CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The basis for the financial planning, analysis and decision-making is the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability. It is required to aid in economic decision-making. The financial information of an enterprise is contained in the financial statement or accounting reports.

"Financial statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive, to estimates and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decision" (Bernsten and Wild, 1998: 3). Financial Statement analysis reduces over reliance on hunches, guesses, and intuition and in turn it diminishes its uncertainty in decision-making. It doesn't lessen the need for expert judgment but rather establishes an effective and systematic basis for making business decisions.

Financial statements of a firm mainly include income statement and the balance sheet. They are important sources of financial information regarding the firm's operations and its financial position. To analyze the financial performance and strength & weakness of the firm, many types of tools and techniques are used.
Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting

them into productive channels commercial banks expand the tempo and appreciate the value of aggregate economic activity in the economy.

The financial system in Nepal has developed from a narrow, repressed regime till the eighties to a dynamic expanding sector in the nineties. An indicator of the last decade shows that the sector has growth both quantitatively and qualitatively. It could be observed that, at the same time, the financial market has became more competitive, dynamic and also very complex. This constitutionals network and the volume of operations of financial system have expanded and diversified with the number of increased commercial banks.

The adoption of the market economy has given birth to many private commercial banks in the country as said earlier. So far all these banks are doing very well. With the slowdown in the economy, interest rates are falling down. All the banks are flushed with funds and looking for safe and profitable avenues to invest into.

Profitability position analysis, which refers to profitability ratio, income expenses analysis, management, earning, liquidity positions and sensitivity to market risk, are required to predict, evaluate and make decision. It represents a systematic summary of banking transaction, stating actual cash inflow and outflow, and earning. They reflect the financial position of a bank.

Profitability analyzes the profit and loss trend and growth of the bank over the period. It evaluates the profitability and operating financial efficiency of commercial banks.

Profitability position is one of the very popular and most appropriate analyses of the financial institution. These play the role of yardstick for evaluating financial condition and performance of the firm and show the relationship between financial statement account and between firms.

And on the basis of Profitability, the study will be attempting to analyze the financial performance of Nabil Bank Limited.

Concept of Banking

Bank is a financial institution, which plays a significant role, in the development of a country. "Banking institutions are inevitable for the resources mobilization and all round development of the country. It is resources for economic development and maintains economic confidence of various segments and extends credit to people" (Grywinshki, 1993: 87).

"The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy"(Shrestha, 1993: 32). Banks are institutions whose debts-usually referred to as "bank deposits" are commonly accepted in final settlement of other people's debt. Bank is also defined as an institution, which accepts deposits from the public and in turn advances loan by creating credit. It is different from other financial institutions in the sense that they cannot create credit though they may be accepting deposits and making advances. Banking system occupies an important place in nation's economy. A banking institution is in dispensable in a modern society. It plays an essential role in the economic development of a country and forms the core of the money market in an advanced country.

Various types of banking institutions are performing different functions. There is for instance the central bank, which controls the entire currency and credit of the country. It is the organ of government that under takes the major financial operations of the government and by its conduct of these operations and by other means influences the behavior of financial institutions so as to support the economic policy of the government. Similarly, commercial banks also perform different functions by accepting the deposits and advancing loans etc. But in modern times commercial banks are concentrated in their activities of fulfilling the financial needs of their customers. The commercial banks have become the heart of financial system as they hold the deposit of the people, government and business units and investing activities to individuals, business firm and government.

Evolution of Banking Industry Globally

The evolution of banking industry had started a long time back, during the ancient time. There was reference to the activities of money changers in the Temple of Delphi and Olympia served as the great depositories for people's surplus funds and these were the centers of money lending transaction. Indeed the traces of "rudimentary banking" were found in the Chaldean, Egyptian and Phoenician history. The development of banking in ancient Rome roughly followed the Greek pattern. Banking suffered oblivion after the fall of the Roman Empire after the death of Justinian in 565AD, and it was not until the recovery of trade and commerce in the middle age that the lessons of finance were learnt a new from the beginning. Money lending in the middle ages was, however, largely confined to the Jews since the Christians were forbidden by the Canon low to indulge in the sinful act of lending money to others on interest. However, as the hold of the Church loosened with the development of trade and commerce about the thirteenth century Christians also took to the lucrative business of money lending, thereby entering into keen competition with the Jews who had hitherto monopolized the business.

As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the Bank of Venice, founded in 1157 was the first public banking institution. Following it were established the Bank of Barcelona and the Bank of Genoa in 1401 and 1407 respectively. The Bank of

Venice and the Bank of Genoa continued to operate until end of eighteenth century. With the expansion of commercial activities in Northern Europe there sprang up a number of private banking houses in Europe and slowly it spread throughout the world.

Historical Development of Banking System in Nepal

In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual moneylender has acted as fence to institutional credit in presence of unorganized money market.

Banking concept existed even in the ancient period when the goldsmiths and the rich people used to issue the common people against the promised of safe keeping of their valuable items on the presentation of the receipt; the depositors would get bank their gold and valuables of the paying a small amount of safe-keeping and saving.

The history of banking in Nepal can be described as a component of gradual and economic sphere of the Nepalese life. Even the financial system is still in evolutionary phase. Though establishment of banking industry was very recent, some crude bank operation was in practice even in ancient times. In Nepalese chorine, it was recorded that the new era known as "Nepal Sambat" was introduced by "Shankhadhar" a merchant from Kantipur in 880 A.D. after having paid all the outstanding debt of the country. This shows basic of money lending practice in ancient Nepal. In 11th century during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money-lending business; particularly for financing the foreign trade with Tibet became quite popular during regime of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rate of interest and other extra dues on loans advanced.

The establishment of the "Tejarath Adda" by Prime Minister "Ranoddip Singh" during the year 1877 A.D. was fully subscribed by government of Kathmandu Valley which played vital role in the banking system, was regarded as the father of the modern banking institution. The prime task of "Tejarath Adda" was granting of loans and safeguarding of total national deposits. At that time, Indian currency was commonly used in most part of Terai. The primary task of the "Tejarath Adda" was to attract the deposits in government exchequer at the beginning but later on general public was also allowed to take the loan at the same rate of interest with gold and silver ornaments as securities and collateral. Although the institution did not accept any deposits, it had played an important role in development process of banking system in Nepal.

The main defects of this institution showed that there was no further financial institution set-up & there was no effort to expand the services. Above all of the defects, this institution did not accept any deposit from the public. In the absence of saving mobilization the "Adda" faced financial problems making it impossible to charter to the credit and service need of general population throughout the country. Udyog Parishad (Industrial Development Board) was constituted in 1936 A.D. One year after its establishment, it formulated the "Company Act" and "Nepal Bank Act" in 1937A.D.

In the year 1994 B.S. the establishment of Nepal Bank Limited, with the Imperial Bank of India came into existence under "Nepal Bank Act 1993 B.S." as the first commercial bank of Nepal. At that time Nepalese economy was characterized by the existence of dual currency system (Indian and Nepalese), which was affecting economic stability and development of nation. Thus, the need of establishment of the central bank required great urgency. As a result Nepal Rastra Bank was established as a central bank of country on 13th Kartik 2013 under NRB Act 2012 with the authorized capital of Rs. 10 million fully subscribed by government.

Integrated and speedy development of the country is possible only when the competitive banking services reaches nooks and corners of the country. To cope this situation, government set up Rastriya Banijya Bank in 2022 B.S. as a fully government owned commercial bank. With the come up of RBB, banking services spread to both urban as well as rural area. Agriculture Development Bank was established for the promotion of agriculture sector in country. When the government adopted liberal and market oriented economic policy in the mid 80's Nepal allowed the entry of foreign banks on joint venture basis with foreign capital, technology and experience. Nepal Arab Bank Ltd. was the first joint venture bank established on 2041B.S.under the commercial bank act 2031. With the opening of Nabil the door of opening joint venture banks was opened to the private sector.

Commercial Bank

Commercial banks are those banks, which perform all kinds of banking functions accepting deposits, advancing loans, credit creations and agency functions. Their main objective is to earn maximum profit. In Nepal, commercial banks play vital role by providing different facilities and services. They also provide services like collection of bills and cheques, safe keeping of valuables, financial advising etc. to their customers. Thus, the main objective for the establishment of commercial bank is to help the business sector, industrial sector & agricultural sector develop. Hence, this type of bank provides loans to such sectors at a very reasonable interest rate.

However, at present a bank performs numerous functions that generate income for the bank. The key success of a commercial bank lies in its ability to raise funds & use it for investing purpose, acting as an intermediary between debtors & creditors.

In order to operate the commercial banks incorporated in Nepal, various laws have been consolidated. Commercial Bank Act 2031 B.S. (1947 A.D.) has also been amended quite several times in accordance to the need. After 1955 A.D., HMG/N & NRB permitted the establishment of other Commercial Banks, Finance Companies, Gramin Bikas Banks, Co-operative Societies & NGO's.

During the last two and half decades the Nepalese Financial System has grown significantly. At the beginning of 1980s, there were only two commercial banks and two development banks in the country. After the adoption of economic liberalization policy, particularly the financial sector liberalization that paved the way for establishment of new banks and non- banking financial institutions in the country. Consequently, by the end of Mid – July 2009, altogether 242 banks and non- bank financial institutions licensed by NRB are in operation. Out of them, 26 are "A" class commercial banks, 63 "B" class development banks, 77 "C" class finance companies, 15 "D" class micro-credit development banks, 16 saving and credit co-operatives and 45 NGOs as shown in table below;

Growth of Financial Institutions

Types of financial Institutions	Mid –June				
	2005	2006	2007	2008	2009
Commercial Banks	17	18	20	25	26
Development Banks	26	28	38	58	63
Finance Companies	60	70	74	78	77
Micro-credit Development Banks	11	11	12	12	15
Saving &Credit Co-operatives (Limited Banking Activities)	20	19	17	16	16
NGOs (Financial Intermediaries)	47	47	47	46	45
Total	151	193	208	235	242

Source: Annual Report of NRB

Functions of Commercial Bank

Commercial Bank is said to be the financial wheel of an economic system. Nepal Commercial Bank Act 2031 B.S. has defined commercial bank as stated earlier and it has also emphasized on their functions. The major functions of commercial bank are as follows.

- To accept custody of the funds with or without interest and open fixed account and saving accounts in the name of depositions.
- To supply loans (short-term debt as well as long term debts whatever necessary for trade and commerce) or make investment.
- To help to issue shares and debentures of any company or any others corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent.
- To conduct transactions in bonds, provisionary notes or bills of exchange foreign exchange relating to commerce or corporation as are redeemable within the kingdom.
- To grant overdraft.
- To issue letter of credit, draft and traveler's cheque.
- To remit or transit fund to different place within or outside the kingdom.
- To purchase, sell or accept the securities of Government of Nepal.

Beside this, the commercial bank arranges the amount of foreign exchange required by various organization and travelers. Moreover, foreign trade transactions are facilitated through the issuance of letter of credit. Bank also provides locker facilities to the customers to keep valuable ornaments and documents. Bank also makes payments, pays and collects rent; pay insurance premium, etc. on behalf of its clients. In case of joint venture commercial bank, it issues internationally valid credit cars, ATM cards, tele-banking etc. Beside, bank has many more functions and roles in the development of national economy.

Role of Commercial Bank

Commercial bank plays vital role by providing different facilities and services. The important roles of commercial bank are as follows:

a. Capital formation
b. Monetization of economy
c. Price stability

d. Control in interest rate
e. Availability of credit
f. Development of neglected and deprived sectors
g. Promotion of saving
h. Implementation of monitory policy
i. Long term loan
j. Transfer of funds

1.2 A Brief Profile of the Bank

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

As at 16 July, 2009, the bank had Rs, 1,600,000,000 of Authorized Capital, Rs. 965,747,000 of Issued Capital and Rs. 965,747,000 of Paid Up Capital.

The bank has the following ownership structure as at mid July 2009:

Rastriya Beema Sansthan	-	9.67%
Nepal stock Exchange	-	4.18%
NB (International) Limited	-	50%
NIDC	-	6.15%
General Public	-	30%

Similarly, the present composition of Board of Directors (BOD) of the bank comprises as given below.

Board of Directors

1	Mr. Satyendra Pyara Shrestha	Chairman
2	Mr. Mohiuddin Ahmed	Director
3	Mr. Tabith Awal	Director
4	Mr. Shambhu Prasad Poudyal	Director
5	Mr. Dayaram Gopal Agrawal	Director
6	Mr. S. Chatterjee	Director
7	Mr. J. P. Kanoria	Director
8	Mr. M. R. Pokharel	Director
9	Mr. A.P. Bazgain (Professional)	Director

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

The Bank provides a complete range of consumer, retail, SME and corporate banking services through its offices spread across the country. Nabil is the sole banker to a multitude of large corporate, international aid agencies, NGOs and embassies. It is the largest private bank in the country in terms of branch and ATM network. All its branches are interconnected on real time basis. On the technological front, the Bank has earned a reputation in providing an array of card products and Internet / Telebanking facilities besides ATMs and Any Branch Banking Service.

Future programs of Nabil Bank are:

- Increase interest free and savings deposits
- Increase quality personal and business loans
- Increase share of EXIM business
- Increase Card and Remittance related incomes
- Control operating expenses
- Increase recovery from written off accounts

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Telebanking system.

1.3 Statement of the Problems

It has been said that Joint Venture Banks (JVBs) are now operationally more efficient having superior performance while comparing with other commercial banks in Nepal. JVBs have contributed significantly to overall economic development of the country. Yet they are not free from the problems that needed to be resolved for improving their performance of JVBs. Their profitability position and stock prices are generally considered to be yardstick of their better performance but one can raise the question whether these are enough to reflect the overall performance of JVB’s.

A study of financial performance is a basic process which provides information about the profitability, liquidity position, earning capacity, efficiency in operation, credit worthiness, sources and uses of capital, financial achievement and status of the company. The information obtained can be used to measure the efficiency and effectiveness of the company in respect of deploys financial resources in profitable manner.

Among the commercial banks, the performance of those bank are satisfactory with in the short period of time, they have succeed to capture and remarkable share of Nepalese financial sectors.

Economic liberation policy of government has provided a better opportunity for foreign investors. Consequently joint venture banks and financial institutions have been incorporated rapidly. Because of rapid establishment of commercial banks at present they are facing competition.

In Nepal the profitability, operating expenses and dividend distribution to shareholders have found inconsistent. So the statement of the problem of the study will ultimately be finding out the reason of difference in financial performance in different period of time of Nabil bank Ltd.

Also the study is focused on evaluating financial performance and capital employment of Nabil bank Ltd to check out which factors are responsible for variation of the profits, liquidity and investment. Also, the researcher tries to examine the level that the bank is complying with the regulation directed by NRB.

1.4 Objectives of the Study

The specific objectives of the study are:

- To analyze the profit and loss trend and growth of the bank over the period.
- To evaluate the profitability and operating financial efficiency of Nabil Bank Ltd.
- To compare and analyze fund based interest income with fee based income of
- Nabil Bank Ltd. in light of interest earning assets
- To provide suggestions and recommendations for the improvements of the overall profitability of the banks.
- To provide the information to investor, creditors, stakeholders.
- To evaluate the efficiency of overall management of bank.
- To assess the current and future earning capability and the efficiency of the bank based on the existing assets and liability structure as well as pricing and costs.
- To evaluate the bank's liquidity in the light of its existing assets and liability mix, and in relation to the legal liquidity requirements.

1.5 Significance of the Study

The banking sector is gearing up to operate in a more competitive and market obtained system. It is modernizing its operations and moving towards providing a range of financial products and services in an innovative and competitive way. In this context no bank can be regarded as competent and well managed unless they manage their resources well, generate adequate profits and provide a decent return to the shareholders.

Thus at the care of pegging, the performance of a bank lays the twin parameters of profitability and productivity. Both productivity and profitability of banks have suffered because of directed lending, satisfactory preemption, existence of unviable bank branches, pattern of investment, human resource management policies, ever rising-operational costs, bank debts, inadequate automations, frauds etc. Since there is no room for soft options to survive in the changed environment with status, goodwill, command and respectability, banks have to enhance their competitive capabilities and develop independent strategies and plans for increasing profitability after carefully considering their strength and weakness and have to take advantage of opportunities available in order to facilitate the socio-economic progress of the country. For this regard the banks should deliberately think as to how best they can top the available potential, garner resources, deploy them judiciously and monitor them prudently to maximize income and reduce expenses to achieve an optimum level of profit for the benefit of the stake holder of the bank viz. customers, shareholders, staffs and government.

Hence, the present study is destined to provide financial information to different sectors of business that is directly influenced by financial performance of NABIL. Especially, this study will serve the management shareholders, long terms and short-term moneylenders, creditors and employees/staff members of the bank in implementing future projects or initiating corrective action. In addition to this, the study will also help these potential investors, financial institutions and other people in raising interest in financial institution and similar business. The study will also open many doors to future research in the area of investment and assets management for business.

1.6 Limitations of the Study

The study consists of certain assumption limitation due to some reasons which are as follows:

- This study is simply to fulfill a partial requirement of MBS program under Tribhuvan University.
- This study only covers the last five years data i.e. from 2004/2005 to 2008/2009.
- The researcher independently has to conduct this study that's why there has been a time constraint. Further this study is not the final study on this area.
- There are plenty of banks and financial institutions in Nepal but due to the time constraints the study will be undertaken only in one bank 'Nabil Bank Limited."
- The study has to depend on the secondary data taken from the annual reports, internet website of the bank. Similarly, on the other bank related magazines and journals. So, the reliability of the conclusions depends on the accuracy of the pool secondary data.
- The study was only to analyze profitability aspect. It ignored other aspects like assets management, risk management and other activities like investment policy of bank.
- This study was based on the financial statements like balance sheet, profit and loss account and cash flow statement which provided the quantitative information.

1.7 Organization of the Study

This study, on the Profitability Position of Nabil Bank Ltd , is organized into five chapters as follows;

Chapter - I:	Introduction
Chapter - II:	Review of Literature
Chapter - III:	Research Methodology
Chapter - IV:	Data Presentation and Analysis
Chapter - V:	Summary, Conclusions & Recommendations

The introduction chapter will briefly explain about the meaning and historical background of commercial bank in Nepal and also the joint venture banks. It will contain the background of the study, a brief profile of the bank, statement of problem, objective of the study, significance of the study and limitation of the study.

The Second chapter has focus on the Review of Literature which includes review of books, journals, bulletins and annual reports published by the banks and other related authorities, review of related articles and studies and previous thesis as well.

The third chapter will briefly explain about the research methodology that will be used to evaluate the financial performance of the bank under consideration. This chapter will consist of research design, sample and population, source of data and financial tools and techniques to measure the financial performance.

In the fourth chapter, the data required for the study will be presented, analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relating to the study in a very logical manner.

The fifth chapter will be the final chapter of the study, which will consist of the summary of the four earlier chapters. This chapter will try to fetch out a conclusion of the study and attempt to offer various suggestion and recommendations for the improvement of the future performance of the Nabil Bank Limited.

Finally Bibliography and Appendix are presented at the end of the study.

CHAPTER - II
REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant preposition in the related areas of the study so that all past studies, their conclusion and deficiencies may be known and further research can be conducted. This chapter highlights upon the literature that have already been conducted by some thesis researches in this particular topic of Joint Venture Banks. Some of them, as are supposed to be relevant for this study purpose.

2.1 Profit & Profitability

The term “profitability” is composed of two words ‘profit’ and ability. There are two main concepts with regard to the word profit economic and accounting. According to Adam Smith (The father of economics) “Profit is the sum remaining after the payment of all wages in economics includes payments to officers of corporations, to proprietors, to partners and to farmers, as well as to what we today term (labor), and rent on the unimproved value of land, as the return to capital”.

Generally profit is defined as the excess of revenue over cost. In other words, profit is the residual income, which is equal to sale proceeds minus costs. Profit is the resources left to the firm for future growth and explanation or reward to be distributed to the entrepreneurship in the form of dividends etc. In a simple term, profits mean the residual balance of earning expected to be available with the firm that is obtained after deducting entire expenses, costs, charges and provision from total revenue of a period of time.

It is lifeblood of each type of business. Every business organization should earn profits to survive and grow over the long period of time. Obviously, organization will have no future if it is unable to make reasonable profit from its operation. As a matter of fact, the overall efficiency of an organization is reflected in its profits. Profits to the managements are the test of efficiency and a measurement of control: to the owners, a measure of worth of their investment; to the creditors, the margin of safety to the employees; a source of fringe benefits to the Government, a measure of fixed paying capacity and the basis of legislative action; to customers, a hint to demand for better quality and price cuts; to a bank, less burdensome source if finance existence and finally to the country, profit are index of economic progress. Thus, if an organization fails to make profit, capital invested erodes and if this situation prolongs it ultimately cease to exist.

Profit has been universally recognized and accepted as a measure of business efficiency. Thus, the larger the profits, the more efficiency and profitable the business organization is deemed to be. This criterion has the greater advantage that it provides a common standard of measuring the efficiency if different bank. Regarding this, Laxmi Narayan clearly states, “Profit is the simple, convenient and the most popular yardstick of jugging the efficiency of private and public business enterprises. Profit helps in judging the overall efficiency and is easy to calculate. Even through profit maximization, unlike private enterprise, is not objective of public enterprises, yet profit services as a well accepted criterion for the judging the overall efficiency of public enterprises too” (Narayan, 1980: 260). For private enterprise is taken to be the most satisfactory criterion of efficiency. Profit helps in judging the overall efficiency and is easy to calculate. Even through profit maximization, unlike private enterprise, is not objective of public enterprises, yet profit services as a well accepted criterion for the judging the overall efficiency of public enterprises too.

The profit is the ultimate measure of effectiveness. A profitable company is likely to offer not only security of employment but also promotion prospects, job opportunities and the intense personnel motivation that comes from being associated with success. John Argent observes, “Profit is the barometer of the success of business. It is, indeed, a magic eye that mirrors all aspects of entire business organizations including the quality output" (Argent, 1968:34).

The term "profitability" is composed of two word 'profit' and 'ability'. It reflects the capacity of a business organization to earn profit. It is also referred to as 'earning capacity' or 'earning power' of the concern investment. Thus, the term profitability may be taken as the ability to earn profit. According to Howard and Upton, "The word profitability may be defined as the ability of a given investment to earn return on its use."

It may be mentioned that the term 'profitability' is distinguished from the word profit. Profit refers to the absolute quantum of profit whereas profitability alludes to the ability to earn profit. The former is an absolute measure in itself while the latter is a relative one. According to W.M. Harper, the profitability is a relative measure. It indicates the most profitable alternative. The profit, on the other hand is an absolute measure. It indicates the overall amount of profit earned by transaction. As the profitability is the relative measure, it is used to judge the degree of operational efficiency of management. Furthermore, it is essentially employed to measure the relative efficiency of different trading systems or different investments within one system. In the profitability analysis, the profit making ability of an organization is measured in terms of size of investment in it or its sales volume. Such an analysis of profitability reveals how particularly such a position stand as a result of transactions made during the year. It is particularly interesting to the suppliers of funds who can evaluate their investment and take necessary decision thereon.

The state of profitability is a variable thing like the temperature and humidity of a day. The determination of profitability by an accountant or analyst is very much similar to temperature reading and study of humidity by a meteorologist. A meteorologist records the weather on daily basis with an intention to forecast its future prospects. Likewise, an analysis records yearly profit of a bank with a view to make prediction of the future prospects. The purpose of profitability measurement is to see whether a bank has effectively used its resources to achieve its profitability objectives. The profitability objectives refer not to the maximum profit the business can produce but to the minimum it must produce. The minimum profit is the profit at the minimum rate required for the desired type of investment in the bank. However, there mustn't be enough profit to yield the capital in the market rate of return on money, which is already sunk in business, but also to provide additional capital needed to cover the cost of staying in business.

2.2 Meaning of Profit

Profit, from Latin means "to make progress". It is defined in various ways. In economics, profit is the concept of reward of the entrepreneur for risk taking and management. In business operations, it is the gain from manufacturing; merchandising and selling operations after all expenses are met. Since profit is added to net worth, it may be measured by the increase in net worth over that of the previous accounting period. The amount of concern's profit thus may be determined not only through the profit and loss statement but also by the comparison of the earned surplus or net worth in the balance sheet which, however, is the residue of profits after dividends and any other appropriations and does not reveal details of sources of income and expenses, which are found in profit and loss account. In speculative transactions, profit is the excess of the net selling price over the costs (including all charges) of the security or commodities traded in (Welsch, Hilton, & Gordon, 1999: 540).

Profit is a motivating factor behind many managerial activities. Much has been written about the role (as opposed to the method of calculation) of profit. Profit plays three roles in the capitalistic society. Profit is the financial reward of risk taking; profit is the financial reward for having monopoly power; profit is the financial reward for the efficient management. The promise of profit provides a strong incentive to owners and managers to act efficiently. "Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy through retained earnings. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sectors" (Robinson, 1951: 21-22).

Account and economics are two disciplines in which profit is viewed in different concept. Pure economic profit is the increase in wealth that an investor has from making an investment, taking into consideration all costs associated with that investment including the opportunity cost of capital. Accounting profit is the difference between retail sales price and the costs of manufacture. A key difficulty in measuring either definition of profit is in defining costs. Accounting profit may be positive even in competitive equilibrium when pure economic profits are zero.

In economics, a firm is said to be making an economic profit when its revenue exceeds the total (opportunity) cost of its inputs. According to Adam Smith (The father of economics), "Profit is the sum remaining after the payment of all wages (wage) in economics includes payments to officers of corporations, to proprietors, to partners and to farmers, as well as to what we today term(labor), and rent on the unimproved value of land, as the return to capital."

Profit in the accounting sense is the net figure of difference between all types of measurable revenues and all measurable costs. In accounting, profit is expressed only on explicit and measurable accounting terms and on the book value basis. However, in economics, profit is measured in the realizable terms. "Profit in the accounting sense is the excess of revenue receipts over the costs incurred in producing this revenue. This concept of profit is also known as residual concept. But, in economics, both implicit and explicit costs are deducted from total sales revenue in determining profits" (Cauvery, 1997: 122-123). As a matter of fact over the years there has been quite an evolution as to what particular items should be deducted from gross income to arrive at an “accounting” profit. Thus, “accounting” profit is a concept of man-made legislation, of the courts, of the Security of Exchange Commission, of accounting organizations; a concept, which has always been in evolution. “Economic” profit on the other hand, is a concept of a natural law of economics, and like the law of gravitation has remained and will remain unchanged over the ages. However, the profit under discussion is concerned with accounting profit, which in a simple language, is the positive and fruitful difference between two revenues and total expenses over a period of time. Multiple meaning of the word "profits" has always been troublesome. Accountants have made energetic efforts in recent years to discard the word for that purpose and to refer to the conventional concept as business income a natural term at avoids any overlap with economic theory. The most important points of difference between the economists and accountants are as follows:

1. The inclusiveness of costs i.e. what should be subtracted from revenue to get profit.
2. Meaning of depreciation
3. the treatment of capital gains and losses
4. The price level basis of valuation of assets and liabilities
5. Although there may be arguments in favor and against profit generating almost all firms require earning it. Their rate of earning differs from firm to firm and time to time.

2.3 Theories of Profit

Economists have propounded several theories of profits to explain profits of entrepreneurs. Most of the theories are centered on the controversy about the role of the entrepreneur. In the following section some of the fundamental theories of profit have reviewed in brief.

1. Theory of Risk and Uncertainty Bearing

It was F.B. Hawley who first developed the theory of risk bearing and concluded that profit is a reward of the entrepreneurs for bearing risks. But, the theory was picked up b Professor F.H. Knight who divided risk into insurable risk and uncertainties. Thus according to Knight, profit is a reward to the entrepreneur for his non-transferable function of bearing non-insurable risk and uncertainties.

2. Dynamic Theory of Profit

This theory was propounded by J.B. Clark. According to this theory, 'dynamic changes' in the economy are the basic causes of emergence of profits. There is no profit in the static economy as no changes take place. In a dynamic economy there are constant changes in population, capital, methods of production and industrial set up. These changes multiply wants of consumers, which earn profits to the entrepreneur.

3. Innovation Theory of Profit

Joseph Schumpeter singled out 'innovation' from the dynamic theory of profits and developed economy and innovation in the changing world gives rise to profits. In his views, the entrepreneur plays an important role of introducing innovation in an economy and profits are the rewards for his role as an innovator. The innovation could be changes or techniques that reduces cost of production or increases demand for the product.

2.4 Need for Profit

Profit is necessary for the following reasons:

1. Measurement of Performance

Profit is only factor to measure the management efficiency, productivity and performance. Profit is the most widely used yardstick to see what really is to be achieved and where the firm is to go in the future.

2. Premium to cover costs of staying in Business

Business environment is full of risks and uncertainties. to grasp the globally changing technologies, to stay in the market uncertainties, to replace and acquire assets and enhancing business scope etc. require a profit margin.

3. Ensuring Supply of Future Capital

Profit is necessary to plough back in the investments like innovations, business expansion and self-financing. It also attracts investors for further investment.

4. Return to the Investors

Shareholders provide equity capital to the business because they expect the entity will provide return to their funds at least equal or above market rate of return. To maintain the shareholders expectation, it is most important that a firm should earn sufficient profit so that it can distribute dividends.

2.5 Profitability of Commercial Banks

Banks today are under great pressure to perform to meet the objectives of their stockholders, employees, depositors, and borrowing customers, while somehow keeping government regulators satisfied that the bank's policies, loans, and investments are sound" (Rose, 1991: 155). The majority of the needs of the stakeholders are related with the profitability of the banks. For example, in case the bank earns profits, the investors get dividends, employees get bonus, government gets benefits in forms of taxes etc. Thus, the foremost objective of the banks is the profit maximization. As other types of business entity, commercial banks are also inspired by the profit.

The major source of funds of the bank is the public deposit. Commercial banks invest public deposits on those sectors where they can attain the maximum income or higher rate of return as the bank is liable to pay certain rate of interest to the public in their deposit. Hence the investment or granting of loan and advance by them are highly influenced by profit margin. Generally the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided, time period of loan, and nature of investment in different securities. However, the bank at the same time has to ensure that their investment is safe from default.

Aspiration of profit to commercial banks seem reasonable as the bank has to cover all the expenses as interest to the depositors and other administrative costs, they should make payment in the form of dividend to the shareholders who contributed to build up the banks" capital and keep aside for the provision and reserves. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligations, it will go ahead for investment.

A successful bank is one who invests must of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserve to meet day-today requirements of the depositors. After all the commercial bank is simply a business corporation organized for the purpose of maximizing the value of the shareholders wealth invested in the firm at an acceptable level of risk. So bank has to make a crucial decision regarding a mixture of liquidity and profitability cause lower the liquidity higher the profitability and higher the liquidity lower the profitability and both are equally important, banks cannot afford to ignore any of them.

2.6 Liquidity

In banking, liquidity is the ability to meet obligations when they come due without incurring unacceptable losses. In other words, the capacity of bank to pay cash against any upcoming obligations is called liquidity. Managing liquidity is a daily process requiring bankers to monitor and project cash flows to ensure adequate liquidity is maintained. Maintaining a balance between short-term assets and short-term liabilities is critical as the commercial banks have liability to the deposits collected and they immediately should give it in the time when the depositors asked.

Banking is the business of financial dealing whose major source of financing is the public deposit. Deposit accounts represent the primary funding in traditional commercial banks, and the loan portfolio represents the primary asset. The investment portfolio represents a smaller portion of assets, and serves as the primary source of liquidity. Investment securities can be liquidated to satisfy deposit withdrawals and increased loan demand. Banks have several additional options for generating liquidity, such as selling loans, borrowing from other banks, borrowing from a Central Bank and raising additional capital. Most banks are subject to legally-mandated reserve requirements intended to help banks avoid a liquidity crisis.

A large part of bank deposits are withdrawn on demand and hence the bank must be prepared with sufficient degree of liquidity of its assets. Once the confidence is lost in depositor's eye, they may withdraw all the deposits within the brief period when the bank is unable to generate adequate cash without incurring substantial financial losses since most of assets of the bank are attached in the loan and advances. Even the best bank can hardly survive in such a situation. Confidence depends upon the ability of bank to meet the readily demand for cash made by customers. Commercial banks maintain liquidity in all or any forms of following:

1. Cash in self vault and in other banks-specially in NRB (First Line of Defense)
2. Overnight placements, moony at call or short notice or any other very short term placements (Second Line Defense)
3. Investment in marketable securities like government securities, which can be easily sold and readily convertible into cash (Third in of Defense) (Dahal & Dahal, 1996:41).

2.7 Trade Off Between Profitability and Liquidity

Profitability of commercial banks is highly dependent on the optimum utilization of available resources and invests the deposit collected in safe and profit generating assets like loan, and advances and investments. However, banks cannot ignore the necessity of maintaining a portion of the deposits in

their cash vault, or in the immediate approach like in the account of central banks or in any highly liquid assets like government treasury bills, other government bonds that can be easily sellable without losing and further value.
A sound liquidity position of the bank satisfies the demand of the deposit holder, which maintains the goodwill of the banks. Since, banks are faithfully considered as the last resort for monetary needs of the public, the incapability of fulfilling their demands will lose the faith of the depositors' public. Once any signaling effect is negatively attached in the perception of the depositors, they tend to doubt in the bank's dependability and that can consequent in the bank run. Further, banks must maintain the certain portion of deposits in the vault and in NRB.

However, liquid assets are almost all idle. They do not generate any profits. The cash in the vault meets any upcoming obligations immediately but banks will not be able to generate any returns in such a case. Further, banks do not get any interests or other returns in the accounts maintained in the central banks, NRB in our case.

Profitability and liquidity maintain a highly negative co-relation. Since both are equally important for commercial banks, banks cannot ignore any of them. So, the crucial decision for the management of the banks is to trade-off between them. The more liquidity the less will be the profitability and vice versa.

2.8 Financial Statement of a Commercial Bank

The financial statement of a commercial bank includes balance sheet, profit and loss account, cash flow statement and other relevant disclosures. Merely presenting the financial statement does not satisfy the aim of the study as financial statements are just of financial information to this analysis. Thus, the focus of the study will go to the analysis of the financial statements of the bank, especially on profitability of the bank. This will make some attempts to identify the financial position of the bank and to give necessary suggestions thereto.

"One useful way to view a bank's balance sheet is to note that bank liabilities and equity capital represents accumulated sources of und, which provide the needed spending power for the bank to acquire the assets. A bank's on the other hand, are its accumulated uses of funds, which are made to generate income for its stockholders, pay interests to its depositors, and compensate the bank employees for labor and skill" (Rose,1997: 127).

2.8.1 Balance Sheet

Balance sheet is not an account but it is a statement of assets and liabilities of business enterprises at the given date. It is a statement summarizing the financial position of the firm. The balance sheet is prepared at the end of accounting period. Bank's balance sheet is composed of shareholder's fund, borrowings, debentures and other liabilities and provision on the liabilities side and cash and bank balance, stock, debtors, loan and advances, branch accounts, investment and fixed assets on the assets side.

The brief explanation on accounting heads of the balance sheet is provided below:

A. Capital and Liabilities

1. Share Capital

The amount of paid up capital of the bank should be mentioned under this head. The amount received against calls made should be credited in this share capital account.

2. Reserves and Funds

This accounting head shall contain the amount of reserves appropriated from profit, as well as created through any other process and accumulated profit. Generally, this account shall be credited by debit to profit & loss appropriation account and utilization of such reserves shall be debited to the concerned reserve and fund accounts. The following account heads fall under this heading.

a. General reserve fund: This is a stationary reserve. Under this head, only the amount appropriated from profit as per Commercial Banking act shall be credited. Currently, 20% of the net profit should be transferred to this account. Distribution of dividend by utilizing this fund is restricted and approval of Nepal Rastra Bank shall be obtained for the use of this fund for any other purposes (NRB, 2062: 29).
b. Capital Reserve Fund: Profit on revaluation of assets and capital assets received in grant from other shall be accounted under this head.
c. Share Premium: This represents the amount of money collected on issue of shares in excess of its face value. The outstanding amount in this account shall not be considered eligible for distribution of dividends. However, it may be used for issue of bonus shares under approval of Nepal Rastra Bank.
d. Other Reserves: Funds and reserves, other than those mentioned above shall be included under this head.
e. Accumulated Profit/Loss: Under this head, the balance of the accumulated profit or loss as per shown in the Profit and Loss Appropriation account shall be shown.

3. Borrowing

The borrowed funds of the bank shall be disclosed under this head. Bank borrowings, placements, overnight placements, borrowing from central banks, foreign banks falls under this heading.

4. Deposits

The principal liability of a commercial bank is its deposits collected from general public, business and government agencies. Deposits received from the depositors as well as the interest payable on the deposits shall be credited to the account of the depositors. The deposit liabilities accepted by the bank shall be exhibited under this head.

5. Bills Payable

Under this head, the outstanding amounts pertaining to draft, telex transfer. Payment orders issued by one branch to another branch of the bank, as well as bills drawn on the bank by other local and foreign banks shall be accounted.

6. Other Liabilities

Other than the capital and liabilities mentioned above, all other liabilities of whatsoever mature shall be included under this heading. Any other accounting heads that could not be exhibited elsewhere may be included under this head as required.

B. Assets Side

1. Cash Balance

The most liquid assets held by any commercial bank are cash. Since cash is an idle assets, a bank to hold a minimum level of cash is held by banks to ensure that the statutory requirement is at least fulfilled. This heading shall be used for showing the total amount of cash-in-vault, consisting of local and foreign currency. Since cash is the most liquid asset, it is used to cover deposit withdrawals, handle credit demands from customers, and to meet all regular and emergency expenses.

2. Balance with Banks

The balances of amounts in non-interest bearing accounts maintained by the bank with Nepal Rastra Bank as well as with other local and foreign banks shall be exhibited under this head.

3. Money at Call or Short Notice

The amount of all interest bearing placement with other banks with maturity of less than 7 days with stipulated condition for payment at call or at short notice (48 hours) shall be exhibited under this head. Commercial banks may find a very hard time to retire heavy liabilities, knowingly and unknowingly, and they feel shortage of liquidity. In such situation, bank with deficit of fund may find another bank with excess reserve and debt, as per agreement between, Rastra banks account and credit the account of their own maintained in the central bank for the very short position. This is appeared on the balance sheet as the liquid asses tans which a can be used as the second line of defense for the bank granting the short time fund collectible at a call or a short time notice.

4. Investments

As a line of defense to meet demands for cash and serve as a quick source of funds, banks invest certain proportion of funds in the liquid assets. These typically include holding of shorter-term government bonds like treasury bills, development bonds etc. and other securities purchased in the open market and readily convertible into cash in the financial market. Other forms of investment include investment in the shares and debentures of other companies. These investments are mainly made for their ability to generate income. The investments are to be valued at market price or cost price whichever is lower.

Commercial banks invest the funds to the shares, debenture and bond of the other company. They generally do so when there is excess of funds than required and there are no alternative opportunities to make investment in the profitable sector. Now-a- days the commercial banks of Nepal have purchased share and debenture of regional development bank, NIDC and other development banks etc. these type are mainly held for their income-generating power and for other advantage like tax shelter etc. The investments are to be valued at market price or cost price whichever is lower.

5. Loan Advances and Bill Purchased

This is a primary source of income and most profitable asset to a bank. A bank is always willing to lend as more as possible since they constitute the large part of revenue. This occupies the largest proportion of assets of any commercial banks bearing more than 40 % of the assets used. But bank has to become more careful while providing loan and advances since they may not be realized short period of time. And some time they may turn into bad debts. Therefore, it is wise not to rely on them at the time of emergency for all banks.

The sum outstanding of all loans and advances extended to the customers as well as bills purchased and discounted bills less the amount of provisions made shall be exhibited. However, the loans extended to the staffs shall not be disclosed under this head and should be shown under other assets.

6. Fixed Assets

All assets of long-term nature owned by the bank (land & buildings, machinery, vehicles, office equipments etc) shall be accounted under this head and be exhibited in the balance sheet at written down value after deducting the depreciation from the total cost.

7. Other Assets

The heading shall be used for accounting of any other tangible or intangible assets, not mentioned above. Stationery stock, accrued interest on investment, accrued on loan, sundry debtors, assets in transit, non-banking assets, expenses not written off etc.

2.8.2 Profit & Loss Account

The bank's profit & loss account is composed of interest, administrative expenses, provision for possible losses, bonus provision, tax provision, investment provision, etc. as expenses and interest, discount, commission, charges etc, as incomes. The summary of the heads of account in the profit and loss account in the profit and loss account of a commercial bank is given below.

A. Expenses Side

1. Interest Expenses

Payment of interest on deposits accepted by the bank and on the borrowings is shown under this head. Interest is regularly expensed off for various deposits; inter bank borrowings, central bank borrowings and other external obligations.

2. Employee Expenses

All expenses related to the employees of the bank for the specific period shall be included under this head. Expenses included are salary, allowances, pension, gratuity, training expenses, uniform expenses etc.

3. Office Overhead Expenses

All expenses related to the office overhead of the bank during the specific period shall be included under this head. Some of the expenses under this head are house rent, insurance, audit expenses, newspapers and magazines, advertisement etc.

4. Exchange Loss

The negative balance in exchange fluctuation gain/loss account shall be exhibited under this head.

5. Non-Operating Expenses

These are the expenses that have no direct relationship with the operation of banking transaction. Some of the examples are loss on sale of investment and loss on sale of assets.

6. Bad Debts Written Off

Where the bank has written off loans on account of being unrecoverable, such written off amount to the extent not covered by loan loss provision shall be charged to profit and loss account under this head.

7. Provision for Possible Loss

This is one of the most important heads of account related to the profitability of the bank. As per the directive of the Nepal Rastra Bank, the banks are required to make provision for loan losses. The provisions are to be made on the basis of the expiry dates on the principal amount of the loans and advances. As per the directive the provisions to be made is as follows.

Category	Provision Required	Criteria
Pass	1%	Due up to 3 months
Substandard	25%	Due up to 3 - 9 months
Doubtful	50%	Due for 9 months - 2 year
Loss	100%	Due for more than 2 years

However, in case of bills purchased items, provision is to be provided at 1% if it stands due for 90 days and in case it remains due for more than 90 days 100% provision is required (NRB, 2062: 36).

8. Provision Staff Bonus

The amount of bonus set aside for payment to staffs is disclosed under this head. As per the Nepal Rastra Bank directives the bank is entitled to make provision for the staff bonus at 10% on the net profit after adjustment for loan loss provision.

9. Provision for Income Tax

The amount of income tax on net taxable profit for the period shall be determined through this head. Taxable profit has to be determined considering the allowable and disallowable expenses as per the prevailing income tax act and finance bill.

10. Net Profit

This figure represents the excess of total income over total expenses of the bank during the period.

B. Income Side

1. Interest Income

This is the primary source of income of any commercial bank. Under this head the interest received from the customers on behalf of the loans and advances and on the investments of the bank is exhibited. However, Nepal Rastra Bank has established several criteria for the recognition as interest income.

- The interest income should be recognized on cash basis.
- The amount of interest accrued but not received; have to be credited to the interest suspense account.
- In cast of the interest accrued is realized within one month from the date of closure of fiscal year, such amount may be recognized in the income of the earlier fiscal year.
- The interest on loans and advances should not be recovered by overdrawing the borrower's current account or where overdraft limit has been extended by overdrawing such limit.

2. Commission and Discount

The total amount of commission, service charges and discount earned by the bank from the transactions during the period shall be exhibited under this head. Some examples are commission on issue of guarantees, commission on issuance of L/C etc.

3. Exchange Gain

Banks deal with foreign currencies. Foreign currencies are remitted outwards and inward. Banks involve in trade while dealing this transaction. Banks make trading gain while selling and buying foreign currency stocks for their trade as well as banks gain from revaluation the stock whenever the exchange rates are in their favor. Both the trading gain and revaluation gain are exhibited under this head.

4. Non-Operating Income

Income or profit that has no direct relationship with the operation of banking transaction has to be recognized into profit and loss account under this head. These incomes are casual source of income and are not from regular course of business but from other sources where the business entity can be involved legally as prescribed by the directives if related government authority. Nepalese commercial banks are allowed to invest in the share of another entity like other commercial banks, rural development banks, financial institution and other government institutions. The investing bank receives dividend income and other income.

5. Other Income

Receipts of all other income not specifically provided under the income heads as above shall be booked under this head e.g. rental income of safe deposit boxes, income from telex, service charge, and renewal charges etc.

6. Net Loss

The figure represents the excess of total expenses over total income of the bank during the period.

2.9 Review of the Related Studies

2.9.1 Review of Journals and Articles

Bajracharya (1990), "Rastriya Banijya Bank: A comparative performance study" published in Rajat Jayanti Smarika, states, "Despite the growth of commercial banks is not consistent, low growth of local banks and JVBs. The mobilization of rural savings is better in case of local banks. Credit expansion is decreased in local banks than JVBs. Credit deposit ratio is better in JVBs. Nonperforming loan is greater in local banks and profitability is greater in JVBs. Local banks are forced to open and continue their branches at rural areas therefore the competition among the local banks and JVBs is not healthy."

Peter Rose in her book ‘Commercial bank management’ says,”Achieving superior profitability for a bank depends upon several crucial factors:

- Careful control of operating expenses so that more dollars of sales revenue become net income.
- Financial leverage (or the proportion of bank assets financed by debts as opposed by shareholders equity capital.
- Careful use of operating leverage from fixed assets (or the proportion of fixed cost input the bank uses to boost its operating earnings before taxes as bank output grows).
- Careful management of assets portfolio to meet liquidity needs while seeking the highest return from any assets acquired
- Careful control of the bank’s exposure to risks so that the losses don’t overwhelm its income and equity capital.”

Bays and Jansen (1996), money, Banking Market: an economic Approach, through their book money banking and financial markets have tried to analyze banks profitability under an economic approach. They state to maximize profit banks should attract deposits unto the point where the value of marginal product of deposits equals the interest rate paid on deposits.

“Banks earns interest on loan and advances and investments: they pay interest to the depositors. When interest rate changes, there may be an effect on income if a bank holds rate sensitive assets and liabilities. If, for example, a bank holds more rate sensitive assets than liabilities when interest rate rise, profits will be improved because the bank will receive more in increased interest revenue than it will pay out in raising costs. The reverse would be true during a period of falling interest rates.

Frassser and Ormiston (2002) “The interest rate gap is the difference between rate sensitive assets and liabilities; holding more rate sensitive liabilities over assets than liabilities is called a Positive Gape and excess of rate sensitive liabilities over assets result in the Negative Gap".

Dhungana (1996), "Problem Encountered by the Nepalese Financial System", NRB Samachar, Annual Publication, highlighted the major weakness of the banking sector, mainly of RBB and NBL. According to the writer, the financial sector is dominated by banking sector and which in turn, is dominated by two old government owned banks. These two banks constitute the largest component of total deposit of banking system. These two banks suffer from various problems, which results the unsound health of the banking industry of Nepal. The major weaknesses of these banks are.

- Concentration of loan to limited borrowers
- Large number of branches with limited transaction
- Inefficient staff and absence of manpower development and planning
- Poor supervision and follow up after credit disbursement
- Insufficient records and bookkeeping
- No application of modern banking equipments in bank branches
- To improve the productivity and quality of banking sector the authorities have created a new environment given raise to JVBs.

Poudel (1996), Financial statement Analysis: An Approach to Evaluate Banks Performance", NRB Samachar, Annual Publication, pointed on the importance of balance sheet and profit & loss account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Interest received on loans and investments are the major components of income. Fees, commissions, discounts and service charges are other source of income. According to him the principle objective of analyzing financial statements are to identify liquidity, profitability and solvency of the bank. The other factors to be considered in analyzing the financial statements of banks are to assess to the capital adequacy ratio and liquidity position.

Shrestha (2002), deputy director NRB has given the following criteria for measurement of commercial banks performance. “The financial health and performance of commercial banks should evaluate under following perspectives;

- Deposit transaction
- Position of investments, loan advances and overdrafts
- Cash and liquidity position
- Foreign currency reserve
- Qualitative factors of loan and advances
- Capital fond
- Reserve funds, contingency and other funds
- Interest rate
- Position of income
- Customer base and volume
- Sources and uses of finance
- Extension of banking services
- Off balance sheet transactions
- Earning per share
- Banking personnel

Shrestha, (1998), Deputy Chief Officer of NRB, Banking Operation Department, has given a short glimpse on the “Portfolio management in commercial bank, theory and practice.”

Investor would like to select a best mix of investment assets subject to following aspect:

1. Certain capital gain
2. Good liquidity with adequate safety of investment
3. Maximum tax concession
4. Flexible investment
5. Economic, efficient and effective investment mix.

He has suggested that the bank having international network can also offer to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial bank. Shrestha has concluded that:

- The survivable of bank depend up its own financial health and various activities.
- The Nepalese banks having greater network and access to national and international capital markets have to go for portfolio management activities for the increment of their fee based income as well as to enrich base and contribute in national economy.

Demirgüç-Kunt and Harry Huizinga (1999) in the journal, “World Bank Policy Research Working Paper No. 1900.” under the topic “Determinants of Commercial Bank Interest Margins and Profitability: Some International Evidence”, says that differences in interest margins and bank profitability reflect a variety of determinants: bank characteristics, macroeconomic conditions, explicit and implicit bank taxation deposit insurance regulation, overall financial structure, and underlying legal and institutional indicators. A larger ratio of bank assets to gross domestic product and a lower market concentration ratio lead to lower margins and profits, controlling for differences in bank activity, leverage, and the macroeconomic environment. Foreign banks have higher margins and profits than domestic banks in developing countries, while the opposite holds in industrial countries. Also, there is evidence that the corporate tax burden is fully passed onto bank customers, while higher reserve requirements are not, especially in developing countries.

In the report and recommendation of the president of Asian Development Bank to the board of directors on a “Proposed loan and technical assistance grant to the Nepal for the corporate and financial governance project” published in 2000 A.D. clearly discussed on the financial difficulties of State-Owned

Financial Institutions. The report states that all state-owned financial intermediaries face financial difficulties, although the extent of the problems is difficult to assess in the absence of reliable financial information. The poor performance can be attributed to deficiencies in governance, lack of commercial orientation and managerial skills, as well as inadequate policies. Financial record keeping and auditing are not of international standards. Internal monitoring, evaluation, and supervision are weak, as is the system of appraisal and follow-up on loans. The problems are most acute for the two government-controlled commercial banks, RBB and NBL, which dominate the banking system with about 70 percent of total assets. A recent international audit indicates that both banks suffer serious, critical shortfalls in all key areas, and that both are technically insolvent, with negative worth estimated at up to 7 percent of GDP. Although deposits are presumed to be implicitly guaranteed by the Government, a systemic banking or fiscal crisis could emerge if problems remain unaddressed. World Bank assistance in this area has been requested.

An article published in New Business Age, September 2004 A.D. entitled “All Banks in Profit”, focused that in general all banks for the fiscal year 2003-2004 A.D. are bullish in their performance. During the year all the banks were in profit but in the previous year two commercial bank, NBL and RBB were in a loss of 202 million and 3246 million respectively. NBL, RBB, Siddhartha Bank, Laxmi Bank, Kumari Bank and Machapuchchre Bank have increased their operating profit in substantial amount. Also the old banks with huge losses in the previous year’s NBL and RBB have succeeded to improve their performance.

Dhungana (2005), “Financial sector reform program (FSRP) in Nepal” RBB Newsletter Vol 6. September 2005, has concluded that Nepalese financial sector is being strengthened under the financial reform program. The expediting of the liberalization and privatization processes within the financial reform programs has succeeded to place the private sector rather than the government in charge of determining who gets credit and at what price. The FSRP has also been able to establish the system of prudential regulation and supervision design to restrain the private actors so that we can reasonably sure that their decisions will also be broadly in the general social interest. Many Acts are being promulgated to obtain and maintain a strong legal environment required for the system. It is also equally and important that the enforcement aspect in all respects plays a vital role, which is continuously improving. Within this reform program the two largest commercial banks NBL and RBB are being restructured, institutional building program are being lunched, greater autonomy and responsibility have been provided to the central bank, entry and exit norms are being prepared, laws are being prepared, laws are being prepared for th banking sector. These all are positive aspects to boost up the system. It has been widely recognized that less government involvement in the financial sector, a strong central bank, a strong banking environment, adequate banking services to the poor, adequate legal frame work and enforcement of law are six basic pillars for the development of the healthy financial architecture. The government has launched this program to eliminate financial problems. Except some aspects, the progress made within the FSRP seems are satisfactory.

Panthi (2005) “The Importance of Human Resource Management”, RBB Newsletter Vol 6. September 2005, highlights that the human resources management always plays key role in a commercial bank like RBB where the banking services are only made by human skills. If the size of the employees is suitable and skillful, the optimum objectives of the bank will be nearer to achievement. The objectives of the profitability and the liquidity of the bank may be fulfilled if and only if its human resources are perfect in and suitable in quality. So, the selecting process of human resources should go through the straightway of identifying workforce requirement, Recruting-Selecting-Placement-Promotion-Appraising-Training and Retirement.

Kshetry (2002) in his articles says, “To strike balance between profitability and services to the community, commercial banks should focus on activities that provide energy to speed up the productivity and diversify services in the community.”

Pradhan (1991) has pointed out some major issue in local commercial banks in comparison of recently established joint venture banks through his article “Nepal ma Banijya Bank: Upalabdhi Tatha Chunauti” the study deals with the whole commercial banking system of Nepal in respect of their performance and profitability. Some of his finding relevant to this study is summarized as:

1. The deposit collection rate of local banks is very poor in comparison to joint venture banks.
2. The patterns of deposit are also different between these banks. The ratio of current deposit in local banks is 9.34%only where the same as the joint venture banks is 52.5%. But the fixed deposit ratio is very high in local banks.”

2.9.2 Interview/ Opinion Excerpts

“It is the quality of banks that Matters”

Prithvi B Pande, Chairman and Chief Executive Director of Nepal Investment Bank

The banking sector as a whole has struggled through difficult times over the past few years. Despite the political instability most commercial banks have managed to maintain positive growth trends and overcome obstacles. However, we are truly worried about the future if this situation deteriorates and investment opportunities decline. As you say, we have a scenario of excess liquidity and low demand for bankable projects in spite of low interest rates in borrowings. What worries me is the disparity in Nepali deposit rates compared with other countries and continued upward trend in inflation, which means that eventually interest rates have to climb, resulting in higher lending rate leading to further stagnancy in borrowings. Continued increase in remittance is the only positive indicator in our economy; however this could lead to further increase in money supply and contribute to further inflation.

"Golden Days Are Gone"

Himalayan SJB Rana, Chairman (Himalayan Bank Limited) while giving interview with New Business Age.

Himalayan SJB Rana: you perhaps unwittingly omitted to mention another measure taken to reduce the NPA-that is the setting up of special judicial court or tribunal to hear the loan recovery cases. So, now before filing a case in the regular courts, the first step from the bank will be to file it with the tribunal. This law was passed after lots of follow up by us bankers. But even after the bank wins the case from the court and takes the collateral into its possession the bank may find it difficult to sell the property, as is the case even today. The buyers simply do not come forward. When they come they are very few and often they join hands and offer a very small amount. There is a sort of a buyer's market here. So, the AMC was proposed. At this moment I cannot say whether this AMC will or will not work well in Nepal. Globally, there are mixed reports, as I have heard, AMCs could not do well in Latin America while they did very well in Thailand, Philippines and Malaysia. Our central bank people have gone there (Thailand, Philippines and Malaysia) and studied how the AMCs functioned there and they are trying to model the proposed AMC of Nepal accordingly. But I think the success of AMC depends on the leadership of the AMC.

"The state of banking and the Business Environment in Nepal"

Radhesh Pant, managing director of the Bank of Kathmandu, spoke to Nepali Times.

Radesh Pant, on the one hand there is congestion in the banking sector but on the other, you see that about 85 percent of Nepalese don't have access to banking. There are a lot of players, but there is a huge market yet to be penetrated. Due to instability over the past few years, the investment climate has not been good, which led to a stagnation of the private sector. That was when banks entered retail, but retail is also getting crowded, which is why the banking sector needs to move on identifying different opportunities. Banks will have to be really competitive and try to create their niche market, or they'll have to start consolidating through mergers and acquisitions in order to become a cost player. There are a lot of things we can do in the 'New Nepal' and we're looking forward to those opportunities. But in the current situation, international and domestic investors are still apprehensive about investments in Nepal, and not much is coming in.

The first challenge for banks and for the state is to be able to attract investment in the country. Second, in banking, new products have to be introduced. The banking industry cannot sustain itself just with deposits and credits. We need expertise in investment banking, analyzing projects, raising capital, new financing techniques. We need to focus on some core sectors-hydropower, infrastructure, tourism, herbs-we need to understand and analyze the financing of those sectors. And finally, I believe that we need to play a major role in providing access to finance in rural Nepal.

2.9.3 Review of the Previous Thesis

Luitel (2003), conducted a study entitled *"A Study on Financial Performance of Nepal Bank Limited"* submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies.

The main objectives of the study are:

- To measure the comparative financial strengths and weakness and to analyze the banks performance under priority sectors of government.
- To analyze income and expenditure areas
- To evaluate whether the bank is efficient to face the challenges and assist the government in the points outlined in the statement of the problems of this study.

The study pointed out the following findings in this study:

- The bank seemed to be unable to utilize its high cost resources in high yielding investment portfolio. Due to the bank's failed in collecting earned interest and matured loan, it has suffered continues loss. Liquidity position of the bank is also not satisfactory during this study period. This study also found that bank has not followed any policy regarding long-term debts, total debts and total deposit ratios. This study concluded that the financial position of the NBL is worse during the study period due to its failure to utilize its inefficiency in risk management. The overall financial position of the bank is unsatisfactory during the study periods.

The study recommended that:

- Financial statements of the bank should be published regularly.
- 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 provided should be valued fairly and properly.
- The bank should place independent, professional bankers and board and in key management position.

Shrestha (2004), completed the study *"Profitability Analysis of Standard Chartered Bank Nepal Ltd. and NABIL Bank Ltd."* submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies.

The main objectives of the study are:

- To evaluate the soundness of profitability and operating efficiency of SCBNL and NABIL Bank Ltd.
- To compare and analyze fund base interest income with fee based income of SCBNL in comparison to NABIL Bank Ltd.

- To compare the cost of deposits of the two banks in regards with the profitability.

The study recommends that:

- The NABIL Bank has not adopted any cost management strategy to have control over its cost of funding. NABIL has paid very higher interest to deposits and other working funds than SCBNL. The cost management strategy would be ideal to reduce the various costs and increase the profitability.
- The bank should follow the strict investment policy to avoid the nonperforming assets. It should increase investment in the government securities to trade off and stabilize the quality investment in commercial LDO.
- The fee-based activities of bank are found to be very profitable and important now a day in banking business. These are commission, discounts and fees. They yield higher return to a bank. NABIL Bank is not in the better position regarding the proportion of fee-based activities to loan and advances. It is recommended to enhance the off-balance operation, as it is very profitable and immediately realizable.
- The earnings per share and dividend per share attracts the investors. The bank is also not generating sufficient return from the equity. So, higher cash dividend strategy should be adopted for the better growth of shareholders worth, NABIL Bank should increase its cash dividend.
- An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.
- To find out the profitability position of the JV banks and to disseminate quality information.
- To analyze the profit trend of JV Banks.
- To investigate the profit trend of NB Bank.

- To ascertain the comparative position of profitability of NB Bank with respect to other JV Banks.

The study recommends that:

- NB Bank Ltd. has always been at the top in cost of deposits. The high cost of deposits not only incurs additional interest expenses but have other indirect effects. The banks in order to make a return have to set interest rate on loan and advances at a higher level than the market. So, the risk of potential NPA‟s at a future is high.
- Interest payout ratio of NB bank is at 65%, the highest of the lot. In layman‟s terms it means that for interest income of Rs. 100, the interest expense is Rs.65, thus the contribution of profit is only Rs.35 while that of industry is Rs.50. So, the bank should look to maximize this ratio preferably by obtaining low cost funds.
- Credit deposit ratio of the bank stands at 85% in the year 2058/59. Although this is good from the profitability aspect, there could be potential problems of liquidity. So, the bank should look at lower this ratio either by increasing deposits or lowering credits.
- The net profits of NB Bank had registered significant growth in the early years posting increases up to 85%. However, EBL has followed slow and steady growth patterns, which seems to have paid off. So, rather than looking to achieve rapid growth it would be feasible to look to achieve and sustain steady rates of growth, thereby minimizing the risk of volatile environment.
- The correlation coefficient of profit of NB Bank and the average is mere 0.40. Although it means that both move in the same direction, the degree of coordination is not that high. So, if the industry performs really well, NB Bank too will be able to perform well but only to a limited extent. Thus, it is advisable to look for ways to increase the correlation with the industry so as to protect itself from industry risks.

- The risk inherent in the loans and advances is high. So, the complete dependence on the interest income is not an appropriate strategy. The contribution of interest income to total income in year 2058/59 is 76.35% while the rest contribute only one forth. So, the bank should look to increase the fee-based income as it provides safe and good returns.

Shrestha (2005), completed the study entitled *"A Comparative Study of the Financial Performance of Nepal Bank Ltd. and Rastriya Banijya Bank"* and submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies.

The main objectives of the study are:

- To analyze and to evaluate the financial performance of NBL and RBB.
- To examine the current financial problems in NBL and RBB.
- To analyze financial performance indicators.
- To evaluate the financial performance of each bank.
- To analyze the comparative financial position of these two banks.
- To highlight reform program in NBL and RBB.

The study concludes that the largest commercial bank in Nepal, RBB and NBL, have potentially important role to play in the economy to enhance the healthy competition. The political intervention, weak management, poor financial information system and ever-growing bad loans have tremendously impacted on financial health of these banks in the past. Recent auditing work revels a high negative net worth, weak internal control and information system and poor internal financial management. Thus it is advised to employ technical support to assist in developing a strategic plan for the implementation, such as, downsizing privatization, splitting merger, acquisition, etc. In same way, technical support has been expected to implement any strengthening work identified by the reform proposal. The present ownership structure of NBL and

RBB will be gradually change by their privatization and entry of new reputed, fit and proper private sector banks and financial institutions.

The study recommended that:

- The major problem is seen in loan recovery department of both the banks, due to which the banks are facing loss in the study period. Thus the department should introduce new methods of recovery of loans than those of routine methods. On the contrary, the departments that provide loans should also be careful and must do enough feasibility study before providing loans.
- Both the banks have high level of negative net worth. So a capital plan needs to be worked out and the shareholder of these banks needs to inject the capital to the level required by the regulatory authority.
- The influence of government and political situation in banking sector affects the overall activities of the banks. So government must be aware of this fact and policy must be development to improve the current situation of NBL and RBB.
- Since the RBB is not maintaining the adequate liquidity position, the bank is suggested to increase its current assets.
- It is suggested to RBB to improve the efficiency in utilizing the deposits in loan and advances for generating the profits.
- Profitability position of NBL is comparatively better than the same of RBB. So RBB is recommended to utilize its resources more efficiently for generating more profit margins.
- The bank should introduce major programs that the customers demand these days such as consumer banking, home loans, study loan, vehicle loans, credit card facilities, online banking, ATM cards, etc. These facilities are provided by the foreign and joint venture banks, which make RBB and NBL to lag behind.
- The staff of the banks must be empowered by providing training and knowledge about the bank so that customer will go better services.

- Both the banks need to capture all the functional areas of the bank in restructuring process.
- The banks should not distribute the bonus, unless and until the bank eliminates its negative capital from the balance sheet. It is not prudent to distribute profits after capitalizing the losses.

Khadgi (2006), conducted the study on *"Investment Policy Analysis of NABIL Bank Ltd."* submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies.

The main objectives of the study are:

- To study the resource mobilization and investment policy of NABIL Bank.
- To find out the relationship between deposit and investment trends of the bank.
- To evaluate profitability, risk, liquidity and assets management of the bank.
- To find out the current and future investing strategy of NABIL Bank.
- To provide suggestions to improve investment policy and performance of NABIL Bank based on the findings of the study.

The study concluded that:

- The current ratio of the bank over five years is 0.90 times on an average during the study period. Although the current ratio 2:1 is considered as standard, acceptability of the value depends upon the industry. For the banks, a current ratio of 1:1 or above would be considered acceptable. Therefore the liquidity position of NABIL bank is below the normal level.
- The return on assets ratios has a fluctuating trend with mean ratio of 2.02% on an average. The C.V. of 32.67% shows that the ratio seems inconsistent and variable during the study period.

- The return on loan and advances ratios is in increasing trend with the mean value of 4.34% in an average. The ratio seems to be less variable and consistent.
- The interest earned to total assets ratios is in decreasing with mean of 6.47% in an average. The ratio during the study period seems to be consistent and less variable.
- The interest earned to total outside assets ratio of found to be 8.37% in an average during the study period. The C.V. of 23.17% indicates that the ratios are consistent. The analysis shows that the NABIL Bank has average 8.37% income margin from outside assets. If the margin is higher than cost of fund, the bank will be on profit.
- The interest paid to working fund ratios is in decreasing trend with 2.54% in an average during the study period. The ratio seems to be consistent and less variable.

The study recommends that:

- Current ratio shows the bank's ability to meet the current obligations. Generally 2:1 is considered as the standard current ratio but for the banks and financial institutions, 1:1 is considered as the standard current ratio. The current ratio of NABIL. Bank seems to be less than 1, so it is suggested to increase the bank's current ratio as soon as possible as it could impose bad impact on depositors. Once the depositor's confidence is lost, it hard to bring it back.
- The mean credit deposits ratio of NABIL Bank during the study period is 54.72% which seems to be lesser than the standard ratio. The 70% of CD ratio is considered as standard ratio, so it suggestion than NABIL should increase the CD ratio.
- The mean of loan and advances to working fund ratio is only 46.41% which shows that NABIL Bank is not efficient using its working funs. So it is suggested to lend more in the productive sectors to get income from the working fund.

- The bank has very nominal investment on shares and debentures of other companies. The mean investment is 0.12% during the study period. Banks may invest in shares and securities of any one organized institution not exceeding 10% of the paid up capital of such organized institution. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the core capital fund. So NABIL Bank is suggested to invest more amount in shares and debentures of other companies so it can get either dividend from the existing shares and capital gain after selling those shares and debentures in capital market after holding for some time.
- The growth rate of the deposits is very low, so it is suggested to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bongs scheme, gift cheques scheme, recurring deposit scheme, monthly interest scheme etc.
- The trend of investment of NABIL Bank is increasing in satisfactory level. NABIL Bank is recommended to keep wide vision in investment while utilizing their resources and invest in different areas.

Mahato(2007), entitled *"A comparative study of financial performance of Nabil and NIBL"* that the both the banks maintain adequate liquidity position to meet short-term obligations, but primary and secondary reserve position of Nabil is better than that of NIBL.

Nabil is utilizing low cost bearing deposits for income generating purpose than NIBL. NIBL is following conservative and safer deposits and selecting lending policy than Nabil, though the capital adequacy requirements are met by both of them.

Kapadi (2008), in his study *"A Comparative Study on Financial Performance of Nabil bank Ltd. and SCBNL"* has found the following:

- Liquidity positions of both are unsatisfactory since the ratio below the normal stander i.e.2:1.

- The debt to equity ratio of both the banks reveals that the claims of the outsider exceeds more than that of the owners' over the bank assets. Nabil bank seems to be more leveraged than SCBNL.
- Nabil is more efficiently using the outside's fund in extending credits for profit generation.

He has recommended earning more operational profit either by increasing their operation or decreasing their operating expenses.

Timilsina (2008), in his paper tried to analyze which banks performing efficiently and which are facing financial risk. He uses four parameters including financial operations, profitability and productivity and concludes that:

- Fresh challenges are likely to emerge in several critical areas, which impact the business and profitability of the banks. The exercise banks need to perform now also includes human resources development, technology, industrial relations, customer services, internal controls and improved risk management. These remain academic, without actually deciding the survival and sustenance of the bank.
- The opening up of the economy to foreign investment, as well as the domestic deregulation can only increase the volatility of financial markets and impact bank profitability. The deregulation of interest rate has also meant increased risk.
- The banks have done comparatively better than the previous years.
- The loans and advances to the total deposit is very low, in fact, around 1% to 2%. Whereas the situation was better previous year. The liquidity position of the newly established banks has not significantly improved. This indicates that they are having a problem in increasing their deposits.

- Comparing the older banks such as Nabil, SCBNL, and SBI Bank who have been in operation for more than five years, shows that are doing very well.

Dhungana (2009), on *"A Study on Joint Venture Banks"*.'Profitability' concludes that the profitability ratio of all the JVBs i.e. Nabil, NIBL, and SCBNL has satisfactory; their efficiency is also satisfactory in utilizing deposits. However, they have begun to mobilize saving from different parts of the country. The profit indicated in their financial statement is an inflation in the foreign currency being the main reason.

2.10 Research Gap

Lots of study has been conducted to analyze the profitability position of the commercial banks. Some researchers were done in which matter relating to loan loss provision for Non-performing assets or not. Some researcher was done what is the internal and external factors affects the Non performing assets to increase from the loan advances.

But the main theme of this research is to analyze the profitability position and operating financial efficiency of Nabil Bank and Standard chartered Bank Ltd. Recent data and information of both the banks have been used in this study. This research covers the first five years period of the bank's operation after the implementation of the Financial Sector Reform Program and clarifies the progress operating under Financial Sector Reform Program.

This study differs itself from others research by specially focusing on the profitability of Nabil Bank and Standard chartered Bank Ltd. and covers the period of F.Y. 2004/05 to 2008/09. This research therefore will facilitate readers to identify the profitability position and operating financial efficiency of Nabil Bank and Standard chartered Bank Ltd. which will help to evaluate past and present performance of both the banks as well as it will help to project future prospect of both the banks and to deliver some of the present issue, latest information data relating to Non-performing assets.

CHAPTER - III

RESEARCH METHODOLOGY

The prime objective of this study is to evaluate and assess the financial performance of Nabil Bank Limited on the basis of profitability position analysis that is directed by NRB. This chapter contains the methods that make the comparison of the financial performance made by the sample bank with due respect to the directives of NRB more convenient.

A research methodology helps us to find out accuracy, validity, and suitability of any particular study. The research methodology used in the present study is briefly mentioned below.

3.1 Research Design

The research design followed is basically an evaluation of financial performance of Nabil and Commercial Banks on the basis of profitability position approach. Analytical as well as descriptive approaches are used to evaluate the financial performance of the sample bank.

3.2 Sources of Data

This study is mainly based on secondary data. Secondary data are collected from their respective annual report especially from profit and loss account, balance sheet and other publications made by the Banks. Also some data have been gathered from Nepal Stock Exchange's Website. Similarly, articles, journals related to the financial performance of the study, previous research reports etc., have also been taken into account while collecting information.

3.3 Population and Samples

All commercial banks currently operating in Nepal is the population and the samples are those few which are undertaken for the study. And here, as a sample bank, Nabil Bank Limited has been taken for the study.

3.4 Methods of Data Analysis

Analytical methods have been applied as simply as possible. To make research simple and easily understandable, tables and figures have also been used. Every result is tabulated and clear interpretation is made simultaneously.

3.5 Method of Data Presentation and Analysis

The data presentation and analysis were focal part of the study. Ranges of financial and statistical tools were used to analyze the collected data and to achieve the objective of the study. The analyses of the data were done according to the pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graphs and technique of least square were adopted in this study. In the same way, some strong financial tools, ratio analysis and trend analysis, were used in the study. The data extracted from annual report, financial statement and other available information were processed and tabulated in various tables and charts under different headings according to the nature.

3.6 Analysis of Data

In this study, various financial statistical tools were used to achieve the objective to study. The analysis of data was done according to the pattern of data available. The various tools applied in this study, are as follows:

3.6.1 Financial Tools

Financial tools were used to examine the financial strength and weakness of bank. Financial statements such as balance sheet and profit and loss account can be analyzed to assess the financial health of the bank. In this study, financial tools like ratio analysis were used.

3.6.1.1 Capital

The inspection of every business starts with the requirement of fund commonly known as capital. The capital of any kind of business enterprise is the permanent fund supplied by the owners of the business. Using an accounting definition, capital is shareholders equity reflected in excess of total liabilities. Normally the capital structure consists of both equity and debt. Equity refers to the fund contributed by the promoters or shareholders whereas debt is temporary way of raising fund without further dilution of ownership. This is mainly done by issuing bonds and debenture of various maturities.

Every bank should maintain sufficient level of capital to support the basic infrastructure of the business. Then, aside from capital used to meet the funding requirement for fixed assets and infrastructure investment, it is used to absorb unusual losses and to continue to conduct business when recourses are not available or have been withdrawn. The strength of the capital position is an important signal to the public as to the safety of their deposit. Therefore, capital strength is important not only for the individual bank but also for the banking system as a whole.

3.6.1.2 Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus, ratio analysis is used to compare the firm's financial performance and status to that of other firm's or to itself over time. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

Even though, there are many ratios used in various studies to evaluate different aspects of a business entity, the ratios are of different importance and used differently in various industry base. For example, it is no significant to analyze the quick ratio or current ratio in the context of commercial banks. Further, in the context of commercial banks the insider and outsider fund base cannot be interpreted as per the standard of production units since financial institution are, by virtue, highly levered by outsider’s fund.

Similarly, in the banking industry, there is no significance to say deposits are current liabilities, or some of the studies have considered time deposits as fixed liabilities. Both of the interpretations are not viable since these liabilities should be considered as per their maturity schedules. In this study, various ratios from newly developed empirical studies have been used just to see the profitability position of commercial banks. This study contents the following ratios.

3.6.1.3 Liquidity Analysis

Banks are in business where liquidity (ability to pay cash to its depositors) is of prime importance. Liquidity ratio is used to judge a bank’s ability to meet short term obligation. It is the comparison between short term obligation and short term resources available to meet such obligation. An institution is in better liquidity position when it has the ability to obtain sufficient level of funds in timely manner at a reasonable cost. But an institution is in liquidity problem when it has to sell assets in order to unforeseen cash needs.

In evaluating the adequacy of a bank liquidity position, consideration should be given to its capacity to promptly meet the demand for payment on its obligation and to readily fulfill the credit needs of the community it serves. Similarly consideration should be given to the overall effectiveness of the bank’s asset/liability strategies and compliance with and adequacy of established liquidity policies. Beside these, the capability of management to properly identify, measure, monitor, and control the bank's liquidity position including effectiveness of funds management strategies, management information system etc should be considered. This section includes the following ratios:

a) Growth Rate of Deposit

Subtracting the prior year's amount form current year's amount and dividing the result by the prior year's amount calculate the ratio.

$$\text{Growth rate of Deposit} = \frac{\text{Current Year's Deposit - Prior Year's Deposit}}{\text{Prior Year's Deposit}}$$

This ratio evaluates the trend of the deposit growth. So, there should be the increasing trend of deposit and should match or exceed the growth rate of loan. For the liquidity purpose, the increasing the amount deposit than that of loan can meet the obligations regarding to the liabilities.

b) Growth Rate of Credit

Subtracting the prior year's amount form current year's amount and dividing the result by the prior year's amount calculate the ratio.

$$\text{Growth Rate of Credit} = \frac{\text{Current Year's Credit - Prior Year's Credit}}{\text{Prior Year's Credit}}$$

This ratio evaluates the trend of the credit growth. So, there should be the increasing trend of credit and should match or exceed the growth rate of loan.

c) Growth Rate of Investment

Subtracting the prior year's investment form current year's investment and dividing the result by the prior year's investment calculate the ratio.

$$\text{Growth Rate of Investment} = \frac{\text{Current Year's Balance - Prior Year's Balance}}{\text{Prior Year's Balance}}$$

This ratio evaluates the trend of the investment growth. So, there should be the increasing trend of investment to earn more profit.

d) Cash and Bank Balance to Total Deposit Ratio

This ratio is used to measure how much amount bank has set aside as cash and bank balance out of total deposit. Cash and bank balances are the most liquid current assets of bank. Mathematically it can be sated as:

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

e) Borrowing to Total Liabilities

The ratio is calculated by dividing the call money by the total liabilities.

$$\text{Borrowing to Total Liabilities} = \frac{\text{Borrowing}}{\text{Total Liabilities}}$$

The ratio indicates the percentage of the borrowing on the total liabilities. The higher value of ratio indicates the liquidity problem on the bank because this form of money is borrowed usually for the daily liquidity purpose. So, the higher frequency is the best to minimize the cost with the fulfillment of short term obligations.

f) Liquid Funds to Total Deposit

The ratio is calculated by dividing the liquid fund by the total deposit.

$$\text{Liquid Funds to Total Deposit} = \frac{\text{Liquid Funds}}{\text{Total Deposit}}$$

g) Total Loans to Total Deposit

The ratio is calculated by dividing the loan by deposit

$$\text{Loans to Deposit} = \frac{\text{Loans}}{\text{Deposit}}$$

The ratio indicates the degree to which a bank is using its fund to its loan. The higher value of the ratio is desirable. The ratio should not exceed 100%. But due to the non- interest bearing type deposit in the total deposit that should be paid on demand. The ratio should be 40-60% for the strong performance.

3.6.1.4 Profitability Ratios

Profitability ratios are used to measure the efficiency of operation of a firm in terms of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of bank and vice versa. The profitability of NABIL Bank Ltd. and commercial Banks is evaluated through following different ratios;

1. Return on Total assets
2. Credit to Total Deposit
3. Investment to Total Deposit
4. Fixed Deposit to Total Deposit
5. Current Deposit to Total Deposit
6. Credit (Govt. Entp.) to Total Deposit
7. Credit (Pvt. Sector.) to Total Deposit

3.6.2 Statistical Tools

Trend analysis is one of the statistical tools used for forecasts. Among various methods of trend analysis, a very popular least square method has been used in this study which has been used to analyze the trend of net profit and deposit of NABIL bank Ltd. and Commercial Banks make the forecast for the next five years period.

Trend Analysis

An effective use of financial ratios can be made by observing the behavior of ratios over a period of time. This can be done with the help of trend analysis depicts the trends in the operation of banks. The trend analysis of ratios indicates the direction of change. It helps in studying the banks position and change there of overtime and determine whether there has been on improvement or deterioration is the financial condition and performance overtime. It is important to analyze trends in ratios as well as their absolute levels, for trends give clues as to whether the financial situation is improving or deteriorating.

The straight-line trend is computed as:

$$Yc = a+bx$$

Where,

Y = Value of dependent variable.

X = Independent variable (Time in Trend Analysis)

$a = \frac{\sum y}{n}$ {Y- intercept (the value of Y when X=0)}

b = Slope of Trend Line [Level of Change or Growth]

i.e., $b = \frac{\sum xy}{\sum x^2}$

Y-Yc = Fluctuation

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the analysis and interpretation of the data for the purpose of developing the unprocessed form of data to an understandable presentation. Analyzing the data indicates organizing, tabulating and calculating relevant financial analysis of the data gathered from the various sources. The financial analysis is made after collecting the raw data from the various sources. The result of the analysis has been interpreted under the rationality of the ratio analysis, prudential requirements issued by the NRB for the commercial banks, offsite supervision manual, on-site inspection manual and other factors regarding to the tools used.

4.1 Financial Analysis

Under this chapter various financial ratios related to profitability and the fund mobilization are studied to evaluate and analyze the performance of Nabil and Commercial Banks. Only those ratios that are important from the point of profitability and the fund mobilization are calculated. The important ratios are studied for this purpose is given below.

4.1.1 Liquidity Analysis

Liquidity ratio refers to the ability of a business firm to pay its short term obligation as and when they fall due for payment. A satisfactory liquidity position is one of the distinguishing characteristics of a bank to satisfy the credit needs of the community, to meet demand for substitutes, withdraws, pay maturing obligations on time and convert non cash assets into “cash” to satisfy immediate needs without loss to bank and consequent import in longer range projection on profitability. An institution has liquidity, when it has the ability to obtain sufficient funds in a timely manner at a reasonable cost. An institution is considered to have a liquidity problem if it needs to rely upon prohibitively high cost of funds or sale of assets in order to meet unforeseen cash needs such as deposit run off.

Liquidity position is the key element of effective and efficient management of the assets and liabilities. Some ratios under the liquidity position are used in this study to analyze and interpret the liquidity position of the commercial bank. These ratios are mostly used under the supervisory and inspection tools of the commercial banks to evaluate the liquidity performance.

4.1.1.1 Growth Rate of Deposit

This ratio is calculated by subtracting last year deposit from current year deposit and dividing the remaining part by last year deposit.

Table 4.1

Growth Rate of Deposit (%)

Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	3.47	32.64	20.64	36.73	17.02	22.10
Commercial Banks	7.95	15.39	15.88	26.25	32.28	19.55

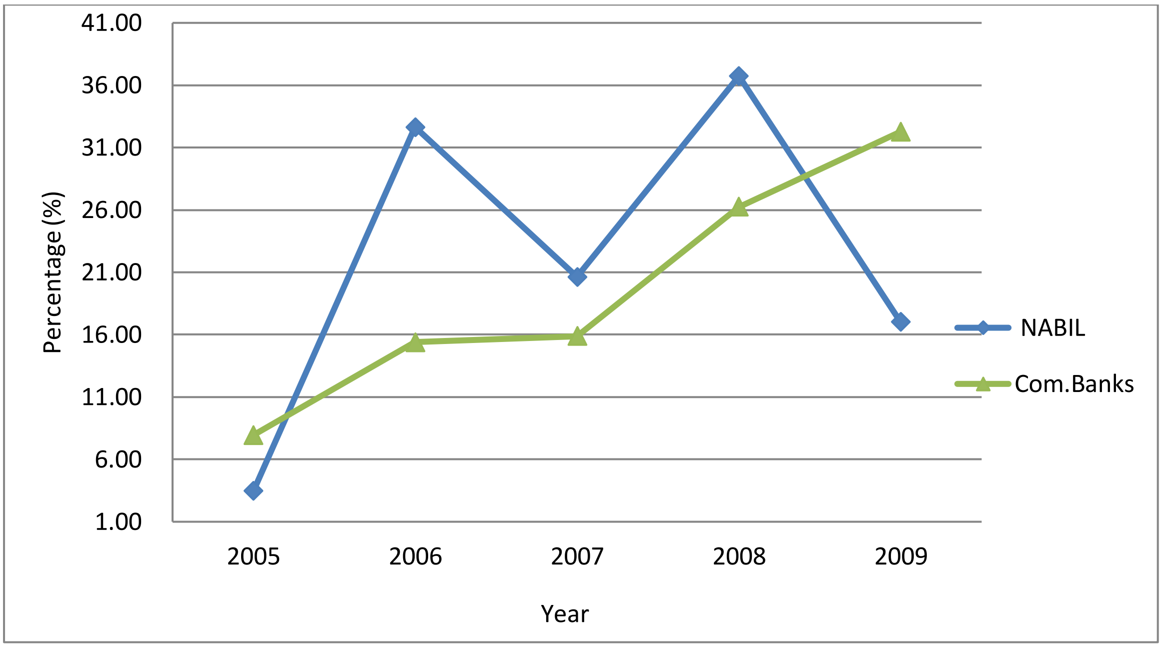
Source: Annual Report of NRB

The above table highlights that the growth rates of deposits of commercial banks are 7.95%, 15.39%, 15.88%, 26.25% and 32.28% respectively in the study period. The average growth rate of deposit is 18.39%. The commercial banks had made the great improvement in its deposition in each year. And that the growth rates of deposits of Nabil is 3.47%,32.64% ,20.64%, 36.73% and 17.02% respectively in the study period.

The average growth rate of deposit is 22.10%.Nabil Bank has made increasing and decreasing growth rate in each year. In average percentage Nabil bank is better than commercial banks.

Figure 4.1

Trend value of Growth Rate of Deposit of NABIL & Com. Banks



4.1.1.2 Growth Rate of Credit

This ratio is calculated by subtracting last year credit from current year credit and dividing the remaining part by last year credit.

Table 4.2

Growth Rate of Credit (%)

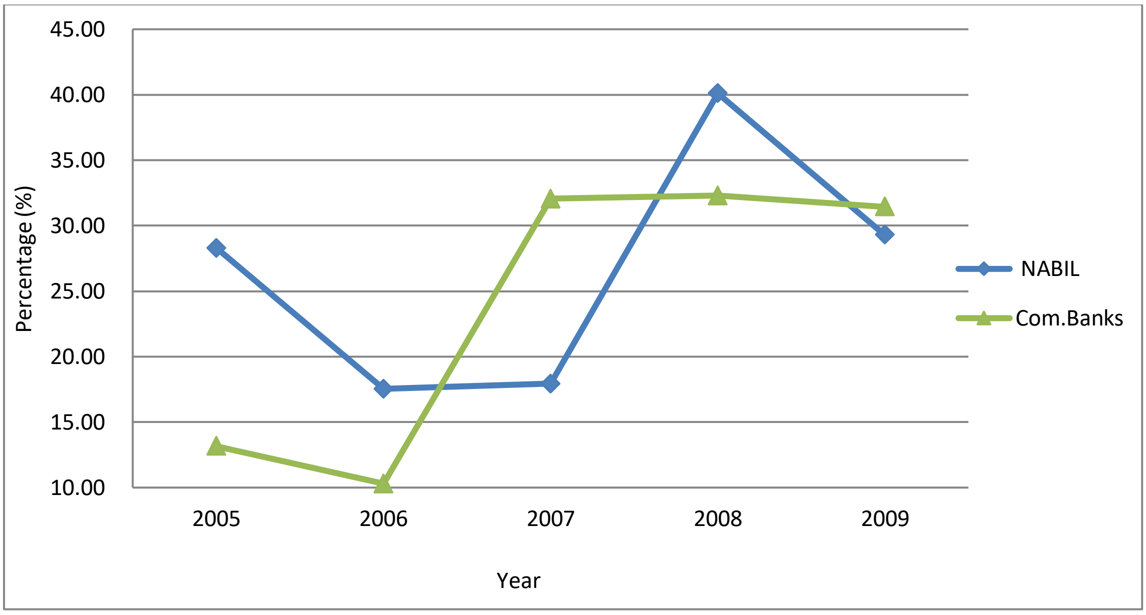
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	28.29	17.54	17.94	40.10	29.29	26.63
Commercial Banks	13.16	10.30	32.05	32.30	31.44	23.85

Source: Annual Report of NRB

The above table highlights that the growth rates of credit of commercial banks are 13.16%, 10.30%, 32.05%, 32.30% and 31.44% respectively in the study period. The average growth rate of credit is 23.85%. The table shows that the credit level of commercial banks had decreased by 10.30% in 2005/06 comparing to the previous year. Then in 2006/07, the growth rate increased and reached 32.30%. Again in 2007/08, it slightly decreased to 31.44%. In 2008/09, the growth rate reached to 31.44%. The growth rates of credit of Nabil bank is 28.29%, 17.54%, 17.94%, 40.10% and 29.29% respectively in the study period. The average growth rate of Credit is 26.63%. Comparing to Commercial banks Nabil bank growth of credit is more.

Figure 4.2

Trend value of Growth Rate of Credit of NABIL & Com. Banks



4.1.1.3 Growth Rate of Investment

This ratio is calculated by subtracting last year investment from current year investment and dividing the remaining part by last year investment

Table 4.3

Growth Rate of Investment (%)

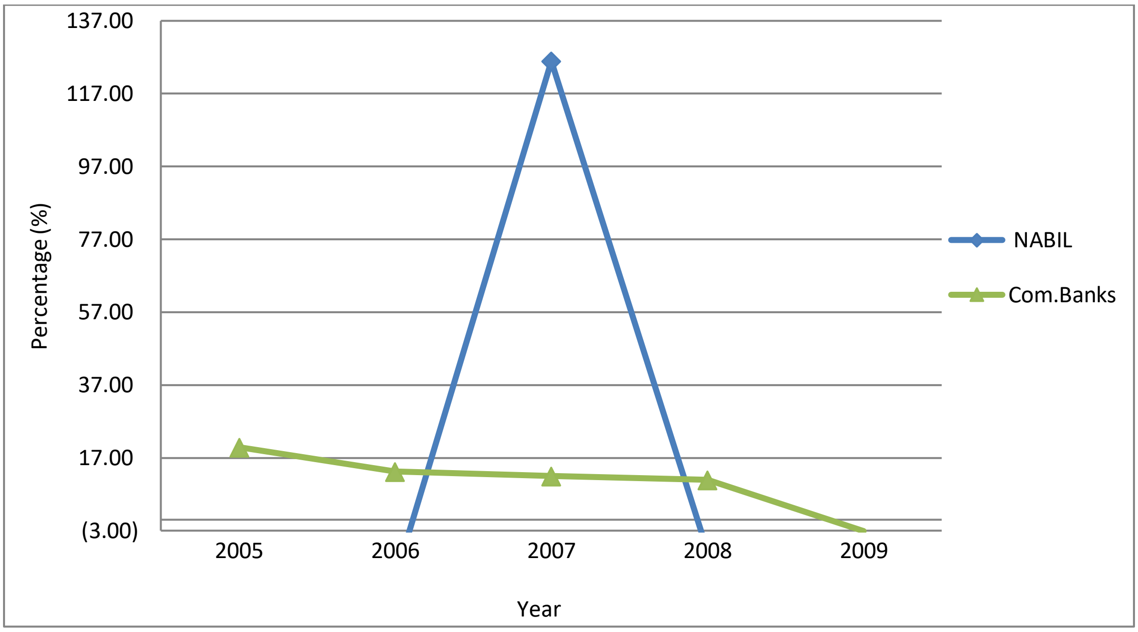
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	-23.03	-16.08	125.91	-8.76	-18.63	11.88
Commercial Banks	19.91	13.22	12.00	10.94	-3.12	10.59

Source: Annual Report of NRB

The above table highlights that the growth rates of investment of commercial banks are 19.91%, 13.22%, 12.00%, 10.94% and -3.12% respectively in the study period. The average growth rate of credit is 10.59%. The growth rate of investment of Nabil bank is -23.03%, -16.08%, 125.91%, -8.76% and -18.63% respectively. The average growth rate of credit is 11.88%. Comparing to the average growth rate of investment Nabil is better than Commercial banks.

Figure 4.3

Trend value of Growth Rate of Investment of NABIL & Com. Banks



4.1.1.4 Cash and Bank Balance to Total Deposit Ratio

This ratio indicates the ability of banks immediate funds to cover their current margin call, saving, fixed call deposit and other deposits. A high ratio represents the greater ability to cover their deposits and vice versa. This ratio is calculated by dividing cash and bank balance by total deposit.

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

Table 4.4

Cash and Bank Balance to Total Deposit (%)

Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	3.84	3.26	6.00	8.37	9.03	6.10
Commercial Banks	10.42	10.51	10.74	13.25	16.20	12.22

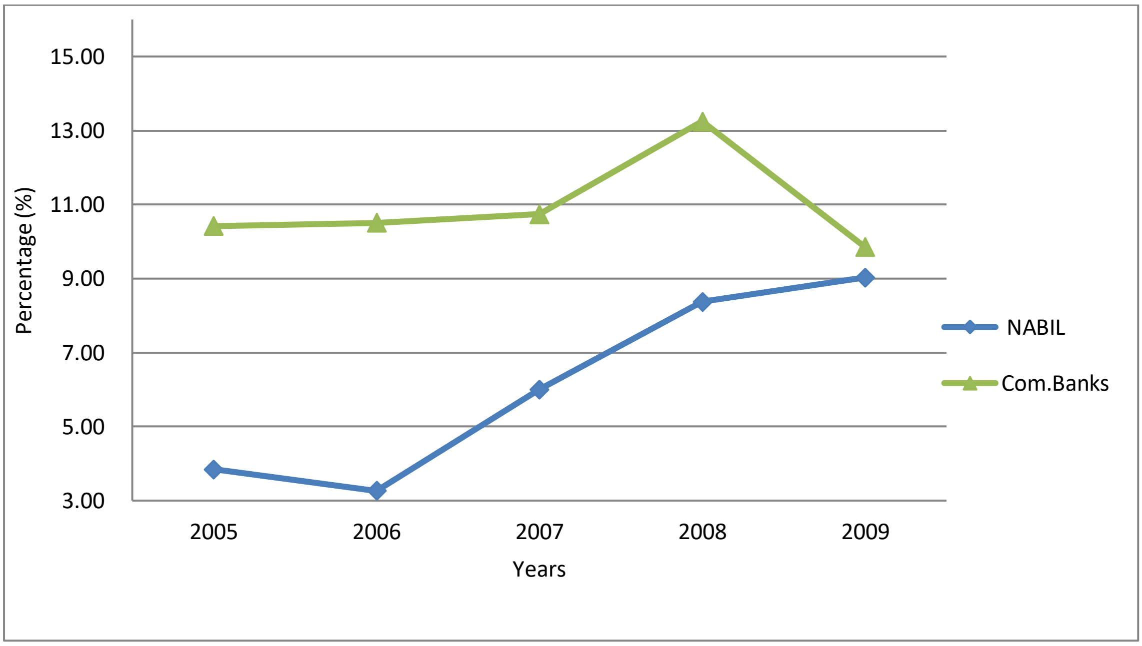
Source: Annual Report of NRB

The above table shows that the cash and bank balance to total deposit of Nabil for the reviewed period are 3.34%, 3.26%, 6.00%, 8.37% and 9.03%. The average ratio is 6.10%.The cash and bank balance to total deposit of ommercial banks are 10.42%, 10.51%, 10.74%, 13.25% and 16.20%. The average ratio is 12.22%.

Lower ratio indicates that the bank might face liquidity crunch while paying its obligations; whereas a high ratio points out that the bank has been keeping idle funds and not deploying them properly. In average Nabil 6.10% of cash and bank balance to total deposit and commercial banks has 12.22% which shows that commercial banks has just reasonable funds to meet their payment obligation than Nabil bank.

Figure 4.4

Trend value of Cash and Bank Balance to Total Deposit of NABIL &Com.Banks



4.1.1.5 Borrowing to Total Liabilities

The ratio is calculated by dividing the call money by the total liabilities.

$$\text{Borrowing to Total Liabilities} = \frac{\text{Borrowing}}{\text{Total Liabilities}}$$

Table 4.5

Borrowing to Total Liabilities (%)

Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	0.09	0.72	2.98	4.16	4.31	2.45
Commercial Banks	1.67	2.22	2.60	2.54	2.26	2.26

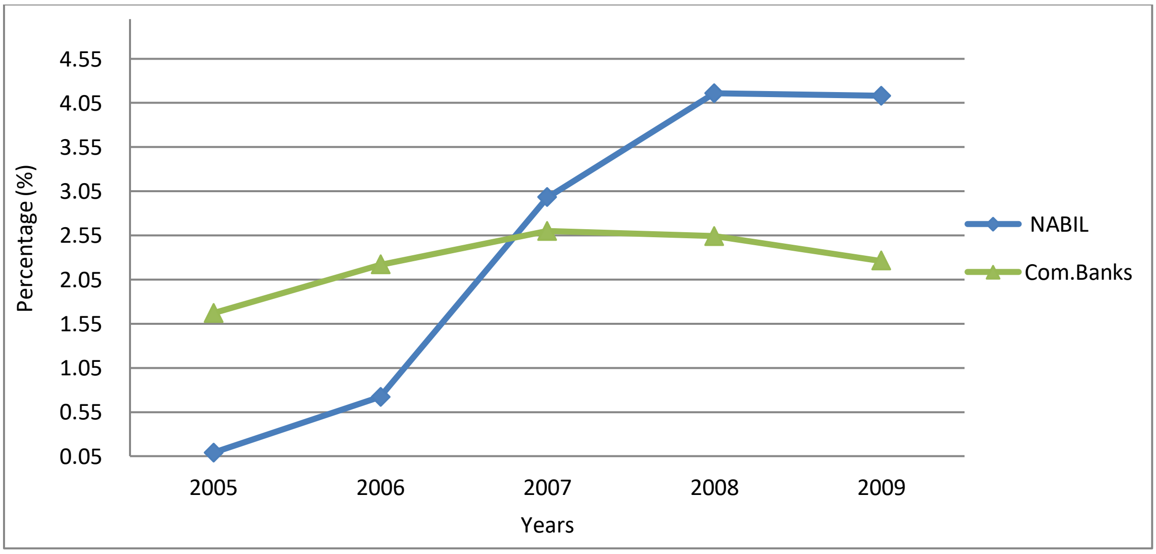
Source: Annual Report of NRB

The above table shows that the borrowing to total liabilities of Nabil over the reviewed period are 0.09%, 0.72%, 2.98%, 4.16% and 4.31% respectively. The average Borrowing to total liabilities is 2.45%. The borrowing to total liabilities of commercial banks are 1.67%, 2.22%, 2.60%, 2.54% and 2.26%. The average ratio is 2.26%.the Nabil and Commercial banks have increasing fromof borrowing to total liabilities.

From this increasing trend it can be said that Bank has high ability of the borrowing in the final year to maintain the strong liquidity position. The high percentage of the ratio indicates the high amount of less costly borrowing among other borrowings. The borrowing is made to meet the daily liquidity purpose. So, one should identify the frequency of borrowing rather than amount of borrowing.

Figure 4.5

Trend value of Borrowing to Total Liabilities of NABIL & Com. Banks



4.1.1.6 Liquid Funds to Total Deposit

This ratio indicates the ability of banks immediate funds to cover their current margin call, saving, fixed call deposit and other deposits. A high ratio represents the greater ability to cover their deposits and vice versa. This ratio is calculated by dividing Liquid funds balance by total deposit.

Table 4.6

Liquid Funds to Total Deposit (%)

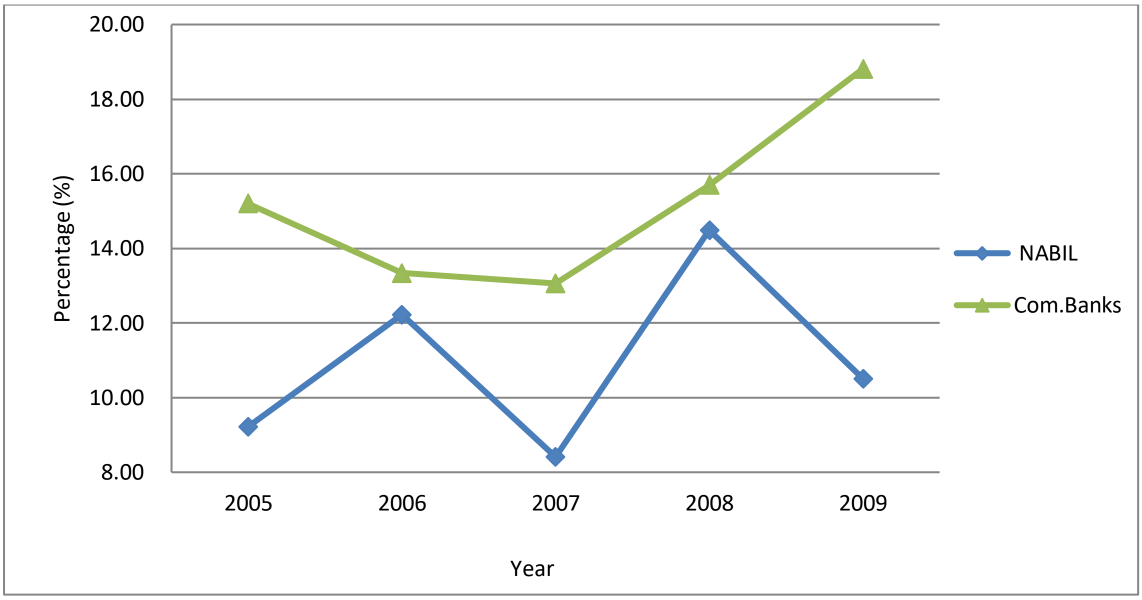
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	9.22	12.22	8.41	14.49	10.51	10.97
Commercial Banks	15.20	13.34	13.06	15.70	18.81	15.22

Source: Annual Report of NRB

The above table shows that the Liquid Fund to total deposit of Nabil for the reviewed period are 9.22%, 12.22%, 8.41%, 14.49% and 10.51%. The ratio has decrease 8.41% in 2006/07 and then it has risen to 14.49% in 2007/08. The average ratio is 10.97%.The Liquid Fund to total deposit of commercial banks are 15.20%, 13.34%, 13.06%, 15.70%and 18.81%. The average Liquid Fund to total deposit is 15.22 %. Lower ratio indicates that the bank might face liquidity crunch while paying its obligations; whereas a high ratio points out that the bank has been keeping idle funds and not deploying them properly. In average Nabil has 10.97% and Commercial banks has 15.22%of Liquid Fund to total deposit which shows that Commercial Banks has just reasonable funds to meet their payment obligation.

Figure 4.6

Trend value of Liquid Fund to Total Deposit of NABIL & Com. Banks



4.1.1.7 Bank Balance in Nepal Rastra Bank to Total Deposit

This ratio shows the degree to which a bank is using its deposit fund to its NRB Balance.

Table 4.7

Bank Balance in Nepal Rastra Bank to Total Deposit (%)

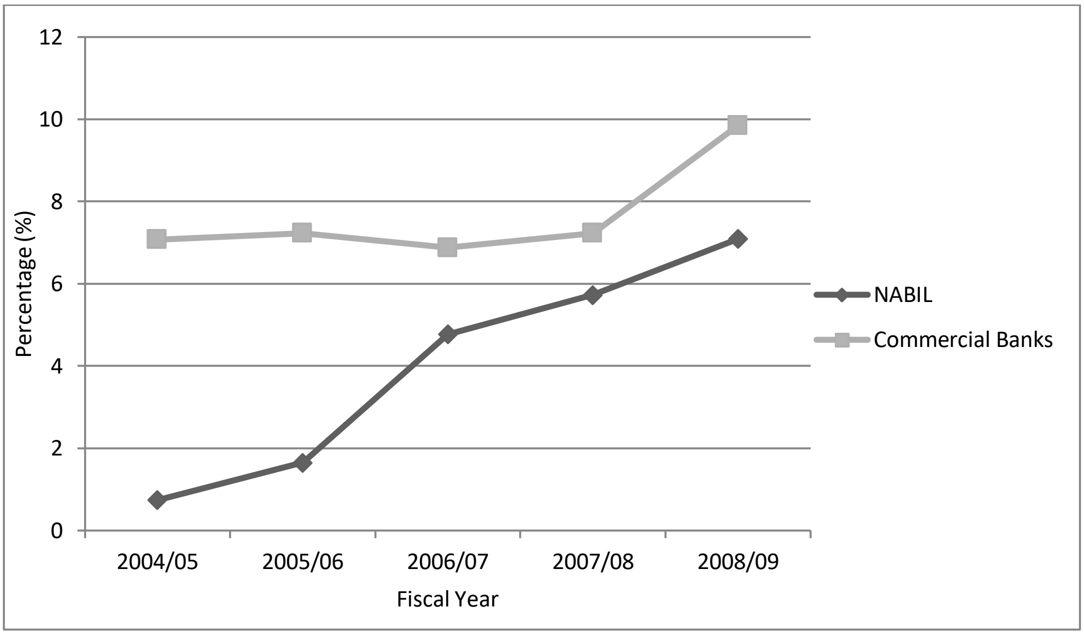
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	0.74	1.65	4.77	5.73	7.09	3.99
Commercial Banks	7.08	7.23	6.88	7.23	9.85	7.66

Source: Annual Report of NRB

The above table describes that the ratio of Bank Balance in Nepal Rastra Bank to total deposits ratios of Nabil are 0.74%, 1.65%, 4.77%, 5.73% and 7.09% respectively over the reviewed period. The average of Bank Balance in Nepal Rastra Bank to total deposit ratio is 3.99%. Similarly, the ratio of Commercial banks is 7.08%, 7.23%, 6.88%, 7.23% and 9.85%. The average Bank Balance in Nepal Rastra Bank to total deposit ratio is 7.66%. The above table indicates that Nabil's Deposit in Bank Balance in Nepal Rastra Bank sector is increasing each year.

Figure 4.7

Trend Value of Bank Balance in Nepal Rastra Bank to Total Deposit of NABIL and Com. Banks



4.1.2 Profitability Ratio

The ultimate objective of all banks is to earn profit. Strictly speaking, no bank can survive without profit. Profit is the indicator of efficient operation of bank. The bank acquires profit by providing different services to its customers or by making investment of different kinds.

Sufficient profit is a must to have good liquidity, grab investment opportunities, expand banking transaction, finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for the bank. Profitability ratios measure the efficiency of a bank: higher the ratios higher will be the efficiency of a bank. The following profitability ratios were used to evaluate the profitability of the selected commercial banks.

1) Return on Total Assets (ROTA)

The ratio is a primary indicator of managerial efficiency. It indicates how efficiently the assets were utilized by the bank. The ratio measures how far the management has utilized all the assets of the bank for profit generating activities. Higher ROTA indicates higher efficiency in the utilization of the total assets and vice versa.

$$\text{Return on Total Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

Table 4.8

Return on Total Assets (%)

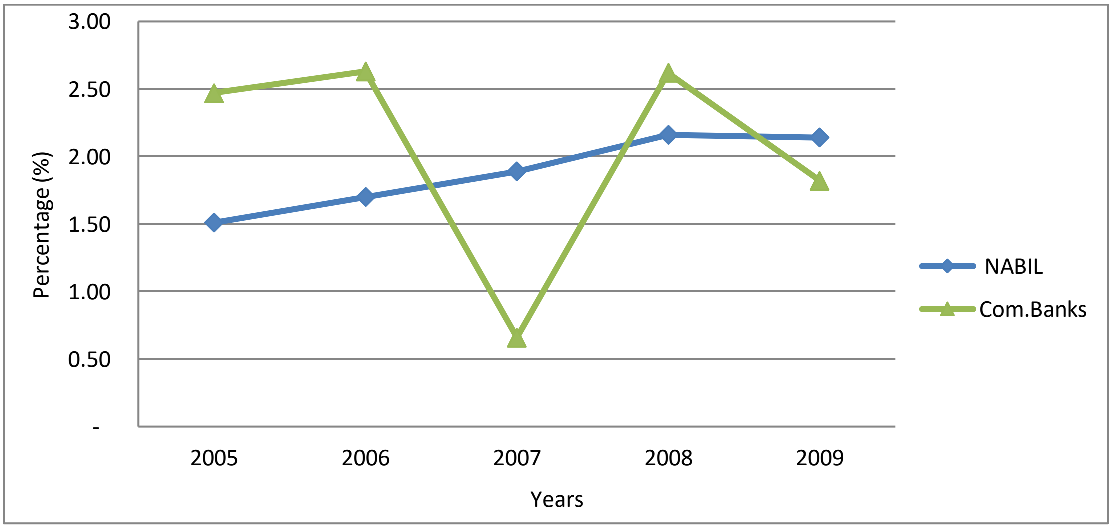
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	1.51	1.70	1.89	2.16	2.14	1.54
Commercial Banks	2.47	2.63	0.66	2.62	1.82	2.04

Source: Annual Report of NRB

The above table exhibits that the ratio of Nabil has lowest 2.01 in F/Y 2007/08 and highest of 3.05 in F/Y 2004/05. Similarly, the ratio of Commercials' banks has highest of 2.56 in F/Y in 2005/06 and lowest ratio of 2.42 in F/Y 2006/07. Commercials banks have consistent growth rather than Nabil Bank.

Figure 4.8

Trend value of Return on Total Assets of NABIL & Com. Banks



2) Credit to Total Deposit

This ratio measures the bank's success to mobilize their funds on loan and advance for the purpose of income generation. A higher ratio indicates better mobilization of collected deposit and vice-versa. But, it is know that high ratio may not be better from the liquidity point of view. This ratio is computed by dividing loan and advances by total deposit. The ratio is calculated as follow.

$$\text{Credit to Total Deposit} = \frac{\text{Credit}}{\text{Total Deposit}}$$

Table 4.9

Credit to Total Deposit (%)

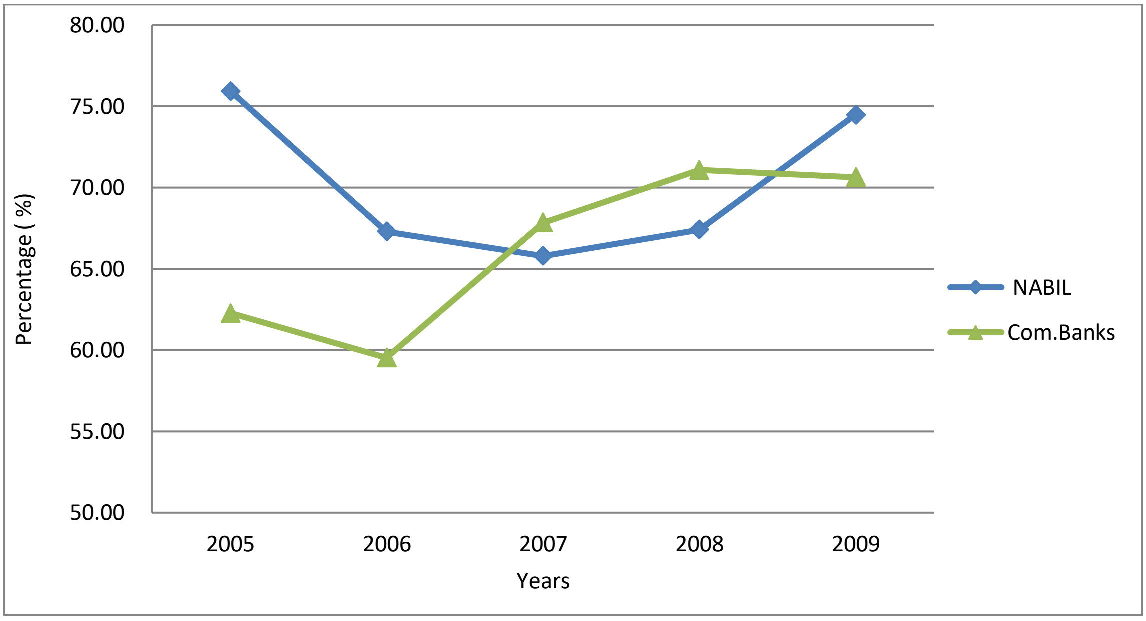
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	75.95	67.30	65.79	67.41	74.48	70.19
Commercial Banks	62.28	59.53	67.84	71.09	70.64	66.28

Source: Annual Report of NRB

The above table describes that the ratio of credit to total deposits ratios of Nabil are 75.95%, 67.30%, 65.79%, 67.41% and 78.48% respectively over the reviewed period. The average credit to total deposit ratio is 70.19%. Similarly, the ratio of Commercial banks is 62.28%, 59.53%, 67.84%, 71.09% and 70.64%. The average credit to total deposit ratio is 70.64%. This shows that Nabil bank is the most successful though it is less consistent than Commercial Banks. Whereas higher ratio is not better from the point of view of liquidity as the credit is not as liquid as cash and bank balance.

Figure 4.9

Trend value of Total Credit to Total Deposit of NABIL &Com. Banks



3) Investment to Total Deposit

A Commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial and non- financial companies. Now effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa.

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

Table 4.10

Investment to Total Deposit (%)

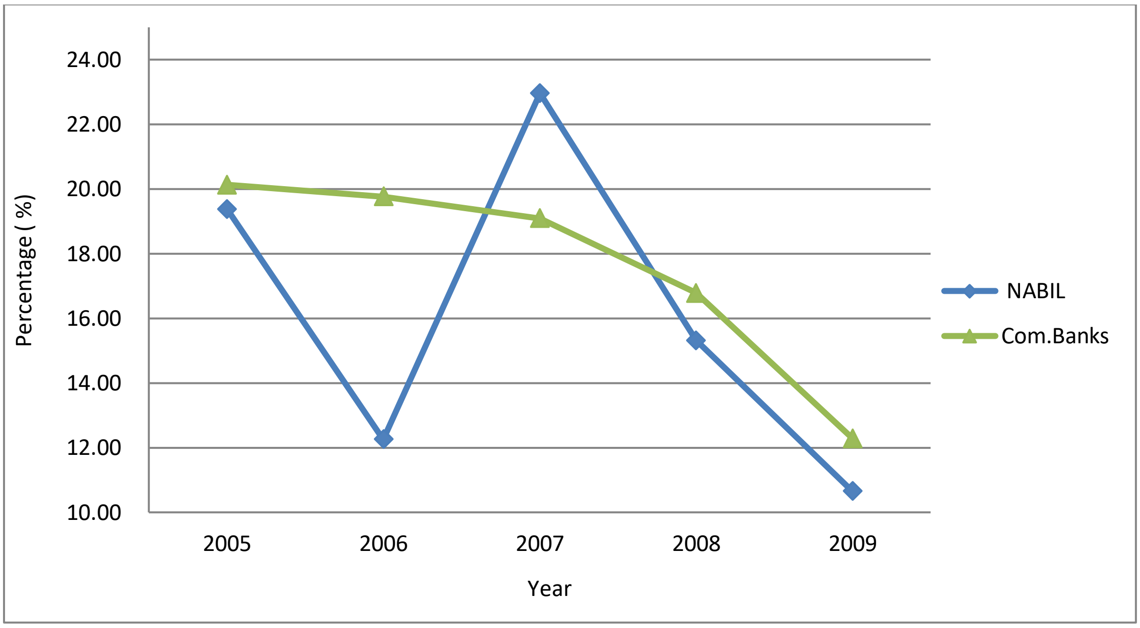
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	19.38	12.26	22.96	15.32	10.65	16.11
Commercial Banks	20.13	19.76	19.09	16.78	12.29	17.61

Source: Annual Report of NRB

The above table reveals that the Nabil's total investment to total deposit has an increasing trend up to F/Y 2006/07then after in F/Y 2007/08 the ratio has been decreased. Nabil has highest ratio of 22.96% in the F/Y 2006/07and lowest ratio is 10.65% in F/Y 2008/09. Whereas the Commercial banks has decreasing trend in the ratio throughout the review period, its highest ratio is 20.13% in F/Y 2004/05and the lowest ratio is 19.76 in F/Y 2005/06.from average ratio point of view Commercial banks 's capacity to mobilize their deposit on total investment is highest. We conclude that Commercial banks have been seen more consistent.

Figure 4.10

Trend value of Total Investment to Total Deposit of NABIL & Com. Banks



4) Fixed Deposit to Total Deposit

This ratio indicates the ability of banks immediate funds to cover their fixed call deposit. A high ratio represents the greater ability to cover their deposits and vice versa. This ratio is calculated by dividing cash and bank balance by total deposit.

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

Table 4.11

Fixed Deposit to Total Deposit (%)

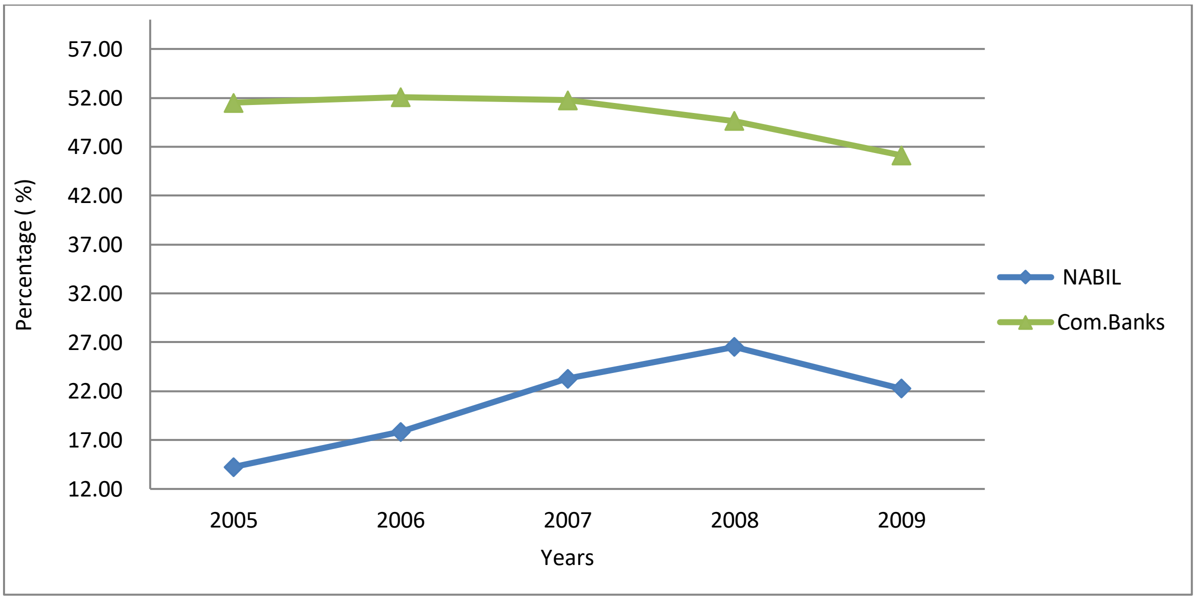
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	14.25	17.83	23.28	26.52	22.25	20.83
Commercial Banks	51.50	52.07	51.77	49.63	46.12	50.22

Source: Annual Report of NRB

The above table describes that the ratio of fixed deposit to total deposit ratios of Nabil are 14.25%, 17.83%, 23.28%, 26.52% and 22.25% respectively over the reviewed period. The average fixed deposit to total deposit ratio is 20.83%. Similarly, the ratio of Commercial banks is 51.50%, 52.07%, 51.77%, 49.63% and 46.12%. The average fixed deposit to total deposit ratio is 50.22%. This shows that Commercial banks have highest fixed deposit than Nabil bank.

Figure 4.11

Trend value of Fixed Deposit to Total Deposit of NABIL & Com. Banks



5) Current Deposit to Total Deposit

This ratio indicates the ability of banks immediate funds to cover their current deposit. A high ratio represents the greater ability to cover their deposits and vice versa. This ratio is calculated by dividing cash and bank balance by total deposit.

$$\text{Current Deposit to Total Deposit} = \frac{\text{Current Deposit}}{\text{Total Deposit}}$$

Table 4.12

Current Deposit to Total Deposit (%)

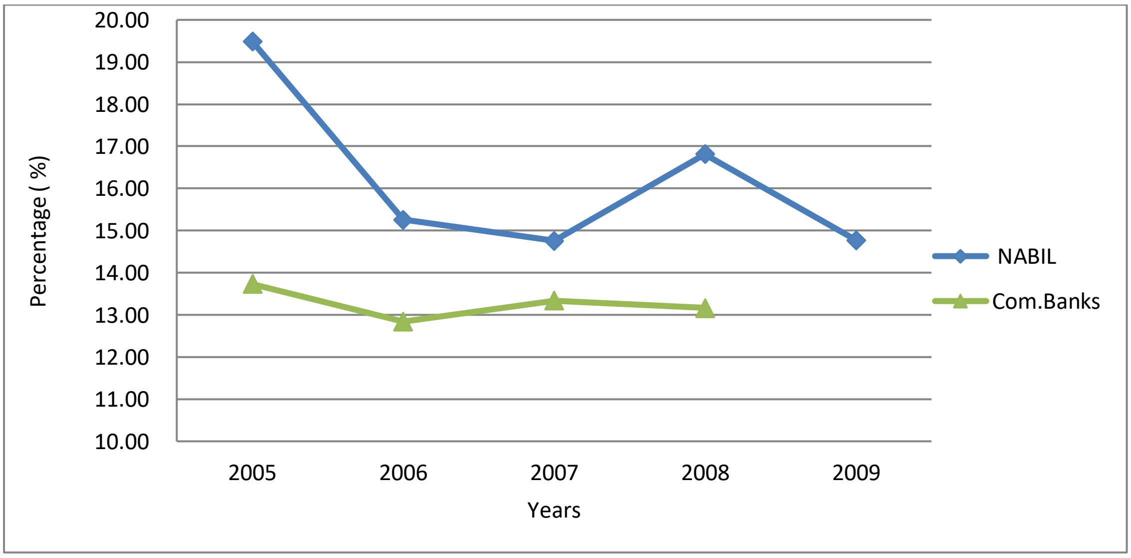
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	19.49	15.26	14.76	16.81	14.77	16.22
Commercial Banks	13.73	12.84	13.34	13.16	12.71	13.16

Source: Annual Report of NRB

The above table describes that the ratio of current deposit to total deposit ratios of Nabil are 19.49%, 15.26%, 14.76%, 16.81% and 14.77% respectively over the reviewed period. The average current deposit to total deposit ratio is 16.22%. Similarly, the ratio of Commercial banks is 13.73%, 12.84%, 13.34%, 13.16% and 12.71%. The average current deposit to total deposit ratio is 13.16%. This shows that current deposit of Nabil bank is higher than commercial banks. A higher ratio indicates the sound ability to meet the daily cash requirement of their customer's deposit and vice –versa.

Figure 4.12

Trend value of Current Deposit to Total Deposit of NABIL & Com. Banks



6) Credit (Govt. Entp.) to Total Deposit

This ratio shows the degree to which a bank is using its deposit fund to its credit in government enterprise.

$$\text{Credit (Govt. Entp.) to Total Deposit} = \frac{\text{Credit (Govt. Entp.)}}{\text{Total Deposit}}$$

Table 4.13

Credit (Govt. Entp.) to Total Deposit (%)

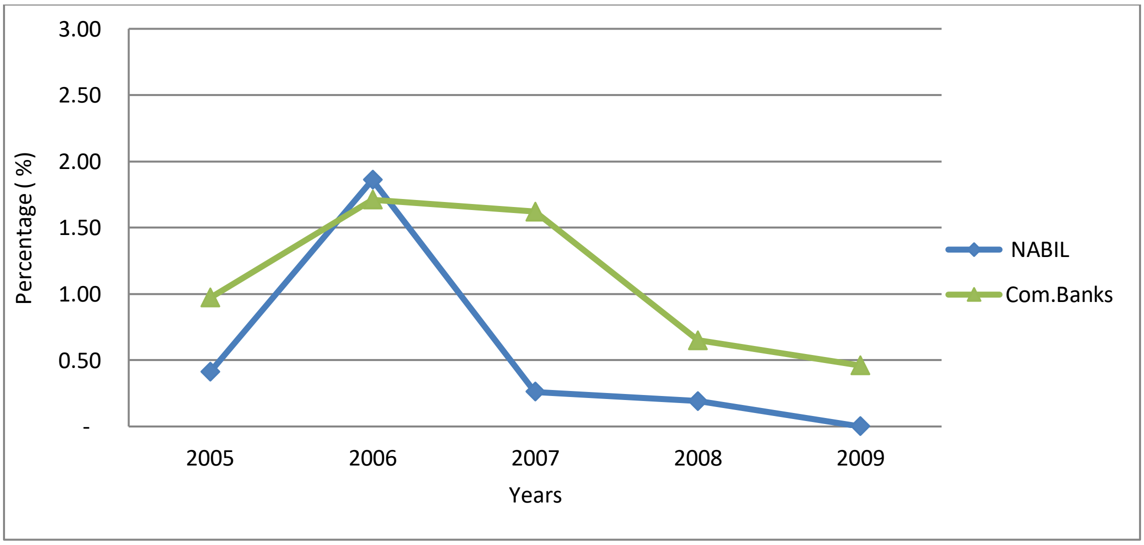
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	0.41	1.86	0.26	0.19	0.00	0.54
Commercial Banks	0.97	1.71	1.62	0.65	0.46	1.08

Source: Annual Report of NRB

The above table describes that the ratio of credit (Govt. Entp.) to total deposit ratios of Nabil are 0.14%, 1.86%, 0.26%, 0.19% and 0.00% respectively over the reviewed period. The average credit (Govt. Entp.) to total deposit ratio is 0.54%. Similarly, the ratio of Commercial banks is 0.97%, 1.71%, 1.62%, 0.62% and 0.46%. The average credit (Govt. Entp.) to total deposit ratio is 1.08%. This shows that Commercial banks have highest credit (Govt. Entp.) than Nabil bank.

Figure 4.13

Trend value of Credit (Govt.Entp) to Total Deposit of NABIL & Com. Banks



7) Credit (Pvt. Sector.) to Total Deposit

This ratio shows the degree to which a bank is using its deposit fund to its credit to private sector.

$$\text{Credit (Pvt. Sector.) to Total Deposit} = \frac{\text{Credit (Pvt. Sector.)}}{\text{Total Deposit}}$$

Table 4.14

Credit (Pvt. Sector) to Total Deposit (%)

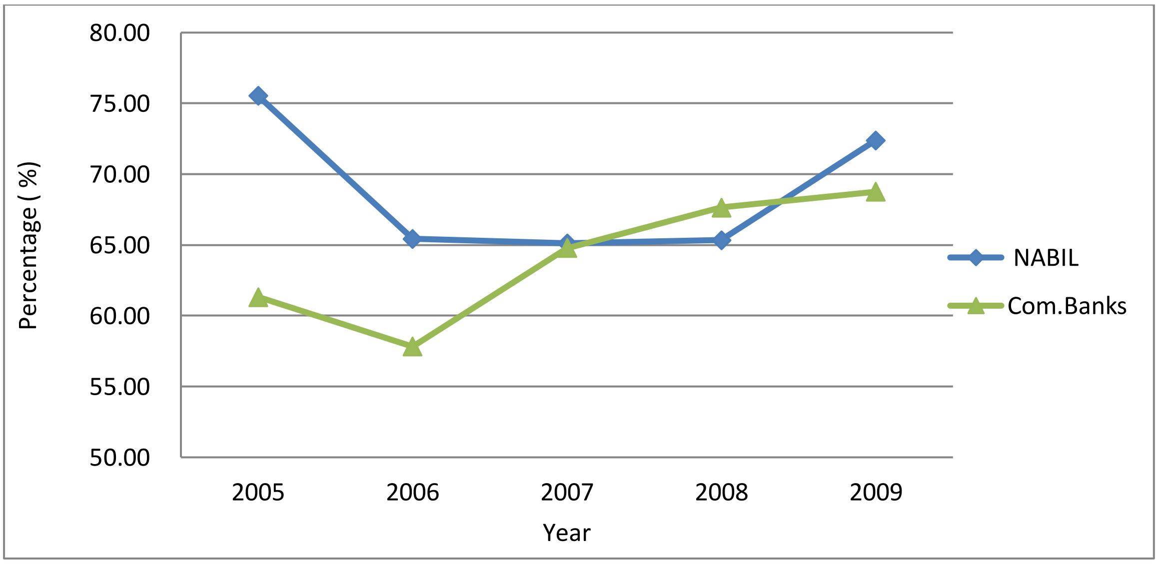
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	75.53	65.44	65.12	65.35	72.39	68.77
Commercial Banks	61.31	57.82	64.77	67.65	68.76	64.06

Source: Annual Report of NRB

The above table describes that the ratio of Credit (Pvt. Sector) to total deposit ratios of NABIL are 75.53%, 65.44%, 65.12%, 65.35% and 72.39% respectively over the reviewed period. The average Credit (Pvt. Sector) to total deposit ratio is 68.77%. Similarly, the ratio of Commercial banks is 61.31%, 57.82%, 64.77%, 67.65% and 68.76%. The average Credit (Pvt. Sector) to total deposit ratio is 64.66%. This shows that Nabil bank have highest Credit (Pvt. Sector) than Commercial banks.

Figure 4.14

Trend value of Credit(Pvt. Sector) to Total Deposit of NABIL & Com. Banks



4.1.3 Capital

Capital adequacy refers to the condition of having sufficient permanent resources to continue operation of the organization despite financial losses or non availability of external funding. Normally the capital structure consists of the mixture of equity and debt. Equity refers to the fund contributed by the promoters/ shareholders whereas debt is temporary way of raising funds without further dilution of ownership, which is mainly done by issuing bonds and debentures of various maturities.

To ensure adequate capital in the banking system, NRB has prescribed the Capital Adequacy Ratio parameters on which the capital of the banks need to be maintained as the percentage of its risk weighted assets such as loans it has provided and the securities it holds. Thus this parameter indicates whether a particular bank has enough capital to absorb unexpected losses or not. Under the capital adequacy section, the financial position of the Nabil is analyzed and interpreted using risk based capital ratio, proposed dividend to after tax income, growth rate of capital and growth rate of assets.

4.1.3.1 Capital Adequacy

This is the section where the adequacy of the capital requirements is measured. Ratios under this section measures whether the firm has maintained the adequate capital fund or not. If helps to decide whether the existing capital is adequate or there is the need of capital reform.

To ensure capital adequacy among the banks, the NRB issued in April 2001 a revised capital adequacy directive. The revised regulation on capital adequacy requires the banks to observe a capital ratio consistent with international standards. Every bank should maintain minimum capital of fund on the basis of risk weighted assets as per the NRB Directives.

a) Capital to Total Deposit

The ratio is calculated by dividing the capital to total deposit. The rate of retention is directly related to increasing capital though high retention is not necessary.

$$\text{Capital to Total Deposit} = \frac{\text{Capital}}{\text{Total Deposit}}$$

Table 4.15

Capital to Total Deposit (%)

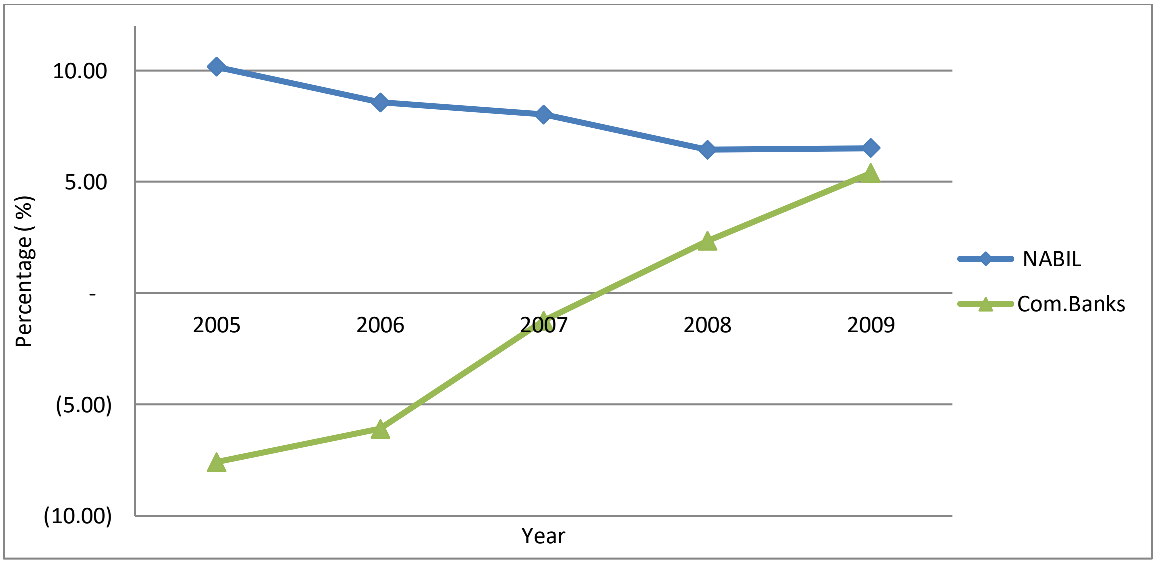
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	10.16	8.57	8.03	6.45	6.52	7.95
Commercial Banks	-7.58	-6.09	-1.23	2.34	5.39	-1.43

Source: Annual Report of NRB

The above table describes that the ratio capital to total deposits ratios of Nabil are 10.16%, 8.57%, 8.03%, 6.45% and 6.52% respectively over the reviewed period. The average capital to total deposit ratio is 7.95%. Similarly, the ratio of Commercial banks is -7.58%, -6.09%, -1.23%, 2.34% and 5.39%. The average capital to total deposit ratio is -1.43%. This shows that Nabil bank and commercial banks has increasing capital to total deposit ratio.

Figure 4.15

Trend value of Capital to Total Deposit of NABIL & Com. Banks



b) Capital to Total Credit

The ratio is calculated by dividing the capital to total credit. The rate of retention is directly related to increasing capital though high retention is not necessary.

$$\text{Capital to Total Credit} = \frac{\text{Capital}}{\text{Total Credit}}$$

Table 4.16

Capital to Total Credit (%)

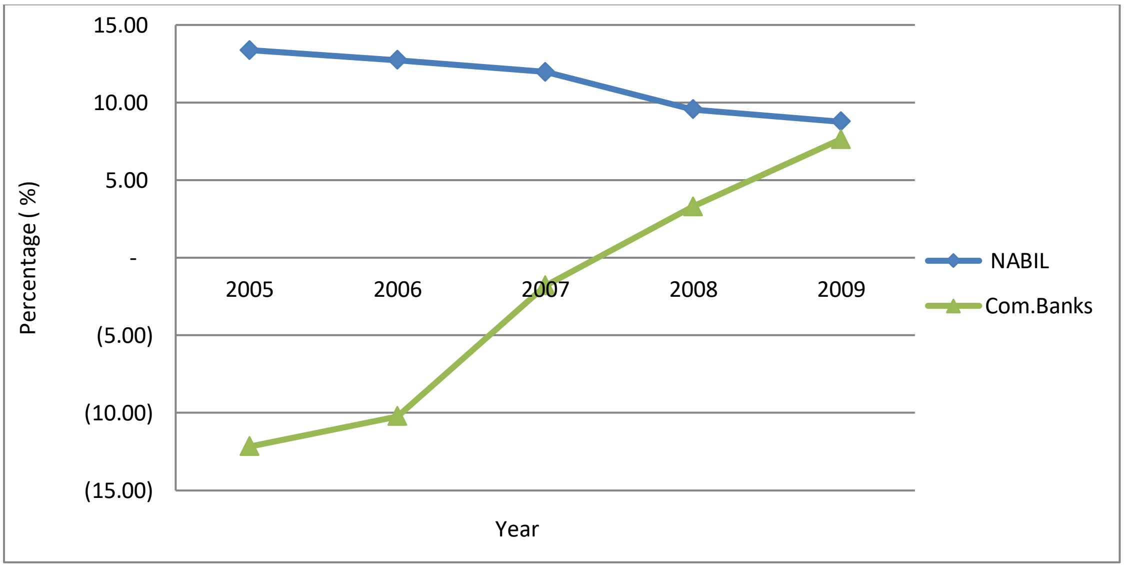
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	13.38	12.73	11.97	9.56	8.76	11.28
Commercial Banks	-12.17	-10.23	-1.81	3.29	7.64	-2.66

Source: Annual Report of NRB

The above table describes that the ratio capital to total credit ratios of NABIL are 13.38%, 12.73%, 11.97%, 9.56% and 8.76% respectively over the reviewed period. The average capital to total credit ratio is 11.28%. Similarly, the ratio of Commercial banks is -12.17%, -10.23%, -1.81%, 3.29% and 7.64%. The average capital to total credit ratio is -2.66%. This shows that commercial banks have increasing capital to total credit ratio and Nabil bank has decreasing capital to total deposit.

Figure 4.16

Trend value of Capital to Total Credit of NABIL & Com. Banks



c) Capital to Total Assets

Total assets are the total value of assets side of balance sheet. It measures the bank efficiency in the utilization of the overall assets. Higher value indicates the management success in overall operation and lower value indicates inefficient operation of the bank. The ratio is calculated by dividing the capital by total assets.

$$\text{Capital to Total Assets} = \frac{\text{Capital}}{\text{Total Assets}}$$

Table 4.17

Capital to Total Assets (%)

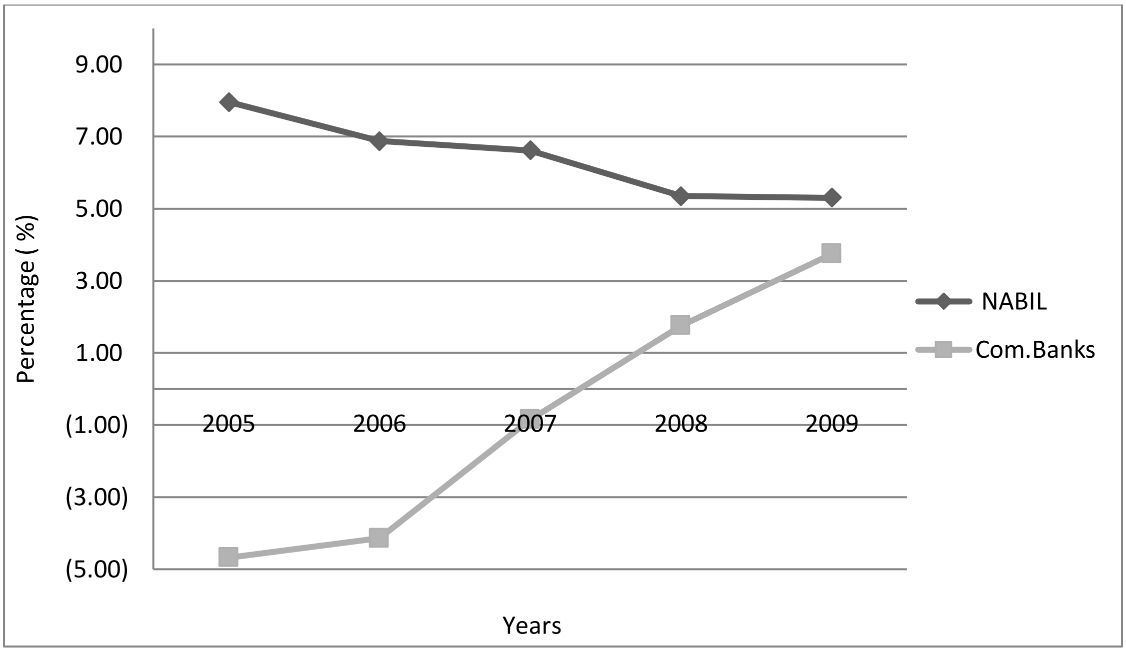
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	7.96	6.87	6.62	5.35	5.30	5.22
Commercial Banks	-4.68	-4.14	-0.85	1.76	3.74	-0.84

Source: Annual Report of NRB

The above table describes that the ratio capital to total assets ratios of Nabil are 7.96%, 6.87%, 6.62%, 5.35% and 5.30% respectively over the reviewed period. The average capital to total credit assets ratio is 5.22%. Similarly, the ratio of Commercial banks is -4.68%, -4.14%, -0.85%, 1.76% and 3.74%. The average capital to total assets ratio is -0.84%. This shows that commercial banks have increasing capital to total assets ratio and Nabil bank has decreasing capital to total asset.

Figure 4.17

Trend value of Capital to Total Assets of NABIL & Com. Banks



4.1.3.2 Growth Rate of Capital

Capital supports prudent growth and controls unjustified expansion of assets by requiring that asset growth be funded by proportionate amount of additional capital. Ideally, this ratio should keep pace with the growth in assets.

The ratio is determined by subtracting the balance as of the previous year from the current year balance and dividing the result by the prior year's balance.

$$\text{Growth Rate of Capital} = \frac{\text{Current Year's Balance - Prior Year's Balance}}{\text{Prior Year's Balance}}$$

This ratio determines the growth rate of capital with comparative growth rate of assets. There should be capital adjustment with respect to the asset growth rate. So there should be equal pace of growth rate of capital and assets. This ratio measures the degree of safety of depositors.

Table 4.18

Growth Rate of Capital (%)

Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	-17.84	11.83	13.10	9.72	18.43	7.05
Commercial Banks	87.51	-7.25	-76.61	-340.05	205.19	-26.24

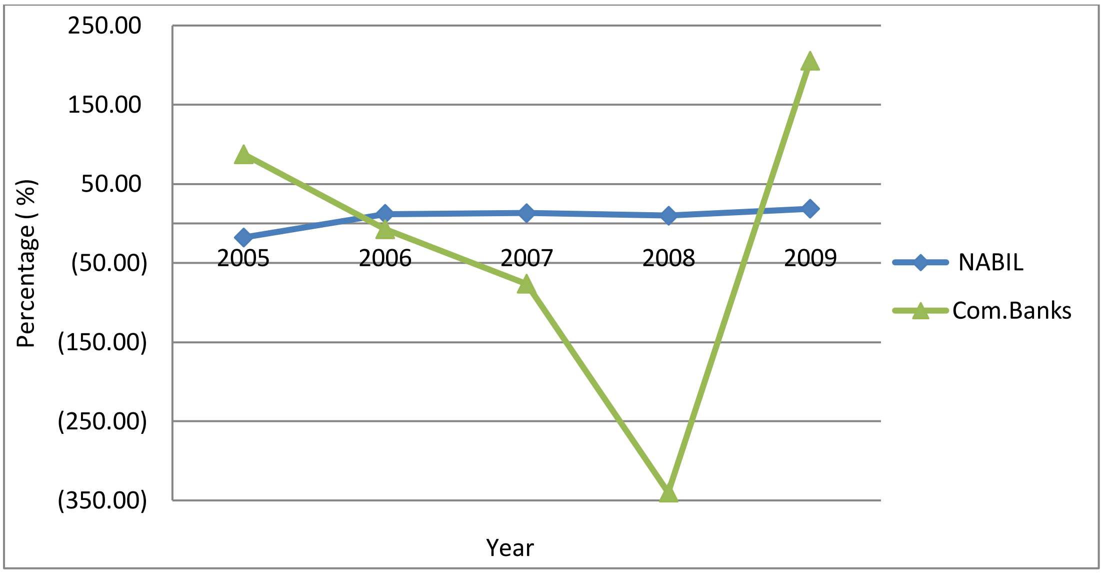
Source: Annual Report of NRB

The above table shows that the bank had experienced the negative growth rate of -17.84% in FY 2004/05. But the growth rate of 11.83% in 2005/06 and 13.10% in 2006/07shows that the bank had raised the huge amount of capital during two years period to strengthen its financial position. In 2007/08 it shows slight decrement from 13.10% to 9.72% and again huge increment to18.43% in 2008/09. So the capital growth rate of Nabil is highly fluctuated in the five year period. As well as commercial banks have negative growth rate for three years 2005/06, 2006/07and 2007/08. In 2008/09commercial banks had raised the huge amount of capital.

There are no any norms to measure the quality of direction of the capital independently. So, it should be measured with the comparison of the growth rate of the assets. With the comprising between the growths rate of assets and capital denotes the position of the financial coverage of the bank.

Figure 4.18

Trend value of Growth Rate of Capital of NABIL & Com. Banks



4.1.3.3 Growth Rate of Assets

The ratio is determined by subtracting the balance as of the prior year from the current year's balance and dividing the result by the prior year's balance.

$$\text{Growth rate of Asset} = \frac{\text{Current Year's Balance - Prior Year's Balance}}{\text{Prior Year's Balance}}$$

The asset side of the balance sheet represents the primary risk faced by the bank and the loans are the highest risk carrying factors. The ratio measures the growth rate of assets. The growth rate should be within the acceptable range. There are no any standard norms of the assets growth rate. But there should be identification of the change in the percentage change in the risk rated assets and less risk rated assets. This ratio is further used to compare the growth rate of capital.

Table 4.19

Growth Rate of Assets (%)

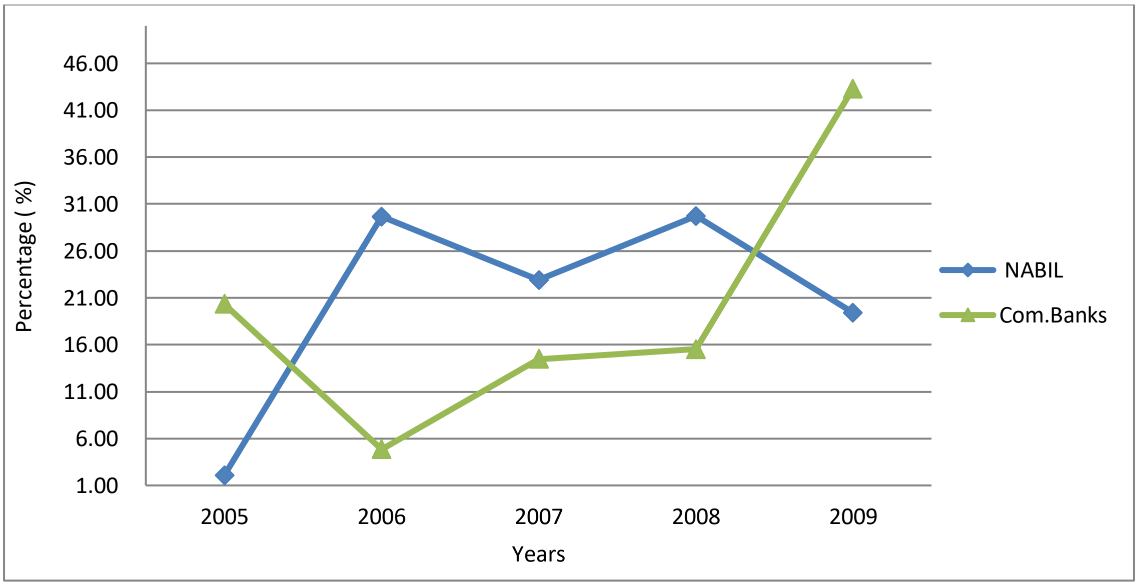
Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
NABIL	2.09	29.65	22.89	29.73	19.40	20.75
Commrcial Banks	20.34	4.84	14.45	15.51	43.31	19.69

Source: Annual Report of NRB

The above table describes that the growth rate of total assets of Nabil are 2.09%, 29.65%, 22.89%, 29.73% and 19.40% respectively over the reviewed period. The average growth rate of total assets is 20.75%. Similarly, the growth rate of total assets of Commercial banks is 20.34%, 4.84%, 14.45%, 15.51% and 43.31%. The average growth rate of total assets is 19.69%. This shows that commercial banks have less growth rate of total assets than Nabil bank.

Figure 4.19

Trend value of Growth rate of Assets of NABIL & Com. Banks



4.2 Statistical Analysis

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate decision. In this study, the least square linear trend was used to achieve the objective of the study.

This topic analyzes the trend of net profit of Nabil and Com. Bank from the F/Y 2004/05 to 2008/09 and makes the forecast for the next five fiscal years till 2014.

4.2.1 Trend Analysis of Net Profit and Deposit for next 5 years

The profit is the universal measurement tool of the performance of profit earning institution. Likewise, it also serves as an important yardstick to measure the performance of the banks. Profit is important to various parties like management, employees and the government. The employees may use it to validate their claim for better recommendations and the government to receive taxes. Here the trend analysis of net profit of Nabil and Commercial banks was done. The forecast was made for the next five fiscal years. The forecast was based on the following assumptions:

- The main assumption is that other things remain constant.
- The forecast will be only when the limitations of least square method are carried out.
- The bank will run in present position.
- The economy will remain in the present trend.
- Nepal Rastra Bank will not change its guidelines to the commercial banks.

The following table shows the trend values of net profit of Nabil and Commercial banks for 10 fiscal years from.

Trend Values of Net Profit of Nabil and Commercial Banks

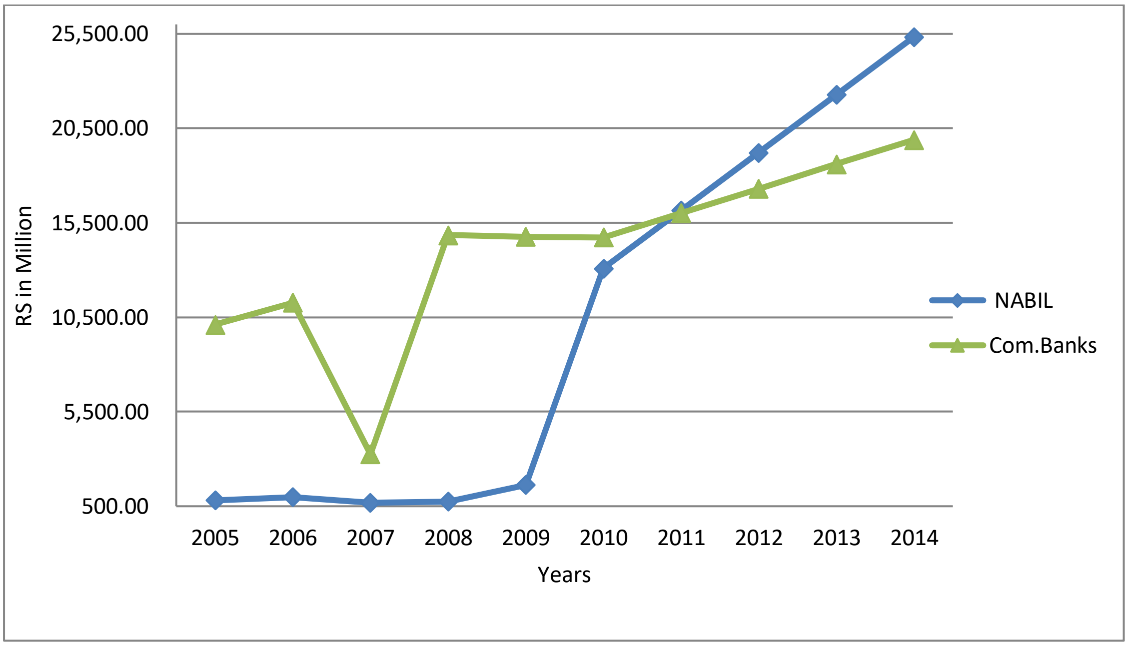
Year	Trend Value of NABIL	Trend Value of Com Banks
2005	817.9	10104.8
2006	979.1	11272.7
2007	685.6	3249.1
2008	750.4	14856.8
2009	1624.9	14772.4
2010	13086.45	14726.95
2011	16149.80	16018.88
2012	19213.15	17310.81
2013	22276.50	18602.74
2014	25339.85	19894.67

Source: Annual Report of NRB

The above table shows that the net profit of both the banks have the increasing trend for the forecasted period. If other things remaining the same, the total net profit of Nabil and Com. Bank will be Rs 25339.85 million and Rs 19894.67 million for the F/Y 2013/14. The calculated trend values of net profit of both the banks have been diagrammatically presented in the trend line below:

Figure 4.20

Trend value of Net Profit of NABIL & Com. Banks (2005-2009)



Trend Values of Deposit of Nabil and Commercial Banks

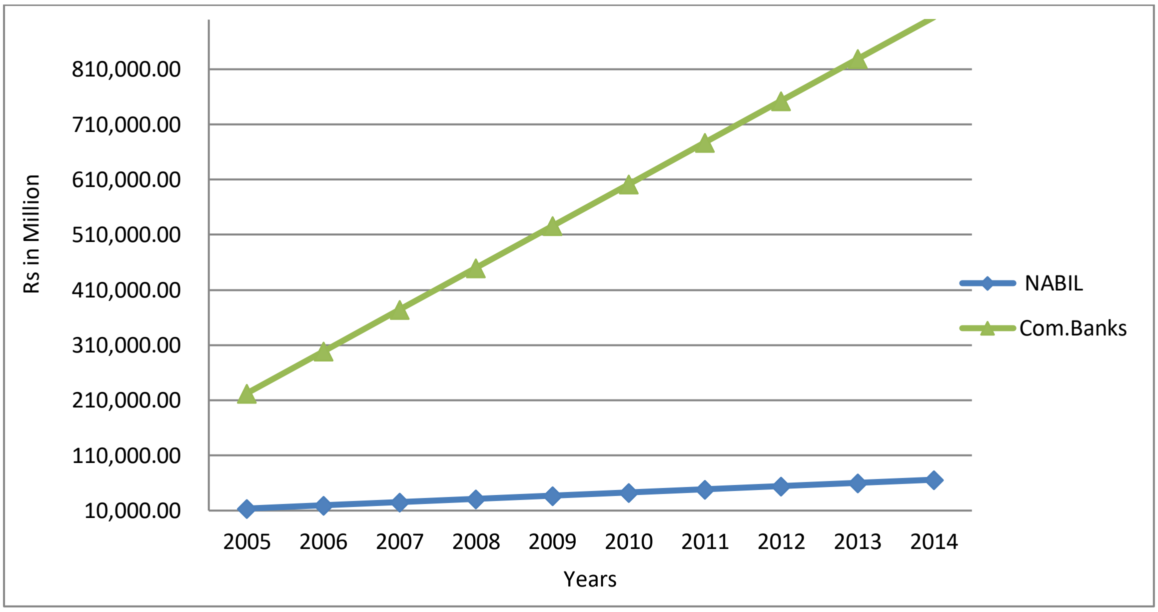
Year	Trend Value of NABIL	Trend Value of Com Banks
2005	13690.26	222722.66
2006	19499.22	298445.07
2007	25308.18	374167.48
2008	31117.14	449889.89
2009	36926.10	525612.30
2010	42735.06	601334.71
2011	48544.02	677057.12
2012	54352.98	752779.53
2013	60161.94	828501.94
2014	65970.90	904224.35

Source: Annual Report of NRB

The above table shows that the deposit of both the banks have the increasing trend for the forecasted period. If other things remaining the same, the total deposit of Nabil and Com. Bank will be Rs 65970.90 million and Rs 904224.35 million for the F/Y 2013/14. The calculated trend values of deposit of both the banks have been diagrammatically presented in the trend line below.

Figure 4.21

Trend value of Net Profit of Nabil & Com. Banks



4.3 Major Findings

The Net profit margins of both the banks were not consistent. The Net profit margin of both Nabil & Commercial bank was in fluctuating trend. The NPM ratio shows that the management of both banks has been able to control its operational costs and maintain efficiency. Similarly, return on total asset ratio of Nabil bank is in increasing trend. Whereas Commercial Banks return on total asset ratio is in fluctuation trend.

Growth rate of credit both Nabil and Commercial Banks were in good position. In F/Y 2007/08 of Nabil bank has got the highest growth rate of credit 40.10%, Whereas Commercial banks also got the highest growth rate of credit of 32.30 in F/Y 2007/08. So the ratio of both banks shows the growth rate of credit

The return on Total assets of Nabil bank has been increasing every year. But Commercial Banks have been increase 2.47% in F/Y 2004/05 and 2.63%in F/Y 2005/06 then after it has slightly decreased in F/Y 2006/07. The average return on total assets is not much different between Nabil and commercial Banks.

The credits to total deposits ratios of Commercial Banks were better than Nabil. The credit to total deposits ratio of Nabil bank has been decreased up to F/Y2007/08 and increase in F/Y 2008/09. This shows that Nabil bank is the most successful though it is less consistent than Commercial Banks. Whereas higher ratio is not better from the point of view of liquidity as the credit is not as liquid as cash and bank balance.

Nabil's total investment to total deposit has an increasing trend up to F/Y 2006/07then after in F/Y 2007/08 the ratio has been decreased. Nabil has highest ratio of 22.96% in the F/Y 2006/07and lowest ratio is 10.65% in F/Y 2008/09. Whereas the Commercial banks has decreasing trend in the ratio throughout the review period, its highest ratio is 20.13% in F/Y 2004/05and the lowest ratio is 19.76 in F/Y 2005/06.from average ratio point of view Commercial banks 's capacity to mobilize their deposit on total investment is highest. We conclude that Commercial banks have been seen more consistent.
The average current deposit to total deposit of Nabil & commercial banks are 16.22%. and 13.16%. It shows that Nabil is better than Commercial Banks. Since both banks don't have any negative or loss in sum, the current deposit to total deposit of both banks can be consider quite satisfactory.

Lower ratio indicates that the bank might face liquidity crunch while paying its obligations; whereas a high ratio points out that the bank has been keeping idle funds and not deploying them properly. In average Nabil has 10.97% and Commercial banks has 15.22%of Liquid Fund to total deposit which shows that Commercial Banks has just reasonable funds to meet their payment obligation.

The average total loans to total deposit ratio of Nabil and Commercial Banks is 3.99% and 7.66%. Nabil's investment in loan sector is increasing each year but Commercial Banks total loan to total deposit is increasing and decreasing. This ratio shows the degree of using the deposit amount. The Nabil bank has been able to use total deposit as the loan requirement than Commercial Banks.

In average Nabil 6.10% of cash and bank balance to total deposit and commercial banks has 12.22% which shows that commercial banks has just reasonable funds to meet their payment obligation than Nabil bank. Lower ratio indicates that the bank might face liquidity crunch while paying its obligations; whereas a high ratio points out that the bank has been keeping idle funds and not deploying them properly.

The average ratio of the borrowing to total liabilitiesof Nabil and commercial banks is 2.45%. and 2.26%. Both banks have increasing trend it can be said that Bank has high ability of the borrowing in the final year to maintain the strong liquidity position.The high percentage of the ratio indicates the high amount of less costly borrowing among other borrowings. The borrowing is made to meet the daily liquidity purpose. So, one should identify the frequency of borrowing rather than amount of borrowing.

The growth rate of total assets of Nabil is increasing respectively over the reviewed period. The average growth rate of total assets is 20.75%. Similarly, the growth rate of total assets of Commercial banks is increasing and decreasing and the average growth rate of total assets is 19.69%. This shows that commercial banks have less growth rate of total assets than Nabil bank.

The net profits of both the banks have the increasing trend for the forecasted period. If other things remaining the same, the total net profit of Nabil and Com. Bank will be Rs 25339.85 million and Rs 19894.67 million for the F/Y 2013/14. And the total deposit of Nabil and Com. Bank will be Rs 65970.90 million and Rs 904224.35 million for the F/Y 2013/14.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The economic development of every country is always measured by its economic indicators. Therefore, every country has given emphasis on the development of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals with the process of channelling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like banks are necessity to collect scattered savings and put them into productive channels. In the absence of such institutions it is possible that the saving will not be safely and profitably utilized within the country.

Banks today are under great pressure to meet the objectives of their stockholders, employees, depositors, and borrowing customers, while somehow keeping government regulators satisfied that the bank's policies, loans, and investments are sound. The majority of the needs of the stakeholders are related with the profitability of the banks. Thus, the foremost objective of the banks is the profit maximization. As other types of business entity, commercial banks are also inspired by the profit. In this age of great competition, only the profitable banks can sustain for a long time.

Financial policies of any concern are directly or indirectly influenced by its profitability. Thus, it is a base for a bank's survival, growth and expansion. Profitability analysis is one of the key tools for financial decision and assist in making plan before using sophisticated forecasting and budgeting procedure. The value of this approach is the quantitative relation, which can be used to diagnose strengths and weakness in a bank performance. Such analysis is considerable things for the bank's common stock holders, investors, bondholders and others.

In this context, the profitability of Nabil and Commercial Banks has been analyzed. Profitability analysis of Nabil and Commercial Banks were done on the basis of their financial statements from the F.Y. 2004/05 to 2008/09. Various financial ratios, income and expenditure analysis, trend analysis were used to accomplish. This study is mainly based on the secondary data. Those data were first processed and analyzed comparatively. This study is exploratory as well as analytical one.

Nabil has also formulated various products to extend direct and indirect financing towards micro and small enterprises which help increase production, employment and income as prioritized under the national development plans with an objective to uplift the living standard of general public particularly the deprived and low income people by progressively reducing the prevalent unemployment. Bank has made equity investment in various leading Cooperatives and Rural Development Banks to further partake in these activities. Nabil also refinanced in the deprived sectors mostly through these Co-operatives and Rural Development Banks providing institutional loans.

On human resource development and management front, banks have introduced management plan, human resources development plan and skill enhancement plan in order to maintain human resources at the optimum level. The review work for the required number of human resource has been completed. All Commercial banks have submitted capital plan and succession plan to the NRB.

The study in this context was mainly focused on the performance of the bank in terms of profitability. The performance of the bank was reviewed with the performance of the contemporaries and industry to study its performance in comparative terms. The financial data used for the study was obtained from secondary sources. The data were then analyzed with the help of various tools like ratio analysis, comparisons and statistics like trend analysis. The data were then presented in tabular as well as in graphical form that can be easily understood and interpreted by the user.

5.2 Conclusion

The research and analysis revealed many interesting issues with respect to the latest profitability condition of Nabil and Commercial Banks. The present study successfully explored the result to meet the stated objectives of the study and found meaningful. The result showed that a Profitability position of Nabil and Commercial Banks was found relatively better because the most of the Profitability practices scored the better position.

The management teams in both of these banks have introduced a number of plans, policies and manuals in order to strengthen the internal system. These include, among others, credit policy and guidelines in order to reform the credit management and formulate directive for the asset liability management. Also, new accounting directive, internal audit directive, accounts head classification directive, human resource plan, skill enhancement plan, portfolio status and plan, budget plan, strategic plan and anti-money laundering directive and trade and finance directive have been implemented.

The management should reflect the capabilities of management and their roles towards achieving their goals. The management of Nabil is efficient and successful because net profit is continuously increasing in a sustainable manner over the study period. From this it can be concluded that the management of Nabil is quite satisfactory.However it was found better in Commercial Banks because most of the ratio designed for the study supported the Commercial Banks. Similarly, the average ratio of Nabil and Commercial Banks has not that much difference.

The Capital fund considered as a major indicator of financial strength, recorded positive in F/Y 2007/08 and F/Y 2008/09 years and negative in F/Y 2004/05to F/Y 2006/07of Commercial banks. The capital growth rate of Nabil is highly fluctuated in five years period.The influence of government and political situation in banking sector affects the overall activities of the bank and major problem is seen in loan recovery department of the bank due to which the bank are facing loss.

The trend values of net profit of Nabil and Commercial Banks for F/Y 2013/14 is 19874.67 million & 25339.85 million, which shows that the net profit of both banks have the increasing trend for the forecasted period.

5.3 Recommendation

Recommendations are the final output of the whole study. It helps to convey positive information and proper way of improvement to concern banks Nabil and Commercials banks and as well as other interest researcher in upcoming days. Various analyses have been done until this stage. On the basis of analysis and finding of the study, following suggestion and recommendation can be advanced to overcome weakness, inefficiency and satisfactory improvement policy of Nabil, and Commercial Banks.

- The study reveals that Nabil bank has not adopted any cost management strategy to have control over its cost of funding. Nabil has paid very higher interest to deposits and other working funds than Commercial Banks. The cost management strategy would be ideal to reduce the various costs and increase the profitability.
- The bank should follow the strict investment policy to avoid the non-performing assets. It should increase investment in the government

securities to trade off and stabilize the quality investment in commercial LDO

- The fee-based activities of bank are found to be very profitable and important nowadays in banking business. These are commission, discounts and fees. They yield height return to a bank. Nabil bank is not in the better position regarding the proportion of fee-based activities to loan and advances. It is recommended to enhance the off- balance operation, as it is very profitable and immediately realizable.
- Looking at the current trend of banking business, a bank must be very much careful on formulating marketing strategies to serve its customer. The marketing strategies should be innovative that would attract and retain the customers. It is recommended Nabil bank to develop an innovative approach to bank marketing for its well-being and sustainability in the market.
- To scope the changing environment in the banking business Nabil bank is suggested to enhance its existing facility of ATM, any branch banking system, credit card facility and web site etc. throughout the branching network from the limited service of the valley.
- The growth rate of deposit is in highly fluctuating trend. Although the growth rate of deposit is high, the bank should maintain its deposit level with taking liquidity position and investment policy into consideration.
- The earning per share and dividend per share attracts the investors. The bank is also not generating sufficient return from the equity. So, higher cash dividend strategy should be adopted for the better growth of shareholder’s worth. Nabil bank should increase its cash dividend.
- An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.
- Majority of joint venture banks have been found to be profit oriented ignoring their social responsibility. For a survival of a long run, bank

should be able to render their services in the rural, deprived areas. For more social movement, the bank is suggested to introduce a scheme like loan for further study to the students, loan for promoting skills of women or unemployed housewives etc.

Besides all the above recommendations and suggestions, the bank should keep working on its strong parts to stay long and strong in this competitive environment.

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