, N.R.B.) The bank which had collect Rs. 1.7 million as deposit during the 1st year of it's inspection has collected Rs. 35578.7 million up to the end of F.Y. 2056/57 B.S. simultaneously. the bank which had invested Rs. 1.98 million in term of loan during the 1st year of it's establishment has now invested Rs. 2155.5 million up to the end of F.Y 2056.57 B.S. At the end of F.Y 2056/57 B.S.. out of total of sources of fund: shareholders fund, loan. Deposit and other liabilities represented 2.22°o, 0.5°o. 8 1.6% and 15.68 respectively. Simultaneously, out of total application of fund, cash and bank balances, investment, loan and advances and other assets represented 19.72%, 12.75%, 40.24% and 27.29% respectively. The bank had taken the F.Y. 2056.57 B.S. as loan recovery year and had been able to recover Rs. 3132.5 million out of total over mature loan during the year which is 76.31% of it's anticipated amount. The bank with long banking history of 64 years has been able to gain the trust of common people and business society of the country which is a real capital and a very strong aspect of a bank. Even then, the bank has been facing a range of problems such as difficulties in recovering over mature loans, to provide quality services according to the desire of the customers, to train the personnel, to modify the banking activities and the like (Financial performance analysis of Nepal Bank Limited 2052/53 to 2056/57 Sures Thapa).

2.2 Reviews of Books

Finance is a broad field and there are various books written in this subject. The book of M.Y. Khan and P.K. is considered to be a useful book in the financial management. The modern approach of Khan and jam views the term financial management in broad sense and provides a conceptual and analytical framework for financial decision Making. According to them. ‘the finance function covers both acquisitions of funds as well as their allocation; hence apart from the issues of acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses. “The major financial decisions according to Khan and Jam are:

- The investment decision
- The financial decision and
- The dividend policy decision.

The book on financial management written by I.M. Pandey defines financial management as that managerial activity which is concerned with the planning and controlling of the firm’s financial resources. I.M. Pandey believes that among the most crucial decision of the firm are those, which relate to finance, and an understanding of the theory of financial management provides the conceptual and analytical insights to make the decisions skill fully.

I.M. Pandey further identifies two kinds of finance functions:

(a) Routine and (b) Managerial finance functions.

The routine finance function do not require a great managerial ability to carry them out and they are chiefly clerical in nature. Managerial finance functions on the other hand are so called because they require skill full planning Control and execution of financial activities. There are, according to I.M. Pandey four important managerial finance functions:

- ❖ Investment or long-term assets miss decision.
- ❖ Financing or capital-mix decision.
- ❖ Dividend of profit allocation decision.
- ❖ Liquidity of short-term asset-mix decision.

A summary of what I have reviewed in various books of finance have been highlighted below.

Finance is defined as the acquisition and investment of fund for the purpose of enhancing the value and wealth of an organization. The various finance areas include investments, public finance, corporate finance and financial institutions. The basic function of finance is to manage the firm’s balance sheet in most efficient way. The balance sheet reflects how a firm acquired financing through.

The objective of the company must be to create value for its shareholders. Market price of company’s stock represents its value and this can be maximized by firm’s optimum investment, financing and dividend decisions.

The capital investment decision is the allocation of the capital to investment proposals whose benefits are to be realized in the future. As the future benefits are not known with certainty, investment proposal necessarily involve risk. Consequently they should be evaluated in relation to their expected return and risk. In the financial decision, the financial manager is concerned with determining the best financing mix or an optimum ‘Capital structure’. If a company can change its total valuation by varying its capital structure, an optimal financing would exits, in which market price per share could be maximized.

Another important decision of the firm, according to Van Home is its Dividend policy. The decision includes the percentage of earnings paid to stockholders in cash dividends.

The dividend payout ration determines the amount of earnings retained in the firm and must be evaluated in the light of the objective of maximizing shareholder’s wealth.

The Financial management involves the solution of the three major decisions. Together. They determine the value of a company to its share holders. Van Home believes that the objective of any firm is to maximize its value, and there fore, the firm should strive for an optimal combination of the three inter-related decisions. solved jointly. The main thing is that the financial managers relate each decision to its effect on the valuation of the firm debt and equity resources, and it reflects the disposition of acquired financing among the various asset accounts.

The major financial functions required for managing the banks balance sheet are summarized below:

a. Analysis and p1anning

b. Financial structure management &

c. Asset management

The first function financial analysis and planning is to understand the bank’s current financial condition and plan for its future financial requirement in different economic scenarios.

After analyzing the financial needs, the second function is to manage the financial structure of the bank, which can be done by optimizing the use of debt and equity in the capital structure. While deciding about this optimum structure, a financial manager must concentrate in minimization of cost of funds in one hand, and maximization of value of the firm in the other. Moreover financial structure management for a banking sector includes, a typical treasury function, which is also called funds management this function contributes a significant portion in profits earned by banks.

The final function is the management of asset structure of the bank. Advances of credit and investment in certain portfolios constitute the major portion of the bank’s asset. The major financial function related to assets management is to decide for the least risky and most profitable alternatives of investments. This can be conducted by dealternatives of investments. This can be conducted by determining returns and risks associated with the loans and advances made by bank. All the above financial decisions or functions as mentioned by different writers are instrumental towards effective handling of financial management. Which includes activities beginning from raising or funds to efficient and effective use of funds no matter either it is a baking or non-banking institution.

2.3 Review of Journals

After reviewing the books, certain useful journals on domestic market, banking, financial statement analysis and monetary credit situation of Nepal are studied. An article written by Radhakrishna Paudel on "Banking Challenges ahead' focuses in the potential areas where banks should invest to fight the prevailing economic recession. Currently growth in the profitability of Join Venture Bank's has been mainly due to external factors such as the foreign exchange rate but not to the growth in the real sector of the economy. Therefore, to sustain the current financial position in the long run, banks should enter new areas by marketing their credit in important sub sectors such as hydro electricity, tourism, irrigation etc.

Mr. Poudel further writes that. "Saving collection is another factor which is necessary for banks to balance their operations and generate sufficient surplus in their cash-flows. In recent years growth rate of bank deposits has declined to about 16 percent compared against 23 percent of the past. Mobilization of internal resources in the country demands that banks attract more financial resources from the public."

Another useful contribution made b Narayan Prasad Poudel in his article called financial statement analysis published in Nepal Rastra Bank Samachar on 2053in reviewed.

According to Mr. Poudel Balance sheet, profit and loss a/c and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss a/c. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans.

Fixed assets account form a small portion of the total assets. Financial innovations. which are generally contingent in nature, are considered as off-balance sheet items.

Interest received on loans & advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges.

The users of the financial statement of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of banks' financial statement has been expressly laid down in the concerned act. Commercial banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

According to Poudel. the principle objectives of analyzing financial statements are to identify:

- Financial adaptability (Liquidity)
- financial performance (Profitability) and
- Financial position of Bank (solvency)

Most of the users of the financial statements are interested in assessing the bank's overall performance i.e. profitability which is affected by the following factors.

a. The structure of Balance Sheet and profit and loss accountant.
b. Operating efficiency and internal management system.
c. Managerial decisions taken by top management regarding interest rate. exchange rate, lending policies etc.
d. Environmental changes (technology, government, competition, economy).

According to Mr. Poudel, the other factors, to be considered in analyzing the financial statements of bank is to assess the capital adequacy ration liquidity position. In the line of the norms set by bank for international settlement (BIS). capital adequacy of a bank is assessed on the basis of risk weighted assets. It indicates a bank's financial strength and solvency. Presently the capital fund of a bank should not be less than 8% (at least 4% should be in the form of tier-1 capital or core capital) of its risk weighted assets as capital fund. Banks facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with which a banks assets can be converted in to cash to meet deposit with drawals and other current obligations. It is also important in view of survival and growth of bank.

Regarding the risk management of the bank Dr. Shrestha's other suggestions include:

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

The above journals focus in the various aspects of the bank's economic environment. NRB press communiqué shows the current domestic market scenario, article by Radha Krisha Poudel concentrates in the challenges of the banking sector. Narayan Prasad Poudel's work stresses in effective way to evaluating the financial performance and Dr. Shreshta's suggestions are focused towards proper risk management. Whatsoever, aspects of the bank the above journal target. they all have to be combinable assessed and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy.

2.4 Review of Previous Studies

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, (1985) n ‘A case study on capital and assets structure of Nepal Bank Limited analyzed the composition trend and interrelation between capital and assets: During his study period of 10 years (from 1972 to 1981). he found total assts and liabilities increased by 5.2 times total deposit during the period by 5.32 times and total investment (including loan and advance) increased by 5.42 times. He also concluded that the loan / Deposit ratio of the bank fluctuated year by year. He found the ratio of loan/deposit, net profit/total assets, net worth/total deposit and liabilities decreased during the study period.

He recommended that the net worth of the bank must be increased in order to reduce the fluctuation on net profit. He has further suggested that he bank needs to have productive uses of its fund either by increasing net worth or by reducing its other unproductive assets. Also, he has suggested that branch opening expenses must be minimized to level up the profit margin.

Pradhan (a) 1980 : A study on Investment policy of Nepal Bank limited was designed to show the relationship of deposits of Nepal bank Limited with their lending activities. The study covered a period of 6 years (1972 to 1977 B.S.) He found that increase in deposit of the bank lead to increase in the loan and advance but it is not in proportionate manner. He also found that immense increase in the deposit could not proportionately increase the investment. He further stated that the main reason for decrease in loan and advances was due to the increase in interest rate. He recommended that the lending policy of the bank should not be security mined while approving loans. 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 greater 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 (b)1980: In the work 'A study on Resources Mobilization and utilization of Nepal Bank limited' he made and evaluation with an emphasis on resource mobilization potentiality along with their utilization. The study covered a period of 10 years (1970 to 1979 B.S) From the study. he found that the deposit increased year by year. During the period he found the deposits increased by 5 times, 7 times and 9 times under current accounts, saving account and fixed deposit accounts respectively. He also reported that total utilization of resources of bank has upturned by' 6 times. In the process of analysis, he took the help of trend line analysis and testing correlation of few variables. I-Ic concluded his study revealing the fact that the bank has more that 25% of idle resources: the profit ratio has decreased with increase in the cost of operation. However, the 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 lirnied should extend the credit for the long-term period along with short and medium term period. In order to collect resources, he suggested opening branches in rural areas to add facilities to the depositors and to level up the marketing and publicity.

Pradhan (c) 1991: In a study Nepalma Banijya Bank: Upalabdhi Tatha Chunauti the writer has pointed out some major issues in our local commercial banks against foreign joint venture banks. The study focused the completely commercial banking system in Nepal in respect of their performance and profitability.

His major finding were

i) The deposit collection rate of local banks is very poor as compared to foreign joint venture banks. The annual average deposit collection rate of local banks in l7.9°o between the years 1985 to 1989 B.S. whereas the same of foreign joint Venture Bank is 79.7°c between the year 1987 and 1989.

II) The pattern of deposits is also different between these two types of commercial banks. The ratio of current deposit in local banks is 19.34% only 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.

i) The foreign Joint venture Banks are in better position than local 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 1988. the local banks have suffefred a loss of 25% over the year 1987.

The study has ground Nepal bank limited and Rastriya Banijya Bank under local banks and Nepal Arab Bank Limited. Nepal Grindlays Bank Limited and Nepal lndosewz bank limited under foreign joint Venture banks.

Lalmani Adhikari (2050), In his thesis " A Comparative analysis of investment structure of Rastriya Banijya Bank and Nepal Bank Limited", he finds the liquidity diversification and profitability of Nepal bank limited better than that of Rastriya Banijya Bank. The main source of fund of Nepal Bank Limited as indicated by him is fixed deposit of customers. He also finds high degree of correlation between deposit and investment of Nepal Bank limited. In the process of study he has found the bank following traditional and limited banking activities. Finally, he has suggested the bank to replace the traditional methods of carrying out activities with scientific ones and to expand the scope of its activities.

Sushil Pradhan (1980), In the dissertation " A study on resource mobilization and utilization of Nepal Bank Limited." he finds the efficiency in mobilization of resources. In the utilization side, he finds enough possibility of increasing current utilization of resources. He concludes the level of resources mobilization and utilization of bank was not satisfactorily maintained. Finally he suggests that in order to contribute in nation's economic development the bank needs to extend its credit policy for the long-term period also. pay more attention on priority investment, expand branch, pay attention on publicity, encourages customers etc.

Adhikari (1993) In a study 'Evaluating the financial performance of the NBL' He has analyzed the financial performance of the bank for 10 years from the F.Y. 2037/2038 to 2046/2047 B.S. During the period of his study he found that the average growth in total deposit to be 2.15 times. The same for fixed, saving and current deposit were recorded to be 2.19. 2.54 and 1.76 times. The cost of deposit was increased by 2.55 times during the period. He also found that average growth in loan loss provision was higher than the growth in loans loss provision was higher than the growth in loans and advances. The increase in the income from government securities during the period was 6.16 times whereas it was 1.9 times in interest. The average growth in total expenditure was 2.33 times whereas it was 2.55 times in interest expenditure. During the period of study. as concluded by him, no other aspect was satisfactory but the liquidity positioned. He has also calculated that the bank has been concentrating more on non-banking activities as a result of which there are operating losses suffered by the bank 2 times during the period. He has further recommended tocarry out the activities in planed way for the better profitability.

Prasai (1997) In a study 'study on capital structure of NBL', he has taken a period of 5 years from the F.Y. 2047/2048 B.S. to 205 1/2051 B.S. During the period he found that the total assets and capital in increasing trend. He also found that the deposit of the bank was increasing but the net worth was decreasing. Total income and expenditure of the bank were highly influenced by amount of interest earned and paid. During the period, the net profit and EPS were increasing but highly fluctuating. He found the positive correlation between the total investment and net profit. He also concluded that the growth rate of investment of share and debenture was lower than the growth rate of total assets. Finally, he has suggested that to improve its Market price of Share, the bank needs to reduce its expenses and fluctuation in the EPS.

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 2 different periods separately by dividing a period of 10 years into 2 equal parts of 5 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. But this study focuses on the comparison of financial position of the bank between two periods of five years each.

1. Books of accounts should be made up-to date. It helps the bank to reduce the manipulation of accounts, gain the trust of customers and so on, for this. computerized accounting system should be introduced in the technically favoured branches.
2. Financial statements should be published regularly.
3. While making any type of investment (especially advancing of loan) proposal of loan should be seriously studied and the most important factor is, securities against which loan is going to be Provided should be valued fairly and properly. And, the person involved in valuation of securities should be made responsible if anything is harmed form the securities.
4. The inspection and supervision aspects of the bank should be effective and functional.
5. The loan and advances department. and the loan recovery department should also be target-oriented. i.e. after advancing loan, there should be regular supervision and follow up for the proper utilization of loan.
6. 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 rewards among them which will certainly lead the bank towards better performance.
7. The bank should place independent, professional bankers on board and in key management position.

8. The bank’s management should be totally out of political control and pressure.
9. The bank should engage reputable audit firms to install proper record keeping. accounting reporting and investigation processes.
10. The bank should raise accounting standards and overall transparency of financial information.
11. The bank should implement and enforce policies to foster sound banking.

CHAPTER -III

RESEARCH METHODOLOGY

The main objective of this study is examining the major components of the portfolios of the balance sheet and income statement of the Nepal Bank. Limited as well as to evaluate the financial position of the bank during the period of study. To achieve the objective, the study requires an appropriate research methodology. Research methodology. Research methodology adopted in the process of concluding the study are given below:

3.1 Research Design

It is the main part of any research work, which states clearly how the work has been planned, structured, and going to be completed "research design is the plan. structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances. "Research design tends to collect the right quality of accurate information from field. There are various types of research design. To achieve the objective analytical research design has been adopted in this study. in other words, this thesis work is analytical work not an empirical. Some statistical and accounting tools have also been applied to examine the facts and descriptive techniques have been used to evaluate the performance of the bank.

3.2 Data Collection

Collecting data is the connection link to the \Jrld of reality. The data collection is the taking ordered information from reality and transferring it into some recording system so that it can later be examined and analyzed for patterns".

The study is based on the facts and figures collected from profit and loss accounts and balance sheet of the Nepal Bank Limited. Hence. most of the dita used in this work 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. Similarly, Some primary data have also been taken to make the study more effective and meaningful. These data are based on the information, provided by the officers of concerned departments of Nepal Rastra Bank and Nepal Bank Limited during the personal interview with them. The study attempts to draw a conclusion for 10 years period from fiscal year divided into tow periods of 5 years each. The said period has been selected and classified in the above manner because during the period, percentage of ownership on bank's capital between government and public has changed and profitability of the bank has dramatically changed during the said period.

3.3 Method of Analysis

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

3.4 Ratio Analysis

A ratio is a mathematical relationship between two related items expressed in quantitative form. It may be expressed in proportion, 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 or 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 calculating 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 been calculated:

(a) **Cash and Bank Balance to current Ratio**: This ratio shows the percentage of cash and bank balance in total of bank's current assets and calculated as:

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

(b) Investment on Government Securities to Current Assets: 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 Advances to Current Assets: This ratio shows the relationship between Loans and Advances and total current assets and computed as:

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

(c) Cash and Bank Balance to Total Deposit Ration: It shows the ability of the bank's immediate available funds to cover or return the deposit. It is calculated as:

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

(d) Cash and Bank Balance to Current Deposits: This ratio shows the capacity of the bank to meet unanticipated calls on Current Account. It is calculated as:

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

Other liquidity ratios may be:

(i) Fixed Deposit to Total Deposit Ratio

(ii) Saving Deposit to Total Deposit Ratio

(iii) Short term loan to Total Deposit Ratio etc.

(2) **Turn Over 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:

$$\frac{\text{Total Loans and Advances}}{\text{Total Deposit}}$$

(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:

$$\frac{\text{Total Loans and Advance}}{\text{Fixed Deposit}}$$

(c) Loans and Advances to Saving Deposit: The ratio is calculated as

$$\frac{\text{Loans and Advances}}{\text{Saving Deposit}}$$

(3) Profitability Ratios

The management of the firm is naturally eager to measure the operating 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 fund) Ratio:** This ratio shows ability of bank in earning interest on its total working fund and calculated

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

(b) **Interest Paid to Working Fund Ration:** This ratio shows what 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 banks 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:

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

(4) **Capital Structure or Leverage Ratios:**

Capital Structure or Leverage Ratio can examine the long-term solvency of a firm. Leverage ratios are financial ratios which throw light on the long-1errn 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 installments at due dates.

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

(i) Stability Ratio

(ii) Structural Ratio

(i) **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) **Shareholders' Reserve to Share Capital:** This ratio shows how shareholders fund has been increasing in the firm in relation to their (shareholders') investment. It is calculated as:

$$\frac{\text{Shareholder's Reserve}}{\text{Share Capital}} \times 100\%$$

(b) **Net Worth to Total Assets:** It indicates the claim of shareholders on total assets of the firm and determined as:

(c) **Current Assets to Net Worth:** It shows what 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:** It shows by what percentage total deposit exceeds shareholders fund or what percentage of net worth is various types of deposit. It is calculated as:

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

(ii) **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 shows the relative claims of creditors (long term) and shareholders on firm's total assets and calculated as:

$$\frac{\text{Loan} - \text{term Debt}}{\text{Net Worth}} \times 100\%$$

(b) **Net fixed Assets to Long-term Debt Ratio:** It shows the capacity of fixed assets in discharging long-term liabilities. It is computed as:

$$\frac{\text{Net Fixed Assets}}{\text{Loan — Term Debt}} \times 100\%$$

(c) **Total Debt (Liabilities) to Net Worth Ratio:** It indicates the relative claim of outsiders and shareholders on firms' total assets. It is calculated 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:

$$\frac{\text{Earning Per Share}}{\text{Face Value Per Share}} \times 100\%$$

(b) **Dividend per Share Ratio:** It shows the percentage of dividend paid on the face value per share and calculated as:

$$\frac{\text{Dividend Per Share}}{\text{Face Value Per Share}} \times 100\%$$

(c) **Price Earning Ratio**: It shows the percentage of Market Value Per Share on Earning per share and calculated as:

$$\frac{\text{Market Value Per Share}}{\text{Face Value Per Share}} \times 100\%$$

Average:

The averages are the measures which condense a huge unwieldy set of numerical data into single 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 an 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,

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

Where,

X = Arithmetic Mean or Simple Average

X Sum of Observations

n = Number of Observations

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Financial Position Analysis

It is the process of identify the financial strength and weakness of a firm by properly 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 analysis is a mathmetical relationship between two related items expressed in quantities form. A ratio may be expressed in proportion, in rate or items, or in percentage. Hence, analysis of financial statement with the help of ratio may be termed as ratio analysis. It implies the process of computing, determining and presenting the relationship of items or group of items of financial statement. The ratio analysis also involves the comparison and interpretation of these ratios and the use of them for future projection.

4.2.1. Liquidity Ratio

Liquidity is a pre-requisite for the very survival of a firm. The short term creditors of the firm interested in the short term solvency or liquidity of a firm. But liquidity implies, from the view point of utilization of the funds of the firm that funds are idle or they earn very little.

1. Current Ratio

It is the ratio of total current assets of 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 in to cash within a short period of time, normally not exceeding one year. the current assets of a bank includes cash and bank balances, money at call and short notice, bills discounted and purchased, short term investment, interest receivable etc.

Table 4.1

Current Ratio (%)

FY	CA	CL	Ratio	FY	CA	CL	Ratio
2052/053	23057.07	22571.07	102.13	2057/058	19835.20	12116.47	163.70
2053/054	25763.37	24660.30	104.47	2058/059	16809.15	14469.19	116.17
2054/055	333876.43	32939.71	103.79	2059/060	12647.80	14581.61	86.74
2055/056	37443.92	38239.10	97.92	2060/061	15494.88	17441.36	88.84
2056/057	38467.84	40853.07	94.16	2061/062	20619.57	14989.13	137.56
Average ($\overline{X}$) = 105.11				Average ($\overline{X}$) = 118.602			
Standard Deviation (σ) = 29.32				Standard Deviation (σ)= 3.90			

(Sources : Apendix table 1, www. nepalbank.com.np)

The conditions of current ratios for the 1st period are much worse as compared to the 2nd period. The last four and fifth years show the current ratio less than 100, i.e. to discharge the current liabilities of Rs 100, the bank has Rs 97.92 and Rs 94.16 in 4th and 5th years respectively which indicates that the bank has not been maintaining liquidity properly.

The average of current ratio for the 1st period is 100.49 and standard deviation of the ratios for the 1st period is 3.90. The condition of current ratios for the 2nd period is much better than 1st period. The average of current ratio for the 1st period is 118.60 and standard deviation of the ratios for the 2nd period is 29.32. The standard deviation of the 2nd period is higher fluctuated than 1st period.

2. 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 two major components of current assets.

Table 4.2

Cash and Bank Balance to Current Assets Ratio (%)

FY	CB	CA	Ratio	FY	CB	CA	Ratio
2052/053	4267.07	23057.07	18.54	2057/058	5371.58	19835	27.08
2053/054	4653.44	25763.37	18.06	2058/059	2973.19	16809.15	37.32
2054/055	6495.49	33876.43	19.12	2059/060	6627.12	1267.80	52.35
2055/056	5415.76	37443.92	14.46	2060/061	5897.51	15494.88	38.06
2056/057	8450.32	38467.84	21.96	2061/062	2971.75	20619.57	14.41
Average ($\overline{X}$) = 18.44,				Average ($\overline{X}$) = 33.86			
S.D. (σ) = 2. 4				S.D (σ) = 12.60			

(Sources : Apendix table 2, www. nepalbank.com.np)

Above table indicated the average of the cash and bank balances to current assets rations to be 18.44 for the 1st period and 33.86 for the 2nd period. However the 1st period shows the stander deviation of 2.40 and 2nd period shows if to be 12.60

It can be summed up that bank holding higher current assets in 2nd period than 1st period and higher fluctuated in current assets than 2nd period.

3. Loan and Advance to Current Assets Ratio

It is the ratio of total of loan and advances to total of current assets. The main business of a bank is mobilization of resources. The resources collected from different sources are mobilized in terms of loan and advances and by investing on various types of security and projects.

Table 4.3

Loan and Advance to Current Assets Ratio (%)

FY	LA	CA	Ratio	FY	LA	CA	Ratio
2052/053	13432.82	23051.07	58.27	2057/058	21048.04	19835.20	10611
2053/054	15619.94	25763.37	60.63	2058/059	19648.33	16809.15	116.89
2054/055	17039.89	33876.93	50.3	2059/060	16883.59	12647.80	133.49
2055/056	18642.2	37443.92	49.79	2060/061	17964.99	15494.88	115.94
2056/057	17245.55	38467.84	44.83	2061/062	16867.64	20619.57	81.80
Average ($\overline{X}$)= 52.76				Average ($\overline{X}$)=110.85			
S.D.(σ) =5.83				S.D.(σ) =16.98			

(Sources : Apendix table 3, www. nepalbank.com.np)

Above table indicates that average of the loan and advance to current assets ratio to be 52.70 for the 1^{st} period and 110.85 for the 2^{nd} period. However the 1^{st} period shows the standard deviation of 5.83 and 2^{nd} period shows it to be 16.98.

Comparing the ratios for two periods the 2^{nd} period in average shows maximum higher loan and advance to current assets ratio over the 1st period and standard deviation at the 2^{nd} period is maximum higher than 1^{st} period it means 2^{nd} period holding higher risk than 1^{st} period.

4. Total Investment to Total Deposit Ratio

As started earlier total deposit is the main source of a bank's fund which is the amount accepted by the bank from its customers under various a/c. the fund so collected should be utilized properly into different sectors of the economy with a view to achieve the objective of the bank. Following table shows the total investment to total deposit ratio of the bank for various years of study.

Table 4.4

Total Investment to Total Deposit Ratio (%)

FY	TI	TD	Ratio	FY	TI	TD	Ratio
2052/053	2003.41	19895.15	10.07	2057/058	6776	35919	19.2
2053/054	781.11	21570.51	3.62	2058/059	7151	34205	2.09
2054/055	4495.08	28138.08	15.97	2059/060	125164	35014	35.59
2055/056	5124.56	33188.31	15.44	2060/061	11021	35735	30.84
2056/057	5462.07	34977.78	15.62	2061/062	14220	35934	39.52
Average ($\bar{X}$)= 12.14				Average ($\bar{X}$) = 24.42			
S.D.(σ) = 4.79				S.D.(σ) =12.97			

(Sources : Apendix table no.4, www. nepalbank.com.np)

A compression the between rations of two periods clearly reveals that the bank has been able to invest large amount of its total deposit on various swities and projects averaging to 25.42% in period second. But in this period higher fluctuated on deposit whereas 39.57 % on fiscal year 2061/062 but in fiscal year 2058/059 only 2.09% .

4.2.2. Turnover Ratio

1. Loan and Advance to Total Deposit Ratio

Loan and advances is the main items of utilization of a bank's collected fund. Accepting deposit and granting of loans are the main business of any commercial and other type of bank. This ratio shows the percentage of total deposit that has been utilized on loan and advances.

Table 4.5

Loan and Advance to Total Deposit Ratio (%)

FY	LA	TD	Ratio	FY	LA	TD	Ratio
2052/053	13432.82	19895.15	0.68	2057/058	21048.04	35619	0.59
2053/054	15619.94	21570.51	0.72	2058/059	16948.33	34265	0.57
2054/055	17039.89	28138.27	0.61	2059/060	16883.59	35014	0.48
2055/056	18642.2	33188.31	0.56	2060/061	17964.99	35735	0.50
2056/057	17245.55	34977.78	0.49	2061/062	16867.04	35934	0.47
Average ($\overline{X}$) = 0.61,				Average($\overline{X}$)=0.52			
S.D.(σ)=0.08				S.D.(σ)=0.048			

(Sources : Apendix table 5, www. nepalbank.com.np)

Above table shows the loan and advances to total deposit ration for to year. From FY 2056/2057 to FY 2061/2062 divided into two parts of 5 years and their standard deviation the average of the ratios for the 1st period is 0.61 or 61% and the average of the ratios for the 2nd period is 52%. The standard deviation of the 1st period is 0.08 whereas 2nd period is 0.048.

Accounting records at recent ten years of NBL shows that large amount of loan and advance are in crisis. There is doubt in collecting the amount of loans and advances from the customers.

2. Loan and Advances to Fixed Deposit Ratio (%)

This ratio is indicates the relationship between the investment of bank earning interest at a fixed rate and the liabilities of a bank bearing interest at a certain rate.

Table 4.6

Loan and Advances to Fixed Deposit Ratio (%)

FY	LA	FD	Ratio	FY	CA	FD	Ratio
2052/053	13432.82	7003.52	1.92	2057/058	21048.04	9921.71	2.12
2053/054	15619.94	8350.18	1.87	2058/059	19648.33	9737.77	2.01
2054/055	17039.89	12272.44	1.39	2059/060	16883.59	8395.88	2.01
2055/056	18642.2	14162.35	1.32	2060/061	17964.99	7480.97	2.40
2056/057	17245.55	12172.87	1.42	2061/062	16867.14	7216.91	2.34
Average($\overline{X}$)= 1.58,				Average $\overline{X}$ =2.18			
S.D.(σ) = 0.26				S.D.(σ) = -0.1645			

(Sources : Apendix table no.6, www. nepalbank.com.np)

Above table shows the averages of the ratios for the first period is 1.58 or 155 % i.e. bank has invested Rs. 158 which generates interest at a fixed rate for the liabilities of Rs. 100 bearing cost at a fixed rate. The fluctuation in the ratios of the first period has been revealed by its standard deviation of 0.26. Similarly for the second period, the average of this ratio is 2.18 or 218% i.e. much higher than of the 1st period. The standard deviation of 2nd period which has been recorded to be 0.16 is shows. Less fluctuated than 1st period.

4.2.3. Profitability Ratio

A firm should produce profit to survive and grow over a long period of time. Profits are indispensable but it would be wrong to assume that every action initiated by management of a firm should be aimed at maximizing profits, irrespective of social magnitude and responsibilities. The profitability ratios are calculated to measure the operating efficiency of the firm.

1. Operating Profit to Net Worth Ratio

Net worth is the total claim of owners in a firm and operating profit is the profit which is earned by the firm from its usual and regular business.

Table 4.7

Operating Profit to Net Worth Ratio (%)

FY	OP	NW	Ratio	FY	OP	NW	Ratio
2052/053	100.09	612.19	16.35	2057/058	15	-6350.67	-0.24
2053/054	143..01	679.11	21.06	2058/059	-526	-9553.88	-5.50
2054/055	160-19	981.03	16.33	2059/060	43	-9831.14	-0.44
2055/056	-1796.99	-422.80	-338.07	2060/061	511	-9014.53	-5.67
2056/057	-1640.28	-2022.42	-81.10	2061/062	688	7425.06	-9.27
Average ($\overline{X}$) = -73.04				Average ($\overline{X}$)= -4.224			
S.D.(σ)= 137.94				S.D(σ)= 3.45			

(Sources : Apendix table 7, www. nepalbank.com.np)

The above table shows average of the ratios for the first period to be - 73.09% and during this period standard deviation is 137.94 % in second period average of the ratio is -4.224 and standard deviation is 3.45

Comparison between two period 1^{st} periods much worse than 2nd period and rations of 1^{st} period higher fluctuated than 2^{nd} period.

2. Interest Earned To Total Assets Ratio

Interest is a main source of income of a bank. Interest is earned on the loan, advances and investment made by bank.

Table 4.8

Interest Earned to Total Assets Ratio (%)

FY	IE	TA	Ratio	FY	IE	IA	Ratio
2052/053	2031.42	23746.02	8.55	2057/058	2968	43718.01	5.42
2053/054	2426.12	25962.37	9.34	2058/059	1527	45599.13	3.34
2054/055	2693.00	34093.66	7.9	2059/060	2200	39393.42	5.58
2055/056	2214.47	38375.75	5.57	2060/061	1825	33915.72	5.58
2056/057	2454.28	39504.47	5.78	2061/062	1987	32823.70	6.05
Average ($\overline{X}$) =7.43				Average ($\overline{X}$) = 5.15			
S.D. (σ) = 1.5				S.D. (σ) = 0.93			

(Sources : Apendix table 8, www. nepalbank.com.np)

Above table shows, during the first period average and standard deviation of ratios are 7.43 and 1.5. During second period its average of ratio is 5.15 and standard deviation is 0.93.

Comparison between two periods first period is more interest earned than second period but its earning ig highly fluctuated than second period.

3. Net Profit to Total Assets Ratio

Net profit is the after 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.

Table 4.9

Net Profit to Total Assets Ratio (%)

FY	NP	TA	Ratio	FY	NP	TA	Ratio
2052/053	66.03	23746.02	0.2	2057/058	76	43718.01	0.17
2053/054	128.95	25962.37	0.5	2058/059	-2847.20	45599.13	-6.24
2054/055	15.93	34093.66	0.05	2059/060	-251.73	39393.42	-0.64
2055/056	-1723.13	38375.75	-3.71	2060/061	710.34	33915.72	2.09
2056/057	-1557.17	39504.47	-3.94	2061/062	1207.79	32823.70	3.68
Average ($\overline{X}$) = -1.36				Average ($\overline{X}$) = -0.19			
S.D. (σ)= 2.02				S.D.(σ)=3.33			

(Sources : Apendix table 9, www. nepalbank.com.np)

Above table shows in first part average of net profit to total assets ratio of both period are negative, which are not satisfied both average are -1.36 and -0.19. Bank is loss on total assets.

During the first and second periods standard deviations are 2.02 and 3.33 it means its net profit is highly fluctuated than first period.

4. 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 these deposits. The deposit so accepted is mobilized by the bank into various sectors in form of investment, loan and advances from which it generates earnings in the form of interest or other.

Table 4.10

Net Profit to Total Deposit Ratio (%)

FY	NP	TD	Ratio	FY	NP	TD	Ratio
2052/053	66.03	19895.15	0.33	2057/058	76	35618	0.21
2053/054	128.95	21570.51	0.60	2058/059	-2847.20	34265	-8.31
2054/055	15.93	28138.27	0.06	2059/060	-251.73	35014	-072
2055/056	-1423.13	33188.31	-4.29	2060/061	710.34	35735	1.99
2056/057	-1557.17	34977.78	-4.29	2061/062	1207.79	35934	3.36
Average ($\overline{X}$) = 1.55				Average ($\overline{X}$)=0.69			
S.D. (σ) =2.31				S.D.(σ) = 4.0			

(Sources : Apendix table 10, www. nepalbank.com.np)

Above table show banks net profit on total deposit during two periods. In first periods its average of net profit to total deposits ratios is 1.55 % But in second period its average is -0.69. Which is indicate that bank's net profit to total deposit in first period it has been little bit profit but in second period bank had been loss on its total deposit.

During the first and second periods its standard deviations are 2.31 and 4.06 which Mean banks net profit to total deposit are highly fluctuated in second period than its first period.

4.2.4. Leverage Ratio

To judge the long term financial position leverage ratios are calculated. This ratio also known as a capital structure ratio.

1. Net Worth To Total Assets:

Net worth is a share holder fund. Total assets 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 share holders on the total assets of firm.

Table 4.11

Net Worth to Total Assets (%)

FY	NW	TA	Ratio	FY	NW	TA	Ratio
2052/053	612.19	23746.02	2.58	2057/058	-6350.61	43718.01	-14.53
2053/054	679.11	25962.37	2.62	2058/059	-9553.89	45599.13	-20.95
2054/055	981.03	34093.66	2.88	2059/060	-9831.14	3939.42	-24
2055/056	-422.80	38375.75	-1.15	2060/061	-9014.53	33915.72	-26
2056/057	-2022.42	34504.47	-5.12	2061/062	-7425.06	32823.70	-22.62
Average ($\overline{X}$) = 0.36				Average ($\overline{X}$) =-21.92			
S.D. (σ) = 3.12				S.D.(σ) = 4.17			

(Sources : Apendix table 11, www. nepalbank.com.np)

Above table shows in first part average of net worth to total assets ratio is 0.36 and its standard deviation is 3.12. Similarly during second period its average is -21.92 and standard deviation is 4.17.

Comparison between two periods second periods ratios are going to negatively but in first period its last two fiscal years ratios are negative. Second period ratios are highly fluctuated than first period.

2. Total Deposit to Net Worth Ratio

Total deposit of a bank represents total of deposits accepted by the bank under various account and net worth is the claim of share holders. Hence the ratio indicates the proportion of total deposit and shareholder's fund in the total sources of fund of the bank.

Table 4.12

Total Deposit to Net Worth Ratio (%)

FY	TD	NW	Ratio	FY	TD	NW	Ratio
2052/053	1985.15	612.19	3249.83	2057/058	35619	-6350.67	-560.87
2053/054	21570.51	679.11	3176.29	2058/059	34265	-9553.88	-358.65
2054/055	28138.31	981.03	2868.24	2059/060	35014	-9831.14	-356.15

2055/056	33188.31	-422.80	-	2060/061	35735	-9014.53	-396.42
2056/057	34977.78	-2022.42	-	2061/062	35934	7425.06	-483.96
Average ($\overline{X}$) =3098.12				Average ($\overline{X}$) =-431.21			
S.D. (σ) =165.3				S.D.(σ)=79.63			

(Sources : Apendix table 12, www. nepalbank.com.np)

The table has been divided in to two equal parts of 5 years each. Both the parts indicate the total deposit to net worth ratios, their average and standard duration for the two periods of study separating.

The first part of the table indicates that the average of the rations for the period to be 3098.12% which means during the first period the bank has accepted at an 3098.12% at total net worth as deposit during this period standard deviation of 165.3 indicates that at an average, there is a deviation of 393.79 each year in the ratios.

Similarly in second period average at ratios is -431.21 and standard deviation is 79.63.

Comparison between two periods the bank has highly accepted deposit thank fist period and during this period it has highly fluctuated than 1st period.

3. Total Debt to Net Worth Ratio

This ratio indicates the proportion of total creditors hip capital and total of ownership capital. Following table shows the total debt to net worth ratios of the NBL for the entire period of study.

Table 4.13

Total Debt to Net Worth Ratio (%)

FY	TD	NW	Ratio	FY	TD	NW	Ratio
2052/053	23133.81	612.19	3778.86	2057/058	33737.88	-6356.61	-531.25
2053/054	25283.28	679.11	3723.00	2058/059	32589.43	-9553.89	-341.11
2054/055	33112.63	981.03	3375.29	2059/060	30808.57	-9831.14	-313.38
2055/056	38818.54	-422.56		2060/061	33515.25	-9014.53	-371.77
2056/057	41527.33	-2022.42		2061/062	17536.42	-7425.06	236.18
Average ($\overline{X}$)= 3625.72				Average($\overline{X}$)=-358.74			
S.D.(σ) = 178.54				S.D.(σ)=97.52			

(Sources : Apendix table 13, www. nepalbank.com.np)

The above table shows bank's two period's total debt to net worth ratio. During the first period average to total debt to net worth ratio3625.72 and standard deviation is 178.54 but in second period its average is negative which is - 358.74 and its average of standard deviation is 97.5.

Comparison between two period Bank flow debts on net worth is positive but in second period its Net worth is positive second period its debt flow is negative. Whereas standard deviation is higher in first period than second period.

4. Long Term Debt to Net Worth Ratio

This ratio indicates that how much funds raised in long-term source on net worth in other word it is the proportion of long term creditor ship capital and ownership capital.

Table 4.14

Long Term Debt to Net Worth Ratio (%)

FY	LTD	NW	Ratio	FY	LTD	NW	Ratio
2052/053	23.17	612.19	3.78	2057/058	21.62	-6350.62	-0.34
2053/054	23.17	679.11	3.41	2058/059	18.12	-9553.89	-0.19
2054/055	14.61	981.03	1.44	2059/060	16.22	-9831.14	-0.16
2055/056	14.61	-422.80		2060/061	16.07	-9014.53	-0.18
2056/057	14.61	-202242		2061/062	16.03	-7425.06	-022
Average ($\overline{X}$) = 2.89				Average($\overline{X}$)=-.22			
S.D (6) = 2.00				S.D (6) =0.1386			

(Sources : Apendix table 14, www. nepalbank.com.np)

Above table shows the average at the rations to be 2.89 for the entire 1st period. It means at an average, the bank has used long term debt equal to 2.89 % of total net worth. Similarly, the tables also indicate the standard deviation for the 1^{st} period to be 1. It indicates that there is a deviation at 1 each year in the ratios.

Similarly, the table shows the average of the rations for the 2^{nd} period to be -22. It means the bank has used long term debt equal to -22% of total net worth. Similarly the table also indicates which indicates that there is a deviation of 0.1386 which indicates that there is a deviation of 0.1386 each year in the ratios.

4.2.5 Earning Per Share

The entire share holder wants to return on their investment. EPS shows the return of per share.

Table 4.15

EPS Ratio (%)

FY	EPs	FVPs	Ratio	FY	EPs	FVs	Ratio
2052/053	44.12	100	44.12	2057/058	-571.56	100	-572.56
2053/054	86.16	100	86.16	2058/059	-807.42	100	-807.42
2054/055	7.89	100	7.89	2059/060	-66.18	100	-66.18
2055/056	-366.09	100	-366.09	2060/061	186.76	100	186.76
2056/057	-781.36	100	-781.36	2061/062	455	100	455
Average($\overline{X}$)= -201.86				Average($\overline{X}$) =-160.88			
S.D(6)=331.73				S.D.(6)= 468.32			

(Sources : Apendix table 15, www. nepalbank.com.np)

Above table has been divided into two equal parts of five years which shows the EPS ratios of the NBL separately for the two period of study. The first part of the table reveals that average of the EPS ratio for the period is -201.86 i.e. during the period the bank loan at an average of 201.86 on their face value. The first part of the table shows a standard deviation of 331.73 for the period, i.e. there is an average fluctuation of 331.73 in the ratios each year.

Similarly during the second period average of the EPS ratio for the period is -160.88 i.e. during the period the bank loss at an average of -160.88 on their face value the second part of the table shows a standard deviation at 468.32 for the period, i.e. there is an average fluctuation of 468.32 in the ratios each year.

4.3 Major Findings

1. The average of current ratio for the 1st and 2nd period is 105.11 and 118.602. Similarly standard deviation for 1st and second period is 21.32 and 3.03 it shows the condition current ratio 2nd period is better than first period. It also less fluctuated than 1st period.
2. The average of the cash and bank balance to current assets ratio 1st and second period are 18.44 and 33.86 standard deviation for the first and second period are 2.4 and 12.60. If shows bank holding higher current assets in 2nd period than first period.
3. Loan and advance to current assets ratio for the 1st and 2nd period are 52.76 and 110.85. Similarly standard deviation of 1st and 2nd period bank's maximum loan and advance from current assets than first period.
4. Comparison of total investment to total deposit ratio its average for 1st and 2nd period are 12.14 and 24.42 it indicate bank investment higher in 2nd period on its total deposit than first period but 2nd period (6= 12.97) more fluctuated than 1st period. But 2nd period (6=12.97) more fluctuated than 1st period (6=4.79).
5. The average of Lone and advance to total deposit ratio for 1st and 2nd period are 0.16 and 0.52 where the standard deviation 1st and 2nd period are 0.08 and 0.048. it records show. That large amount of loan and advance are acrylic.
6. The first and 2nd periods the average loan and advance to fixed deposit ratio are 1.58 and 2.18.whereas standard deviation for the 1st and 2nd period are 0.26 and 0.1645. It shows bank interest earning little bit bitten on 2nd period than first period.
7. On profitability ratio the average of operating profit to net worth ratio on 1st period is -73.04 and 2nd period is -4.22. It indicates that bank to much reduce loss on 2nd period. Whereas it's fluctuated also less than first period.
8. The average of interest earned to total assets ratio during the first and second period are 7.43 and 5.15, it shows bank interest earning better on but its earning more fluctuation on 1st period than 2nd period.
9. The average and standard deviation of net profit to total assets ratio 1st and second period are -1.36, 2.02 and -0.19, 3.33. This data indicates bank reduce its loss on 2nd period than first period taking high risk

10. First and second period's average and standard deviation of net profit to total deposit ratio's are -1.55, 2.31 and -0.69, 4.0. it indicates that bank success to reduce its loss on 2nd period than first period holding high risk.
11. Regularly leverage ratio. The average of net worth to total assets ratio 3096.12 and -431.21. Similarly standard deviation for the first period and second are 164.30 and 79.63. Comparison between two periods bank has highly accentual deposit on second period than first period and during this period it has highly fluctuated than 1st period.
12. The average and standard deviation of the total debt to net worth ratio are 3625.72, 178.5 and -358.74, 97.52. Comparison between two periods first period bank flow dept on net worth is positive but during second period it debt flow is negative. Whereas standard deviation is high in first period than second period.
13. Long term debt to net worth ratio's average and standard deviation are 2.892 and -.22, 0.13 during 1st and 2nd period. Comparison between two periods bank highly interest net worth on long term debt on fist period than 2nd period whereas this period is highly fluctuated than first period.
14. The entire share holder wants highly earning on their per share the earning per share ratio's average and standard deviation are -201.86, 331.73 and -160.88, 468.32 it record indicates that bank soccer's to reduces share holders loss on 2nd period than 1st period, during this period it also highly fluctuated.

CHAPTER-V

SUMMARY, CONCLUTION AND RECOMMENDATIONS

5.1 Summary

The role of commercial banks 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 importance until and unless they are mobilized and utilized efficiently in some productive sectors of nation's economy. Commercial banks contribute a lot in the process of capital formation by converting dispersed small savings into meaningful capital investments in order to aid industry, trade, commerce, agriculture and other sectors of the economy for the economic and there by overall development of a nation. It is obvious that country can hardly achieve its goal of economic development without a strong capital base, and the commercial banks have a vital role in forming such base.

Nepal does not have a long banking history. Nepal Bank Limited was the first organized banking institution in 1994 B.S. with the objectives of removing financial inconveniences 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 scattered small saving of the people. In the early stage of economic development of Nepal, it was all alone in the financial scenario of country. The bank has played an immense role from every angle and side to help the country arrive at this 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 seventy-four years in serving the nation. A part from its traditional functions, it has also served the nation as a major institution of development by enhancing and promoting industrial activities in the country. The bank, since its establishment has been functioning not with the main objective of making profit but giving main priority to the well being of the nation. Thus, there is no doubt that the NBL has contributed 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. Recently, 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 productively. Thus the proper utilization of the mobilized resources has been become a current and relevant issue for the bank. Therefore, this study was undertaken with the objective of analyzing and evaluating the financial position of Nepal Bank Limited in order to trace out gaps and drawbacks in its performance. It has not been long since the bank's financial position has been worsening. So, a period of 10years, starting from F.Y.2051/2052 to F.Y. 2061/2062 B.S. had been selected for the study. Instead of analyzing the financial position for the whole period only year by year, the study had classified the period into two parts of five years each. A comparative analysis of financial position of the bank for two periods has been done along with yearly analysis to find out the gaps, shortcomings, deviation and differences in the financial position of the bank in a meaningful base.

In order to carry out this study, data have been basically obtained from secondary sources. The main sources are-annual reports and financial statements, official records, periodic publications of the Nepal Bank Limited in different newspapers and periodicals and so on. Similarity, all available reports published by Nepal Rastra Bank about the commercial banks and the Nepal Bank Limited, has also been used.

A comparative summery of the major findings of the study is presented the next. 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 first period had lower current assets to current liabilities ratio than the second period. The average current assets ratio of the period was 105.11% over118.60% of the second period. Though the proportion of current assets lower than that of current liabilities, at an average, during both the period, the bank can't be said to have a sound current ratio or, during both the period, the bank didn't have healthy short-term solvency. Even then, the second period of the study had better short-term solvency than the first period.

Regarding the cash and bank balances to current assets ratio, there was second period higher than first periods. The ratios for the first and second period were 18.44% and 33.86% respectively. Simultaneously, this ratio had fluctuated more in the 2nd period when there was a standard deviation of 12.60 against the standard deviation of 2.4 in the second period. If observed the loans and advances to current assets ratio, during the first period, the bank invested, at an average, 52.76% of current assets in terms of loans and advances whereas it was 110.85% during the second period. The ratio had fluctuated more in the first period than in the 2nd period. Remaining other things constant, it is a positive aspect to invest current assets on loan and advances which gives return at a fixed rate. So, on the basis of this ratio, the bank is in better position during the second period.

Regarding total investment to total deposit bank has been able to invest large amount of its total deposit on various projects averaging to 24.42% in second period but in this period higher fluctuated on deposit.

Hence, on the basis of liquidity ratios expect cash and bank balances, to current assets and total investment ratios; showed bank's better position during the second period. These two ratios also did not show the better position during the second period. Only the fact was there was not such a significant difference between the averages of these ratios for two periods.

On the basis of turnover ratios, the bank's position was better the 1st period than that during the 2nd period. The average percentage of loan and advances on total deposit was over 61 during the 1st period whereas it was 52 during the 2nd period i.e. during the second period larger amount of total deposit had been investment on loan and advances which gives return at a certain rate. Correspondingly, the average percentage of loan and advances on fixed deposit was also greater in the 2nd period as compared to the 1st period. They were 1.58% and 2.18% during the 1st and 2nd period respectively. Investing the resources available in the bank on loan and advances means 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. The standard deviation of the loan and advances to total to total deposit ratios for the 1^{st} and 2^{nd} period were 0.26 and -0.16 respectively. While talking about profitability ratios, 1^{st} period had better than second period. On second period bank to tally loose. During the profit, the profits were also negative. First period little bit satisfactory but in second period bank loss all year.

Interest earned to total assets ratio first period higher than second period. 7.43 and 5.15 first and second period. First period was less fluctuated than second period.

Similarly Net profit to total assets ratio, both period were negative. Bank losses more on 1^{st} period than second period. Bank earned highest 3.68 on year 061/062. During the second period. Second period was high fluctuated than first period.

Net profit to total deposit in first period it has been little bit profit but in second period it has been loss on its total deposit. During the first and second period its standard deviations are 2.31 and 4.06 which mean bank net profit to total deposit are highly fluctuated in second period than its first period.

The ratio showed the worsening condition of bank's net worth. The net worth equally hampered the total deposits to net worth ratios as well. The average of these ratios for the 5 years of 1^{st} period was 3098.12% whereas the second period was -431.21%. It shows that the ratio of total deposit to net worth had decreased during the first 3 years of the second period. To decrease the ratio of total deposits (liabilities) means to increase net worth. It is a positive aspect. But during the last two years the net worth of the bank decreased dramatically. During both periods, the net worth of the bank was negative. If compared the first 3 yeas of first period with the 2^{nd} period, the first period seems to be good. But, in second period the bank to the 1^{st} period d were- Rs. 442.80 million and – Rs. 2022.42 million respectively. One second period all five year were negative. The long-term debt of the bank had decreased each year during both periods. It indicates that bank's long-term fund has decreased gradually during both periods. The average of long-term debt to net worth ratios for the 1st period was 2.89%. Where as it was -0.22% during the 2nd period. If compared the long- term debts with net worth, the lower ratio of the said type shows bank's better position. Hence, from view point of proportional claim of shareholders and creditors on the assets of the bank, the average of first 3 years of 1st period was better than the 2nd period. But during the second period, the net worth were negative, which signifies that there was no claim of shareholders on the assets of the bank. EPS ratio for the 2nd period, at an average, was 4.55%. The highest and lowest for the period being -572.56 during the 5th and 1st year respectively. However, the average of these ratios for the 2nd period was negative, i.e. -160.88%. The highest and lowest of the ratios for the 1st period was 86.16% and -781.36% in the 2nd and 5th year of the period respectively. The ratios were also highly fluctuated in the second period as compared to the 1st period.

NBL's financial position during the second period the study was worse than that during the first period in all the aspects. The book of accounts was not audited in time. According to the report of survey, the books of account could not be audited due to the failure of bank in collecting accounting data from branch officer. The main reasons for suffering the loss were increase in the amount of over-mature loan, no interest on them etc. NBL's 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. The field report also indicated that the bank could not adopt any systematic plan for investment and for management of it. However, it was learnt during the survey that the bank had taken FY 056/057 as loan recovery year and over 75% of targeted over-mature loan was recovered towards the end of said period.

Hence, it can be summed up that all the financial aspects of the NBL are poorer in the second period than that in the first period. The bank, therefore, should take notice of its weaker position and should take notice of its weaker financial position and should take appropriate corrective measures.

5.2 Conclusion

The Nepal Bank Limited has not maintained a balanced ratio among its deposit liabilities during the second period of he study. As compared the 2nd period with the first period, the bank is seemed to be unable to utilize its high cost resources in high yielding investment portfolio. During both the periods there are negative operating profit for two year. But, both he years of the 1st period enjoyed positive net profits due to the non-operating incomes. Hence, there is a lack of demarcation between operational and non-operational activities of the bank and performance and result of the first period shows that the bank is more inclined towards non-operational activities. Decreased interest paid and earned to total assets ratios in the 2nd period indicates decreased operating activities of the bank during the period. The second period, at an average shows negative net profit. The only positive aspect is, if risk can be managed, during the 2nd period percent of loan and advances on total deposit has increased. But due to the bank's failure in collecting earned interest and matured loan, it has suffered continuous loss.

The net worth of the bank for the bank for the last 2nd period are negative due to the heavy loss during the years. The ratios of long term liabilities as well as of total liabilities to net worth during the 2nd period has decreased. It would be positive aspect, if the bank would have been able to maintain positive net worth during the 2nd period.

Further more, the liquidity position of the bank is also not satisfactory during both periods. It is even worse during the 2nd period. Various current ratios have fluctuated during both the periods. It shows lack of specific policy of holding various types of current assets. Long term debts, total debts and total deposit ratios have gradually decreased. It indicates that bank has not followed any policy regarding these items. The average of total investment has also dramatically decreased during the 2nd period. The bank has experienced negative EPS during the last both periods. P/E ratios have also heavily fluctuated during the second period.

Thus, in conclusion it can be said that the financial position of the NBL is worse during the second period due to its failure to utilize its recourses efficiently and due to its inefficiency in risk management. The over all financial position of the bank is unsatisfactory during the both periods. It is even worse during the second period.

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 only 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 can not provide better facilities to their staff and arrange for improved and modern technology such as fully computerize banking service, ATM service and other modern banking facilities. In such a situation, the contribution of commercial banks in the mobilization and utilization of resources becomes ineffective, and consequently, the goal of commercial banks 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 of development , commercial banks are required to make better profit is possible only through better profit is possible only through better performance.

On the following aspects, the NBL is recommended to think seriously for better performance:

1. Books of accounts should be made up-to-date. It helps the bank to reduce the manipulation of accounts, gain the trust of customers and so on. For this, computerized accounting system should be introduced in the technically favored branches.
2. 2 .Financial statements statements should be published regularly.
3. While making any type of investment especially advancing of loan proposal of loan should be seriously studied and the most important factor is, securities against which loan is going to be provided should be valued fairly and properly.

And, the persons involved in valuation of securities should be made responsible if anything is harmed form the securities.

4. 4. The inspection and supervision aspects of the bank should be effective and functional.
5. 5.The loan and advances department , and the loan recovery department should also be target – oriented, i.e. after advancing loan, there should be regular supervision and follow up for the proper utilization of loan.
6. 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 rewards better performance.
7. The bank should place independent, professional bankers on board and in key management position.
8. The bank's management should be totally out of political control and pressure.
9. The bank should engage reputable audit firms to install proper record keeping, accounting reporting and investigation processes.
10. The bank should raise accounting standards and overall transparency of financial information.
11. The bank should implement and enforce polices to foster sound banking.

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