

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the least developed countries of the world. Poverty is still standing as a serious challenge to the country. The nation is unable to fulfill the national requirement of people even to develop infrastructure. In such context, it is realized that without industrial and banking development, it is impossible to have social and economic development. Banking sector plays a vital role for the country's economic development. Bank is a resource mobilizing institution, which accepts deposit from various sources, and invests such accumulated resources in the fields of agriculture, trade, commerce, industry, travel and tourism etc.

The banking sector is mainly responsible for collecting household savings in terms of different types of deposit and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to the 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.

There are various types of banking institutions, which are performing different functions in the context of Nepal. It can be divided into three parts: The Central Bank, Commercial Banks and other financial institutions, which are also known as financial intermediaries. All of these financial intermediaries deal with money or money related transactions.

Banks collect the funds from public who have savings and disperse the fund to the person who is in need of it. This way, whole infrastructure of national development, direction of economy, rate of progress and even the habit of

people are being the function of banking systems. Banks function of lending ensures required volume of capital to resources mobilization. The primary issue of economic development is to increase the investment in productive sector. The increase in investment impacts positively in every sector of economy such as employment, production, income, government revenue, international trade etc.

The banking business has its genesis from its function of lending. Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions such as merchant banking, credit card business, documentary credit, traveller cheque businesses etc. Lending has its different forms. It can be divided into fund based and non-fund based lending. The fund based lending can be further divided into cash credit overdrafts, demand and term loans, bills purchased and discounted and export packing credit, project finance, consortium finance, loan syndication, bridge loan etc.

The history of organized modern banking system begins in Nepal only after the establishment of a commercial bank i.e. Nepal Bank Ltd. in 1937 A.D. or in 30th Kartik 1994 B.S. with an authorized capital of Rs. 10 million and paid up capital Rs. 842 thousands. With the opening of NABIL bank in 1985 A.D. the door of opening commercial banks was opened to the private sector. Then whole lot of commercial banks was expanded in Nepal. Today probably, all the banks are running in profit. There are some inefficiencies of public sector banks which have lead to the success of other private banks.

1.2 Focus of the Study

The study is focused on the relationship between banker and its client and overall performance of the concerned commercial banks and at which level the commercial banks have been able to provide its service and obtain business and study about the sector of investment of commercial banks. Its focus is on the

strict government rules and regulation that has limited the sector of expansion. The main focus of the study is to highlight the lending, investment and deposit policies of commercial banks expecting that the study can bridge the gap between deposits, investment and lending policies. On the other hand, the study would provide information for the management of the bank that would help them to take corrective actions. The uplifting of the development of a nation depends largely upon the development of its economic growth. Bank is an institution, which helps in collecting and mobilization of savings. The role of commercial banks in the uplifting of the economic growth of the country is very important and the internal management of the bank greatly influences the development of the economy of the nation. This research focuses on the study of financial performance of Nepal Bank Ltd. and NIBL.

1.3 Statement of the Problem

Some of the commercial banks are continuously making profit and satisfying their shareholders and returning them adequate profit. This has attracted the potential customers to deposit their money into banks, as there are very few sectors to make a profitable investment and the investors are always reluctant to risk. They do not take initiation to invest in other sectors. Therefore commercial banks have a lot of deposits but very little investment opportunity. They are even discouraging people by offering very low interest rate and minimum threshold balance. This will definitely make inverse impact on economy of the country. This has decelerated the pace of economic development. Lack of sound investment policy is another reason for a commercial bank not to properly utilize its deposits that is making loan and advances or lending for a profitable project. This condition will lead the commercial bank to the position of liquidation. They face so many difficulties to mobilize their deposit fund on the profit making investment, so they can achieve sufficient return from the investment and satisfy their shareholder. The lack of knowledge on financial risk, interest rate risk, management risk, business risk, liquidity risk, default risk and purchasing risk, granting loan

against insufficient deposit, overvaluation of goods pledge, land and building mortgaged, risk averting decision regarding loan recovery and negligence in recovery of overdue loan are some of the basic lapses and the result of unsound credit policy sighted in the banks.

A sound banking system providing varieties of banking services to fulfill commerce, trade, industry and agricultural needs of the country is of crucial importance for Nepal. In this way that commercial banks are the backbone of the economy of a country, it is highly useful to make the present study on the Nepal Bank Ltd. and Nepal Investment Bank Ltd. This study enables us to see clear vision of the status of the banks like how effective and attractive its profitability position is, how its income and expenditure status is and how far it has achieved success of any business enterprises. But the financial performance of the enterprises in Nepal is quite dismal and has not been able to contribute towards the generation of surplus.

The financial performance of any financial institution can be evaluated with the aid of balance sheet and profit & loss account. The bank must provide with the statistical information about their business. The information must be provided in a prescribed form for the publication. However, the details of the information regarding loan disbursement are not accessible in the both banks. So, the evaluation of financial performance of the banks has been done with the aid of balance sheet and profit & loss account only.

1.4 Objectives of the Study

The main objective of this research is to examine the financial performance of Nepal Bank Ltd. and Nepal Investment Bank Ltd. The specific objectives of this study are as follows:

- To evaluate the liquidity, efficiency of assets management and profitability position of the banks under study.

- To find out the positive factors that enhanced the performance of the banks and to provide suggestions and recommendations on the basis of findings.

Objective of the study is to identify the problems being faced by the commercial banks at the present economy and their solution. The economy of Nepal is poor and is on downward trend. In the same place commercial banks are emerging like mushroom and they have to fight for their survival by providing best services to their customers.

1.5 Importance of the Study

There is less availability of research work, journal and articles in the financial performance of commercial banks as well as other financial institutions in the context of Nepal. This study on financial performance of the bank analyzes the different indicators such as liquidity ratio, capital structure ratio, profitability ratio, EPS, trend of different components of assets and liabilities, net profit etc. This provides valuable information that is necessary for the management of the bank, which would help them to analyze the current situation and take corrective action.

The success and prosperity of the bank relies heavily up in the successful investment of collected resources to the important sector of economy. Good investment policy has a positive impact on economic development of the country and vice versa. So the investment policy of commercial banks should be in accordance with the spirit of the economic upliftment of the people.

1.6 Limitation of the Study

This study attempts to evaluate the financial performance of two banks. In this fast changing world it is difficult to cope with the pace of the changing technology. Due to the arrival of unforeseen difficulties every study is accompanied by some natural limitations. Some of those limitations are:

- This study is conducted between only two banks. So this will not provide overall performance of other banks.
- Mostly the data used in this study might be of secondary type. Hence, any misrepresentation, mistakes, omissions etc. will affect the outcome of the study.
- Some of the statistical as well as financial tools of comparison and analysis shall be used in this study. So any drawback and weakness of those tools may adversely affect the outcome of the study.

1.7 Organization of the Study

This study has been organized in the form of following structure:

First chapter is the introductory chapter, consists of the following topics.

1. Background of the study.
2. Focus of the study.
3. Statement of the problem.
4. Objective of the study.
5. Importance of the study.
6. Limitation of the study.
7. Organization of the study.

Second chapter deals with review of literature. It consists of two parts.

1. Conceptual framework.
2. Review of related studies.

The third chapter is concerned with research methodology. It consists :

1. Research design.
2. Analysis of Data.

Fourth chapter is data presentation and analysis chapter. It is concerned with data presentation and analysis and major findings of the study.

Fifth chapter is related to the summary, conclusions & recommendations.

The bibliography and appendices are also included along with the above chapters.

CHAPTER - II

REVIEW OF LITERATURE

This chapter mainly reviews the available literature in the field of financial performance of commercial banks. Review of literature is the process of learning and understanding the concept of related area thoroughly. It also highlights on the relevant existing literature related to the study. In the course of writing the thesis various texts, published and unpublished, were reviewed and studied. Pilot studies have helped the researcher choosing such are of research where there will be no chance of duplication. Every possible effort has been made to grasp knowledge and information that is available from concerned libraries, magazines, publication of concerned banks etc. It is an integral and mandatory process in research works.

The importance of review of literature in any type of research works some of these are; Review of literature helps to: identify research problems in which previous works have been conducted, determine the methodology for research work, know scope for studies, avoid unintentional replication of previous studies and interpret the significance of researcher's results in precise manner. Thus to review the related literature, a researcher is advised as to identify the past research work and studies by reviewing books, articles, reports etc. review should be made in terms of objectives, methodology and finding gaps etc.

Most of the former researchers have reviewed the articles and other prospective materials to perform their related tasks. Many of them have completed the research in this same topic but they only focused on financial ratios and position. The present research aims to analyze the factors like Capital Structure, Assets Structure, Loan Management, Overall Efficiency, Profitability position and Liquidity position of the banks within the title of financial performance of the NBL and NIBL. Another effective factor is that, these studies were based on the secondary data but the present research is based

on primary data which the researcher has collected the data through questionnaire and direct visit to the related banks.

The main reason for a full review of research in the past is to know the outcomes of those investigations in areas where similar concept and methodologies had been used successfully. Further, an extensive or even exhaustive process of such review may offer vital link with the various trends and phases in the researches in one's area of specialization, familiarizing with the characteristic percepts, concepts and interpretation, with the special terminology, with the rationale for understanding one's proposed investigation. In addition, the chapter deals with conceptual aspects of textual facts relating to the various areas of the research to be conducted.

Therefore, review of literature has been categorized into three groups.

- Conceptual Review/ Theoretical Framework
- Review of Related Studies
- Review of Journals / Articles.

2.1 Conceptual Review

As this research is related to financial performance analysis of NBL and NIBL, following aspects of analysis are reviewed in sequential manner.

A bank is an institution, which deals in money, receiving it on deposit from customers honoring customer's drawing against such deposits on demand, collecting cheques for customers and lending or investing surplus deposits until they are required for repayment. Banks are the backbone of a country for the economic development .The main objectives of banking are to meet the financial needs of the country. Bank constitutes the important segment of the financial infrastructures of any country. In the present days, various types of banks are established, for instance, industrial bank, commercial banks, agriculture bank, joint venture banks, cooperative banks and development

bank. Modern banks are more advanced than the ancient ones. This is because of the growth in population changes occurred in the industrial and trade, the beginning the competitive age and changes in the people's ideology and due to the dependence on each other.

The banking is not static but a dynamic concept. It is a product of centuries and the development which has taken place is the product of centuries and the development which has taken place is the product of a method of trial and error and experiences which are made and the results that followed relating to the acceptance of money and valuable as deposits, keeping them as such, lending them, whether to private industries, to states or other bodies and for controlling the multifarious and dimensional activities which, in the beginning where only tribal and could be ignored but with the growth of time, become international in character and multidimensional in nature calling for actions on the part of the states as the action on the part of individuals failed and state control become eminent.

Thus one cant understand the development of banking by looking at a particular period of time and one has to consider the development by taking into account the progress it has taken during the centuries and by understanding the movement from one stage to other. From the above given facts, it is clear that the present banking system has come to this position passing the vicissitude from the past.

2.1.1 Origin and Concept of Banking

Many banking functions such as safeguarding funds, lending, guaranteeing loans, and exchanging money can be traced to the early days of recorded history. In medieval times the Knights Templar, an international military and religious order, not only stored valuables and granted loans but also arranged for the transfer of funds from one country to another. The great banking families of the Renaissance, such as the Medici in Florence, were involved in

lending money and financing international trade. The first modern banks were established in the 17th century, notably the Riksbank in Sweden (1656) and the Bank of England (1694).

In the 17th century, English goldsmiths provided the model for contemporary banking. Gold was stored with these artisans for safe keeping, and was expected to be returned to the owners on demand. The goldsmiths soon discovered that the amount of gold actually removed by owners was only a fraction of the total stored. Thus, they could temporarily lend out some of this gold to others, obtaining a promissory note for principal and interest. In time, paper certificates redeemable in gold coin were circulated instead of gold. Consequently, the total value of these banknotes in circulation exceeded the value of the gold that was exchangeable for the notes.

Two characteristics of this fractional-reserve banking remain the basis for present-day operations. First, the banking system's monetary liabilities exceed its reserves. This feature was responsible in part for Western industrialization, and it still remains important for economic expansion, though a risk of creating too much money is a rise in inflation. Second, liabilities of the banks (deposits and borrowed money) are more liquid - that is, more readily convertible to cash - than are the assets (loans and investments) included on the banks' balance sheets. This characteristic enables consumers, businesses, and governments to finance activities that otherwise would be deferred or cancelled; at the same time, it opens banks to the risk of a liquidity crisis. When depositors en masse request payment, the inability of a bank to respond because it lacks sufficient liquidity means that it must either renege on its promises to pay or pay until it fails. A key role of the central bank in most countries is to regulate the commercial banking sector to minimize the likelihood of a run on a bank, which could undermine the entire banking system. The central bank will often stand prepared to act as lender of last resort to the banking system to provide the necessary liquidity in the event of a widespread withdrawal of funds. This does not equal a permanent safety net to save any bank from collapse, as was

demonstrated by the Bank of England's refusal to rescue the failed investment bank Barings in 1995.

Commercial Bank

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government's establishment and business unit. They make fund available through their lending and investing activities to borrows, individual business firms and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of the nations is important for the functioning of the economy.

Banks, organizations that carry out the business of banking, take deposits and then using those deposits to make loans. In essence, a bank aims to make a profit by paying depositors a lower rate of interest than the rate the bank charges borrowers. In accounting terms, deposits are considered liabilities (because they have to be repaid), and loans are considered assets, though some become bad debts. Banks in most countries are supervised by a central bank, such as the Bank of England in the United Kingdom, the Bundesbank in Germany, the Nepal Rastra Bank in Nepal and the Federal Reserve System in the United States.

There are many different types of bank, and the banking structure varies from one country to another. Broadly speaking, banks fall into the following categories; but, as a result of increased competition and an increase in the range of services offered by banks, the differences between categories have been blurred.

2.1.2 Concept of Financial Analysis

Finance, term applied to the purchase and sale of legal instruments that give owners specified rights to a series of future cash flows. These legal instruments, known as financial assets or securities, are issued by private concerns, such as companies and corporations, and government bodies, and include bonds, stocks, and shares.

The original issuer of a security is in effect borrowing money that the purchaser is lending. Borrowers have an immediate need for cash, where as lenders have an excess of cash. When the borrower issues a security such as a bond to the lender, both parties benefit; the borrower obtains the current use of cash and the lender obtains a claim to future cash flows that involve repayment of the initial loan as well as the payment of interest. In the case of equities (the ordinary shares of a company), the provider of finance (the lender) hopes to realize an increase in the value of the capital acquired as well as to receive share dividends, though neither is guaranteed.

Financial analysis is one of the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the components of balance sheet and profit and loss account and other operating data. Financial mgt aspect is considered to be the vital and integral part of overall management of any enterprise, ensuring financial strength through adequate cash flow, liquidity and better utilization of assets. The financial management is the main indicator of the success or failure of any business firm. Financial condition of the business firm should be sound from the point view of shareholders, debenture holders, financial institutions and nation as a whole. Moreover, financial analysis is both analytical and judgmental process that helps answer the questions that have been properly posed.

2.2 Review of Related Studies

After liberalization policy of government of Nepal, number of banks and financial institutions has been increased. As a result, the financial system has been experiencing and facing tough competition among the players of the financial systems. But in most of the cases, they are concentrated on the urban areas and due to the insecurity most of the banks and financial institutions have closed down their rural branches. Rastriya Banijya Bank and Nepal Bank Limited have closed their branches in different parts of the country. But after peace agreement and election of constituent assembly, they are going to establish their branches in these areas.

Majority of Nepalese people are still out of the banking facility. Commercial banks and financial institutions are focusing their activities in urban areas.

2.2.1 Review of Journals

In the banking book of Bhuvan Dahal and Sarita Dahal, they define bank as a 'Financial Department Store which render a host of financial services besides taking deposits and giving loan.' So bank needs adequate liquidity to fulfill demand of customers. Various studies have been conducted on the financial performance of commercial banks of Nepal. Many of them are concentrated to Nepalese commercial banks and only few are focused on private and government commercial banks especially comparative studies. In this chapter, different previous studies have been reviewed so that the chances of duplication will be avoided from the present study and some newness can be created in this field of study. "The number of commercial banks increased dramatically after the democratically elected government adopted the liberal and market oriented economic policy." (Thapa, 2051:17).

After liberalization and globalization of the world economy, the economic transactions such as trading and commerce, industrial and banking activities have grown up tremendously. Likewise, an international trade of the

developing countries has also boosted-up. But on the other hand, the increasing competitiveness has also increased various types of risks in every business, including banking sectors, especially in foreign exchange transactions. To cope with their risks, the banks in favor of their clients have adopted strategies relating to treasury management. (Shrestha, 2055: 20)

A bank must maintain adequate cash and bank balance to meet day to day expenditures. It shows the extent to which it can oblige its short term obligations. In this regard, according to Prof. Manohar Krishna Shrestha, “Maintenance of a satisfactory level of liquidity is significant enough to meet the deposit liabilities that are to be paid on demand not only that paying ability of the bank, but at times, ensures the smooth operations to a considerable extent.”¹

Edward I Altman (1968) in “Journal of Finance” employed financial ratios to predict corporate bankruptcy through multiple discriminate analyses. Out of the twenty two financial ratios examined, Altman selected the five that did the best combine job in predicting bankruptcy. These ratios were working capital to assets, retained earnings to total assets, earnings before interest and taxes to total assets, market value of equity to book value of total debt, and sales to total assets. Using these ratios, Altman found the discriminate model to be an accurate predictor bankruptcy.

Serra Gilles in his article “Role of foreign banks in Nepal” published in “NRB Samachar” (1990: April), undoubtedly conducted that the joint venture banks are playing an increasingly dynamic and vital role in the economic development of the country. So, the main leaders in banking sectors are the commercial joint venture banks. These banks have to optimize their capital ratio with their assets and debt volume. To perform these all operations financial as well as technical analysis of bank or financial institutions are very necessary at this stage.

2.2.2 Review of Articles

In this process of reviewing previous studies, we have to conduct all types of publications which are likely to study and present in this research study, some articles are included with their definitions. Among them, Mr. Ramesh Lal Shrestha in his article, “A study on Deposits and Credits of Commercial banks in Nepal”, concluded that the credit deposits ratio would be more than 50 percent and other things remaining the same in the year '04 A.D. which was the lowest under the period of review. So he had strongly recommended that the commercial should try to give more credit entering new field as far as possible otherwise they might not be able to absorb even its total expenses. (Shrestha, 2045:10)

Dr Manohar Krishna Shrestha, (1980), in his Article, “*Financial Management- Theory Practice.*” has concluded that the bank has sufficient liquidity to meet the claim of depositors (excluding fixed deposits). The bank is more depending on borrower funds. Interest on deposit out of its profits is satisfactory. The rate of return on ownership capital is favourable. He further suggested that operational efficiency should be enhanced to achieve its higher profit goal for better performance.

Bodhi Bajracharya, (1991), in his article “*Monetary Policy and deposit mobilization in Nepal.*” concludes that the mobilization of domestic saving is one of the monetary policy in Nepal and for this purpose commercial banks are the vital active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the economy.

‘Rushing to invest the excess liquidity is not a good idea in the present circumstances,’ says Ashok Rana, the Senior General Manager and CEO of the HBL. ‘So, we’re not aggressively encouraging consumer lending. Though we’re doing a little bit of consumer lending as well, we’re very much choosy in

selecting the property as well as the borrower to finance.’ However, the bank is also about to introduce a new scheme under consumer lending and will be called “Himalayan Bank Subidha Loan.” But it will be quite different from all other consumer lending schemes available in the market in that it will be a flexible scheme and the borrower can choose from a wide menu as per need, informs Rana.

This, he expects will have some impact in the Market. When Himalayan Bank introduced its housing loan scheme in the market, all the banks had to reduce the interest rate in such a scheme. ‘A similar impact is also expected when our new scheme is introduced,’ he adds.

The article of Mr. Gilles Serra represents “The role of Commercial Banks in Nepalese Context” published in “Rajat Jayanti Smarika”, RBB (1991; January), has concluded that due to the pressure of rapid competition in banking sector for public welfare, the five commercial banks were improving their services.

2.2.3 Review of Previous Thesis

In addition to above studies, various studies and researches have been conducted on various aspects of banking regarding the financial performance of commercial banks of Nepal. Many of them are concentrated to Nepalese commercial banks and only few are focused on joint venture bank especially comparative studies. In this chapter, different previous studies have been reviewed so that the chances of duplication will be avoided from the present study and some newness can be created in this field of study.

Many studies related to financial study of commercial and joint venture banks in Nepal are made frequently and they are related with assets, liabilities, equity P&L, and ratios relating to them. Only these terms can’t explain about the overall efficiency and performance of banks.

Mr. Bohara had conducted a research on Comparative study of “The Financial Performance of NABIL and NIBL”. The basic objectives of his research were to highlight the financial performance and role of joint venture banks in the liberalized Nepalese economy. His attempts of analyzing financial performance were concentrated in ratio analysis and he derived the strength and weakness of two major joint venture banks by calculating important ratios, such as: Liquidity Ratios, Leverage Ratios, Turnover/Activity Ratios, Profitability Ratios and other relevant ratios like EPS, MPS, Cash Dividend per Share and P/E ratios etc.

After calculating and analyzing the above ratios, along with income and expenditure analysis and trend analysis, he has come out with some remarkable suggestions/findings o the venture banks, which are outlined below:

- Banks need to balance between disbursing cash dividend and issuing of bonus shares.
- They need to increase operational profit by concentrating in consistence earning rather than fluctuating earnings.
- They need to maintain liquidity in the form of CRR as per the regulation of NRB. Besides these suggestions, he has emphasized in small entrepreneurs development programmers, branch expansion and mobilization of deposits in the productive sectors.

Another researcher Brinda Shrestha on her thesis entitled “A Comparative Analysis of Financial Performance of Selected Joint Venture Banks” has selected the banks NABIL, HBL and NB for her study. In this present situation, NB Bank is devolved by NRB due to its improper management and internal weaknesses. The basic objectives of her research study are as follows:

- To examine the comparative financial strengths and weaknesses of the selected Joint Venture Banks.
- To analyze different financial ratios of these banks etc.

Her attempts of analyzing financial performance were concentrated in ratio analysis and she derived the strengths and weaknesses of Joint Venture Banks by calculating important ratios such as liquidity ratios, leverage ratios, profitability ratios etc. after calculating the above ratios along with income and expenditure analysis and trend analysis, she has come out with some findings which are outlined below:

- Analysis of liquidity ratio indicates better liquidity position of NB Bank.
- NB Bank is efficiently utilizing its deposit of loans and advances however total investment of NABIL is better than that of NB Bank and HBL.
- Capital adequacy ratio of NABIL is better than the other two JVBs etc.

After preparing that research study, she prepared some suggestions which are: NABIL and HBL must shift their investment from low income generating loans and advances and overdraft to increase its profit and to become one of the leading JVBs of Nepal. The venture banks should not only centralized in urban areas but are recommended to activate foreign technology and investment in Nepal by means of their operating skills and international banking techniques.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. In other words, research methodology decides the methods and process applied in the entire of the study. It is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it the researcher studies the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them. Thus, this chapter deals with the research design, nature of data, data gathering procedure, population and samples, and data processing procedures.

Research Methodology adopted in this chapter is the set of various instrumental approaches used in achieving the predetermined objectives as stated in the earlier chapters. It represents the resources and techniques available and to the extent of their reliability and validity in this chapter follows some limited but crucial steps aimed to achieve the objectives of the research. Research methodology refers to the various sequential steps (along with a rationale of each such step) to be adopted by researcher in studying a problem with certain objectives in view.

3.1 Research Design

A research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. This study aims to portray accurately upon the financial ratio analysis and overall financial performance of NIBL and NBL. The research methodology followed for this study is basically descriptive cum analytical research design. The design may be a specific presentation of the various steps in the research process. These steps include the selection &

presentation of the research problem, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing.

A research design; bearing the techniques and systematic steps of research, helps to collect various information required to researcher's thesis writing of any investigation. In the lack of the research design, the functional process on researches is never achieved. After the research study has been formulated, the next logical steps are to construe the research design which refers to the entire process of planning and carrying out a research study.

As this definition suggests any research project would be unthinkable without a research design clearly visualize by the researcher. For this analysis purpose the balance sheet, income statement, profit and loss account and annual reports published by the banks for the given years has been used.

3.2 Population and Sample

Nowadays a number of commercial banks have been emerging rapidly. Some have already been established and others are in the process of establishment. Currently there are twenty five commercial banks in Nepal. Due to time constraints and resource factors, it is not possible to study all of them regarding the study topic. In this study, all the commercial banks are population of the study. Among them NIBL and NBL has been selected as sample for this research study. For analysis purposes, financial statements only from preceding five years period are used.

3.3 Nature and Sources of Data

Mainly data are collected from two sources. They are primary sources and secondary sources in this study. But most of the data are of secondary type.

1) Primary Data

The primary sources of data have been used to collect from concerned banks. The questionnaires are distributed to the administrative and credit department of concerned sample bank. To get reliable information, discussion was also conducted with clients of bank and banks' staff to the related field.

2) Secondary data

The secondary sources of data are the information received from reports, books, Newspapers, journals etc. The major sources of secondary data are as follows:

- Annual reports, newsletters and bulletins of NIBL and NBL,
- Publications published by NRB,
- Various Articles published in the Newspapers,
- Unpublished periodicals,
- Information from sample banks' sites,
- Other supporting and official reports.

3.4 Data Collection Techniques

For the purpose of the study, different data of financial statements are obtained by using different sources that are scanned then, master sheet of financial data have been extracted and tabulated as per the need of this study under different heads. These data were grouped in different tables and charts according to their nature. After systematic tabulation, those data are analyzed by applying tools.

3.5 Data Analysis Tools

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. For data analysis different items from the balance sheet and other statements are tabulated. Their ratios, percentage, average ratios, grand average ratios etc. are then calculated and presented in the tabular forms.

To study the relationship between two or more variables, correlation coefficients are also calculated. Following are the brief introductions of the financial and statistical tools used in this study.

3.5.1 Financial Tools

Financial ratios are calculated to ascertain the financial condition and performance of the firm. It is the relationship between financial variables contained in the financial statements (i.e. Balance sheet, P&L A/C and income statements). It helps the related parties to spot out the financial strength and weakness of the firm. There are several financial tools which can be applied in order to analyze the performance and efficiency of the related banks. Mainly the financial tools used in this study are as follows:

Liquidity ratio, activity ratio, profitability ratio, leverage ratio and ownership ratio.

1. Liquidity Ratio :
2. Activity/Turnover Ratio
3. Leverage/Solvency Ratio
4. Profitability Ratio and
5. Ownership Ratio.

3.5.2 Statistical Tools

Various financial tools mentioned above were used to analyze the financial performance of NIBL and NBL. Similarly, average, standard deviation and coefficient of variation of different variables are calculated to find out the trend of ratio and dispersion between the ratios. Furthermore, the relationship between different variables related to the study topics are also drawn out using statistical tools. Two variables are said to have “Correlation”, when they are so related that the change in the value of one variable is accompanied by the change in the value of the other. The correlation coefficient summarizes the degree and direction of movement in one figure.

The value of correlation coefficient (r_{xy}) lies between -1 and +1. When $r = 1$, there is a positively perfect correlation between the two variables, if $r = -1$, vice versa and when $r = 0$, the variables are uncorrelated or there is no relationship between two variables. The formula for Coefficient of Correlation between variables X and Y is given below:

$$r_{xy} = \frac{n\sum xy - \sum x \sum Y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum Y)^2}}$$

Where,

X is the Independent Variable and Y is the Dependent Variable.

Also probable error (P.E) of the correlation coefficient is calculated in this study in order to interpret whether calculated value of r is significant or not. If $r < P.E$, it is insignificant. So, perhaps there is no evidence of correlation. If $r > 6 P.E$, it is significant.

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

Karl Pearson's coefficient of correlation has been used to find out the relationship between;

- a. Total Deposits and loan and advances,
- b. Total Deposits and Total Investments
- c. Total Deposits and Net Profit and
- d. Total Assets and Net Profit.

So this statistical tool analyses the relationship between these variables and helps the banks to make appropriate policy regarding deposit collection, fund utilization (loan & advances and investments) and maximization of profit throughout their capability and better performances with comparison to previous performances.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This is the most important chapter of the study. In this chapter the data collected will be analyzed and presented mathematically and statistically. All the above-mentioned financial and statistical tools will be used to present the data.

To analyze the financial performance in respect to ratio analysis and other structures, diverse presentation and analysis have been presented in this chapter according to analytical research design mentioned in the third chapter using various financial as well as statistical analytical tools. Framework of this chapter is as follows:

4.1 Presentation and Analysis of Data

4.2 Financial Ratios

4.3 Statistical Tools

4.4 Major Findings of the Study

4.1 Presentation and Analysis of Data

It is already stated that financial efficiency of an organization refers to the measurement of the share of cash, bank balance, deposits, investments, assets and capital etc. Optimal assets structure and proper utilization of collected funds outside the firm may promote the firm's performance. Mostly, all the major elements involving in the balance sheet and profit and loss account are taken as major source for presentation and analysis. With the help of these items, different ratios and proportion percentage of and towards each other are calculated. The analysis in this chapter is mainly based on different types of ratios, which is directly and indirectly related to the assets, debt and capital structure of the banks.

4.2 Financial Ratios

The term ratio refers to the numerical or quantitative relationships can be determined. The ratio analysis is the most powerful tool of the financial analysis and it is used in analyzing the financial information to indicate the operating and financial efficiency and growth of the bank. Financial ratios are most frequently and widely used in practice to assess company's financial performance and condition. In other word ratio analysis is a process of evaluating relationship between component parts of financial statements, i.e., balance sheet and profit and loss account to obtain better understanding of the bank's position and financial performance. The techniques of the ratio analysis are of considerable significance in studying the financial stability, liquidity, profitability and quantity of management of the banks as well as the financial institutions and other organizations. The calculated ratios are presented in form of percentage and times which are stated clearly at the time of analysis. Some important ratios studied for this research study are presented below:

4.2.1 Liquidity Ratios

This ratio measures the ability to fulfill short-term commitments or obligations at the maturing date. Liquidity refers to "nearness to cash". The higher liquidity ratio represents the larger balance of cash and other liquid assets in the bank and vice versa. Liquidity ratios are used to judge a firm's ability to meet short-term obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community liquidity provided honor strength health and prosperity to an organization.

Every firm maintains liquidity in its financial position to meet anticipated and unanticipated current and future obligations. It also maintains liquidity to get benefit from possible future opportunities. Maintaining excess liquidity decreases the risk of inability to meet current and future obligations whereas it requires excess cost. Holding excess cash balance and investigating large

amount of funds in inventories and receivables means foregoing of higher opportunity cost. It may create greater possibility of misuse of cash, spoilage of inventories and bad debt losses.

Generally, maintaining low level of current assets indicates utilization of resources appropriately but organization always seems to be in doubtful position in terms of ability to meet its maturing obligation. It may create frequent stock-out due to low level of working fund. Various liquidity ratios can be use to measure liquidity position of bank. In this study, major ratios are used to measure the liquidity position of the selected commercial banks.

i) Cash and Bank Balance to Total Deposits Ratio

Cash and Bank balance is said to be the first defense of every bank. The ratio between the cash and bank balance and total deposit measures the ability of bank to meet the unanticipated cash and all types of deposit.

We have,

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

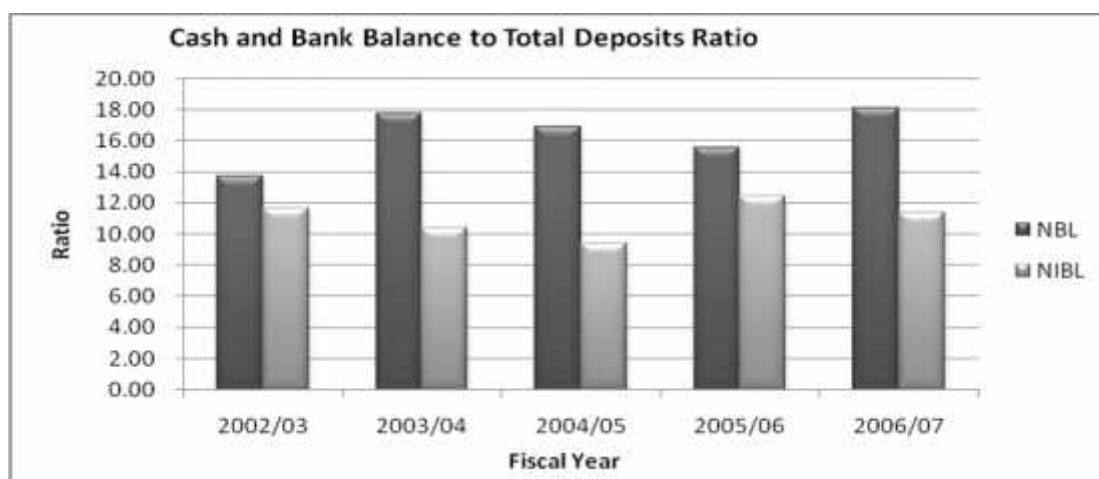
The following table represents the cash and balance and total deposits as well as the ratio measurement of the selected two banks for five different fiscal years.

Table No. 4.1 Calculation of Cash and Bank Balance to Total Deposits Ratio

Fiscal Year	Cash & Bank Balance (in Million)		Total Deposits (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	4770.6	926.4	34737.4	7922.8	13.73	11.69
2003/04	6444.0	1215.2	36288.5	11706.3	17.76	10.38
2004/05	5886.2	1340.4	34744.2	14254.8	16.94	9.40
2005/06	5517.4	2354.9	35444.9	18927.3	15.57	12.44
2006/07	7003.6	2791.5	38715.2	24488.9	18.09	11.40
Average (\bar{x})					16.42	11.06
Standard Deviation ()					1.79	1.19
Coefficient of Variation (C.V)					10.89	10.72

(Source: Financial Statements of the Banks.)

Figure 4.1



The above analytical table shows the fluctuating trend on cash and bank balance to total deposits ratio during the study period. For the NBL, the cash and bank balance as well as the total deposits are in quite fluctuating form which causes the CBB to Total Deposits ratio varying. We can see that, the ratio for NBL starts with 13.73% for the FY 2002/03 then it suddenly increases to 17.76% in the FY 2003/04 then is continuously decreases to 15.57% in the FY 2005/06 with a slight decrement in the previous year with 16.94%. The final fiscal year of the study for NBL has the highest ratio at 18.09%.

On the other hand, there is significant growth in total deposits for NIBL during all the fiscal years but cash and bank balance is increasing slowly. The CBB to total deposits ratio of NIBL in the FY 2002/03 is 11.69% which is in decreasing form all over the period except in the FY 2005/06 with 12.44% which is the highest ratio over the study period. Conversely the lowest ratio is in the FY 2004/05 i.e. 9.40%. Then in the final fiscal year it slightly declined to 11.40%, however it seems to be in increasing order. Thus, the analysis shows zigzag trend during the study period.

From another analysis point of view, the mean ratio for NBL is 16.42% and the average ratio of NIBL is 11.06% for the five fiscal years. If we measure the performance of these banks based in this average, the performance of NIBL is weak than NBL. But the NBL's standard deviation (1.79) is faintly greater than the NIBL's (1.19) which shows that cash and bank balance to total deposits ratio of the NBL is more fluctuating than the NIBL's ratio. Similarly, the NIBL is more consistent than the NBL due to its lower degree of coefficient of variation (10.89%) whereas NBL's coefficient of variation is 10.72%. Somehow, this bar diagram also helps to analyze the performance of the commercial banks whether their ratio measurement is sufficient or not to utilize the total deposits according to the needs. As a whole, the diagram reflects intact information about the comparative analysis for those banks. From which it can be said that both the banks are maintaining low level of cash and bank balances. It concludes that both banks are effectively investing their deposits over the market.

ii) Cash and Bank Balance to Current & Saving Deposits

Cash and bank balance to current and savings deposits ratio is calculated to determine the portion of invested and remained amount through these current liabilities which should be redeemed immediately. To calculate this ratio,

We have,

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

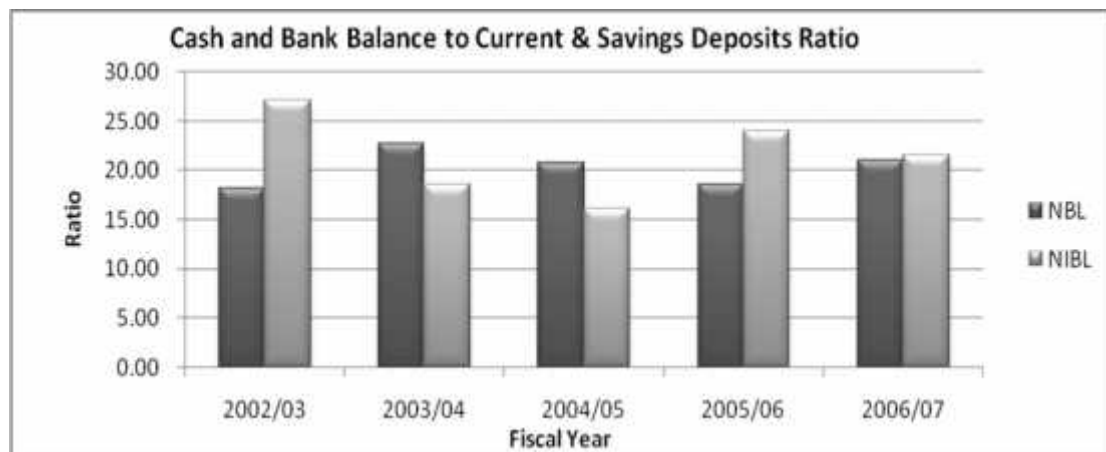
Here is the table presented, on which the ratio of cash and bank balance to current and saving deposits is examined.

Table No. 4.2 Calculation of Cash and Bank Balance to Current & Saving Deposits Ratio

Fiscal Year	Cash & Bank Balance (in Million)		Current & Saving Deposits (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	4770.6	926.4	26224.0	3412.9	18.19	27.14
2003/04	6444.0	1215.2	28363.0	6547.1	22.72	18.56
2004/05	5886.2	1340.4	28386.2	8286.7	20.74	16.18
2005/06	5517.4	2354.9	29578.4	9787.6	18.65	24.06
2006/07	7003.6	2791.5	33186.9	12917.3	21.10	21.61
Average (\bar{x})					20.28	21.51
Standard Deviation ()					1.86	4.34
Coefficient of Variance (C.V)					9.17	20.19

(Source: Financial Statements of the Banks.)

Figure 4.2



The table no. 4.2 reveals the distinct trend on cash and bank balance to current and saving deposits ratio during the study period. For the NBL, the cash and bank balance is increasing and decreasing all over the period but the amount of

current and saving deposits is continuously increasing. The ratio for NBL is 18.19% in the FY 2002/03 then it suddenly increases to 22.72% in the FY 2003/04 then is continuously decreases to 20.74% and 18.65% in the FY 2004/05 and FY 2005/06. After the four fiscal years, the ratio increased to 21.10% at the final FY2006/07 of the study period. Its highest ratio is 22.72% in the FY 2003/04 and the lowest is 18.19% at the starting year of this research study.

Similarly, the current & saving deposits in comparison with cash and bank balance of NIBL are increasing rapidly with a massive growth during all the fiscal years. The CBB to current and saving deposits ratio of NIBL in the FY 2002/03 is 27.14% and 18.56% in the following year. Then it again decreases to 16.18% in the FY 2004/05. After one year, the ratio reaches to 24.06% but it can't remain at the higher level which results in a decrement to a ratio of 21.61% in the FY 2006/07. NIBL holds the highest ratio of 27.14% at the beginning of the fiscal year of study period and the lowest ratio of 16.18% in the FY 2004/05. Since, the amount of liquid funds and deposits are fluctuating over the time, the ratio is also unstable.

Further analysis illustrates the mean ratio for NBL which is 20.28% and the average ratio of NIBL is 21.51% for the five fiscal years. This shows that, the average holding rate of liquid funds through deposits are similar for the both banks. If we measure the performance of these banks based on the standard deviation, the performance of NIBL is weak than NBL. The NBL's standard deviation (1.86) is quite lower than the NIBL's (4.34) which shows that this ratio of the NIBL is more fluctuating than the NBL's ratio. Similarly, the NBL is more consistent than the NIBL due to its lower degree of coefficient of variation (9.17%) whereas NIBL's coefficient of variation is (20.19%). Somehow, the bar diagram also helps to analyze the performance of the commercial banks whether their ratio measurement is comparatively equal, high or low which can be seen through the numbered diagram. As a whole, the

diagram reflects intact information about the comparative analysis for those banks.

iii) Fixed Deposits to Total Deposits Ratio

The preceding tables showed that most of the current and saving deposits amount is used to maintain liquidity. Here, further calculation is made to find out the portion of fixed deposits to the total deposits. It will help to reveal the consistency of secured deposits.

We have,

$$\text{Fixed Deposits to Total Deposits Ratio} = \frac{\text{Fixed Deposits}}{\text{Total Deposits}}$$

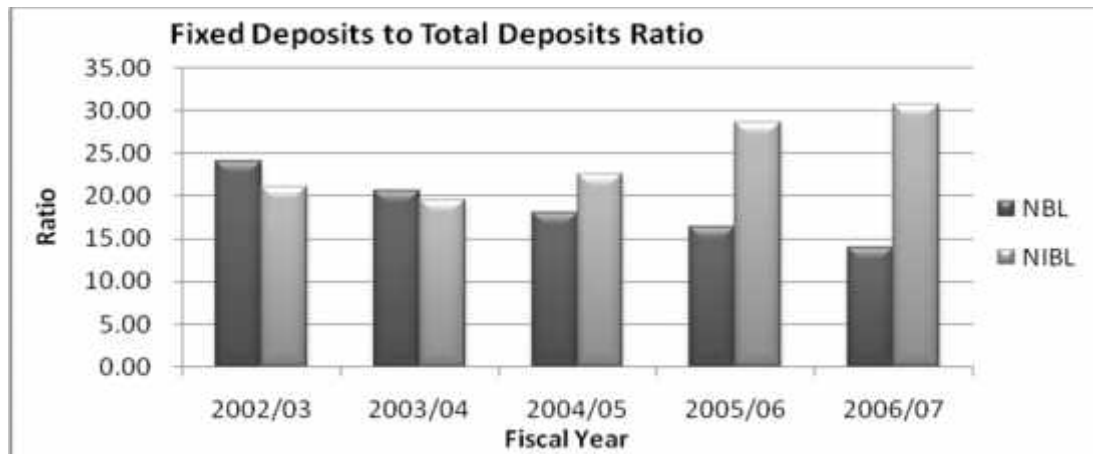
The following table depicts the amount of fixed deposits and total deposits during the five fiscal years and the ratio.

Table No. 4.3 Calculation of Fixed Deposits to Total Deposits Ratio

Fiscal Year	Fixed Deposits (in Million)		Total Deposits (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	8396.9	1672.8	34737.4	7922.8	24.17	21.11
2003/04	7481.0	2294.7	36288.5	11706.3	20.62	19.60
2004/05	6269.3	3212.4	34744.2	14254.8	18.04	22.54
2005/06	5790.9	5413.0	35444.9	18927.3	16.34	28.60
2006/07	5393.2	7516.8	38715.2	24488.9	13.93	30.69
Average (\bar{X})					18.62	24.51
Standard Deviation ()					3.95	4.86
Coefficient of Variation (C.V)					21.20	19.83

(Source: Financial Statements of the Banks.)

Figure 4.3



The above table shows that the ratio of fixed deposit to total deposits of Nepal Bank Ltd. is in falling order during the study period. The main reason is that, the amount of total fixed deposits is regularly decreasing all the period. Where its ratio are 24.17%, 20.62%, 18.04%, 16.34% and 13.93% for the FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06, FY 2006/07 respectively. At the beginning, the ratio is at the maximum degree of the period but it decreases regularly for all the period and finally it drops down to the extent of 13.93% at the FY 2006/07. It has maintained an average of 18.62% during the study period of five years. The analysis indicates that the share of fixed deposit in the total deposit is declining.

For Nepal Investment Bank Ltd. there is significant growth in fixed deposits for during all the fiscal years Due to this, the ratio is also increasing drastically. The ratio of NIBL in the FY 2002/03 is 21.11% which is in increasing form all over the period except in the FY 2003/04 with 19.60%. The highest amount in fixed deposits is made during the FY 2006/07 which causes the ratio highest i.e. 30.69%. Conversely the lowest ratio is in the FY 2003/04 i.e. 19.60%. Then in the next coming fiscal years it regularly increased with a percentage of 22.54%, 28.60% and 30.69% in the FY 2004/05, FY 2005/06 and FY 2006/07 respectively. Thus, the analysis shows positive signal for the interest of customers towards the fixed deposits during the study period.

With the help of statistical tools, it is calculated that the mean ratio for NBL is 18.62% and the average ratio of NIBL is 24.51% for the five fiscal years. If we measure the performance of these banks based in this average, the performance of NBL is weak than NIBL. But the NBL's standard deviation (3.95) is just lower than the NIBL's (4.86) which shows that trend of depositing amount in fixed deposits of the customers of NIBL is more fluctuating than the NBL's. Similarly, the NIBL is more consistent than the NBL due to its lower degree of coefficient of variation (19.83%) whereas NBL's coefficient of variation is 21.20%. Somehow, the bar diagram helps to analyze the performance of these commercial banks whether their ratio measurement is calculated from various year's total deposits amount. As a whole, the diagram reflects intact information about the comparative analysis for those banks.

4.2.2 Assets Management Ratios (Activity Ratio)

Funds of creditors and owners are invested in various assets to generate sales and profits. Better the management of assets, larger the amount of sales. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. Assets management ratios are useful to evaluate managerial efficiency & proper utilization of assets. Activity ratios, thus, involve a relationship between sales and assets. A proper balance between sales and assets are generally reflects that assets are managed well. Following ratios are used under activity ratio.

i) Total Investment to Total Deposits Ratio

This ratio is calculated by dividing total investment by total deposit. Investment function or funds management is gaining widespread importance in the banking sector. Treasury of the bank is involved in investing the surplus fund with the bank in the income generating investments. In order to fill this gap between borrowing and lending, bank rather go for investments such as treasury bills,

government securities, development bonds, overseas placement and inter banking lending.

We have,

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

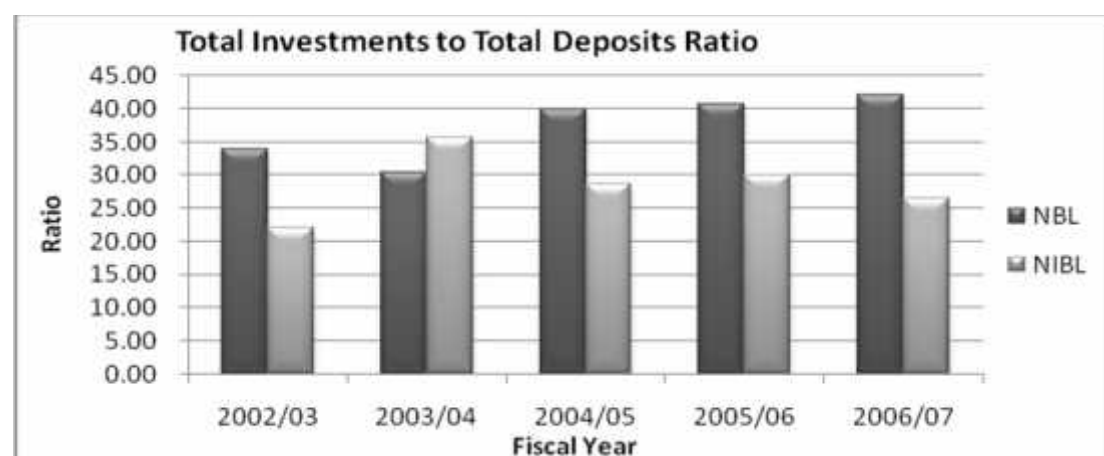
The following table exhibits the ratio of total investments to total deposit.

Table No. 4.4 Calculation of Total Investments to Total Deposits Ratio

Fiscal Year	Total Investments (in		Total Deposits (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	11782.6	1745.3	34737.4	7922.8	33.92	22.03
2003/04	11023.7	4172.5	36288.5	11706.3	30.38	35.64
2004/05	13889.8	4074.2	34744.2	14254.8	39.98	28.58
2005/06	14421.4	5672.9	35444.9	18927.3	40.69	29.97
2006/07	16283.3	6518.6	38715.2	24488.9	42.06	26.62
Average (\bar{x})					37.40	28.57
Standard Deviation ()					5.01	4.96
Coefficient of Variance (C.V)					13.41	17.38

(Source: Financial Statements of the Banks.)

Figure 4.4



The above table shows almost an increasing trend of total investment in the entire study period. The Nepal Bank Ltd. has increased its investment out of

deposit which is very good mobilization of deposit. The ratio is maximum in FY 2006/07 at 42.06% and minimum in FY 2003/04 i.e. 30.38%. At the first year the ratio is 33.92% but at the very next year it reduced to 30.38%. Thereafter it increased with 39.98% and 40.69% in the FY 2004/05 and FY 2005/06 respectively. Its average ratio during the period is 37.40% which indicates the better performance of mobilization of deposits into investment alternatives.

On the other hand, the investment strategy of Nepal Investment Bank Ltd. seems to be so fluctuating for some period. Its ratio at FY 2002/03 is 22.03% which is the lowest ratio of the period and considerably grows up to the highest point of the study period at 35.64% in the FY 2003/04. Afterwards, it decreases to 28.58% in FY 2004/05, rises to 29.97% in FY 2005/06 and finally it again declines to 26.62% in the FY 2006/07. It states that, NIBL is quite suffering from utilizing its deposits for better investment sectors. Probably it may be seeking for secure areas for long-term investment alternatives.

Average ratio for NBL is 37.40% means the bank is making that portion of total deposits in investment securities. For NIBL, average ratio 28.57%, indicates only about quarter of its total deposits amount is invested in investments. Standard deviation of NBL and NIBL are 5.01 and 4.96 which are almost equal. It means both the banks are maintaining same range of investments over the total deposits. From coefficient of variation point of view, only 13.41% of NBL and 17.38% of NIBL's variation is happening for the average ratio and standard deviation. Hence, it can be concluded that NBL is more consistent than NIBL.

ii) Loan & Advances to Total Deposits Ratio

Loans and advances to total deposit ratio is calculated by dividing total loan and advances by total deposits. The core banking function is to mobilize the funds from the depositors to the borrowers. Banks make profit by lending or utilizing the deposited funds by charging a higher rate of interest to the

borrowers than they pay to the depositors. Hence they are known to be efficient in utilizing the funds if they can advance a greater proportion of the deposited fund into risk assets.

Loans and advances to total deposit ratio measures the extent to which the banks are successful to mobilize the outsider's fund, i.e., total deposits in loans and advances for the purpose of profit generation.

We have,

$$\text{Loan \& Advances to Total Deposits Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

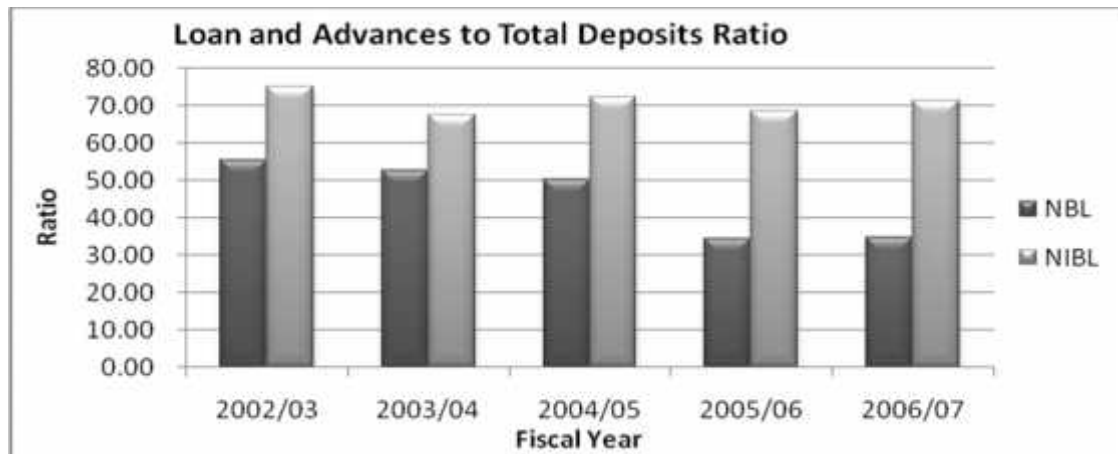
The following table depicts the amount and ratio of loan and advances and total deposits during the five fiscal years.

Table No. 4.5 Calculation of Loan and Advances to Total Deposits Ratio

Fiscal Year	Loan & Advances (in Million)		Total Deposits (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	19266.1	5949.2	34737.4	7922.8	55.46	75.09
2003/04	19141.7	7920.2	36288.5	11706.3	52.75	67.66
2004/05	17456.0	10295.0	34744.2	14254.8	50.24	72.22
2005/06	12180.0	13007.0	35444.9	18927.3	34.36	68.72
2006/07	13377.5	17482.0	38715.2	24488.9	34.55	71.39
Average (\bar{x})					45.47	71.02
Standard Deviation ()					10.22	2.95
Coefficient of Variation (C.V)					22.48	4.15

(Source: Financial Statements of the Banks.)

Figure 4.5



The above calculated table shows that loans and advances of NBL decreases frequently for most of the years but the NIBL got success to increase its loan amount for the outsiders. The ratio of NBL fluctuates from maximum of 55.46% in the FY 2002/03 to the minimum of 34.36% in the FY 2005/06 with an average of 45.47% during the study period of six years. Similarly, the ratio of NIBL also fluctuates but not in huge difference. Its maximum ratio is 75.09% in the FY 2002/03 then it fluctuates frequently with the lowest ratio of 67.66% in the FY 2003/04, 72.22% in the FY 2004/05, 68.72% in the FY 2005/06 and 71.39% in FY 2006/07. The ratio of NBL sharply decreased from 50.24% to 34.36% for the FY 2004/05 and FY 2005/06 continuously. This analysis reveals that NBL is withdrawing its investment from risky assets but NIBL is seeking for those risky assets from which it can make higher percentage of profit. The analysis designates that the NIBL is mobilizing its total deposits in loans and advances adequately.

The mean ratio for NBL is 45.47% and the average ratio of NIBL is 71.02% for the five fiscal years. If we measure the performance of these banks based in this average, the performance of NBL is very weak than NIBL because the higher portion indicates the higher profit but it is more risky. The NBL's standard deviation (10.22) is much greater than the NIBL's (2.95) which shows that loan and advances to total deposits ratio of the NBL is pretty fluctuating

than the NIBL's ratio. Similarly, the NIBL is more consistent than the NBL due to its lower degree of coefficient of variation (4.15%) whereas NBL's coefficient of variation is 22.48%.

iii) Loan and Advances to Total Assets Ratio

This ratio reflects the extent to which the commercial banks are success in mobilizing their assets as loan and advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan and advances and vice versa.

We have,

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

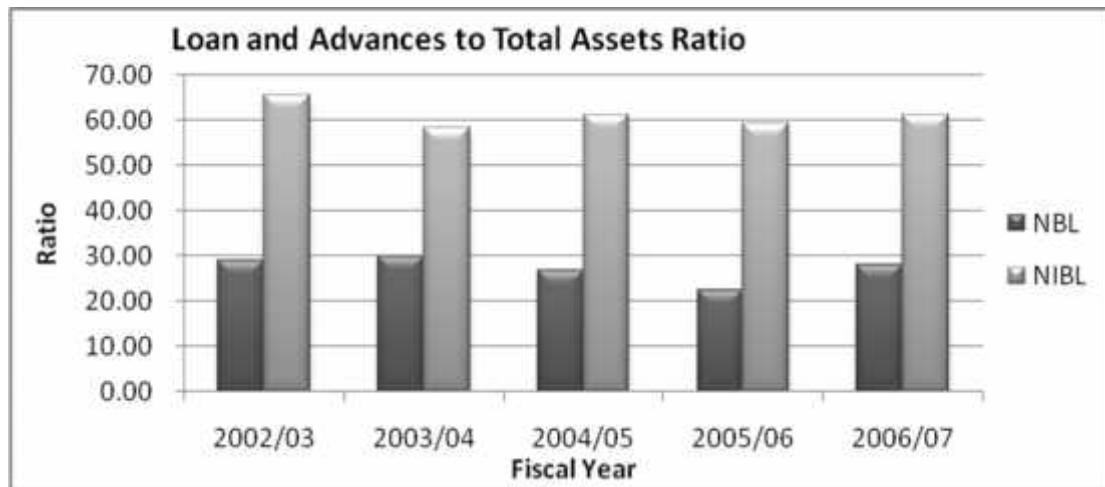
Total assets is composed up of current assets, fixed assets, miscellaneous assets, interest receivable, sundry debtors, total investment, advances and loans for development banks etc.

Table No. 4.6 Calculation of Loan and Advances to Total Assets Ratio

Fiscal Year	Loan & Advances (in Million)		Total Assets (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	19266.1	5949.2	66329.5	9102.4	29.05	65.36
2003/04	19141.7	7920.2	64063.8	13565.3	29.88	58.39
2004/05	17456.0	10295.0	65259.2	16814.2	26.75	61.23
2005/06	12180.0	13007.0	54133.0	22007.2	22.50	59.10
2006/07	13377.5	17482.0	47707.1	28572.8	28.04	61.18
Average (\bar{X})					27.24	61.05
Standard Deviation ()					2.90	2.72
Coefficient of Variation (C.V)					10.63	4.45

(Source: Financial Statements of the Banks.)

Figure 4.6



The table no. 4.6 reveals the distinct trend on loan and advances to total assets ratio during the study period. For the NBL, the loan and advances and total assets are decreasing and over the period. The ratio for NBL is 29.05% in the FY 2002/03. Then it reaches to the highest ratio of 29.88% in the FY 2003/04, 26.75% in the FY 2004/05, 22.50% in the FY 2005/06 i.e. the lowest ratio of the period and finally it increases to 28.04% in the FY 2006/07.

Conversely, the both the loan and advances and total assets of NIBL are increasing rapidly with a massive growth during all the fiscal years. The ratio of NIBL is the highest at 65.36%, the lowest at 58.39% then 61.23%, 59.10% and 61.18% in the FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06 and FY 2006/07 respectively. Since, the increment of loan and advances and total assets are almost same over the time, the ratio is being similar for the fiscal years.

The average ratio for the NBL for the five year is 27.24% whereas the same ratio for the NIBL is 61.05% for the same duration. This indicates that the NIBL is maintaining more than double of the NBL's investment in loan and advances out of the total assets. However the standard deviation of NBL (2.90) and NIBL (2.72) are nearest to each other, the coefficient of variation is

showing a bigger difference. This means the NIBL is more consistent for utilizing the total assets in loan and advances.

iv) Loan & Advances to Saving Deposits Ratio

This ratio is measured to ensure the bank’s efficiency in utilizing its saving deposits in loan and advances. Saving deposits are treated as current liabilities whereas loan and advances are treated as current assets. So, both the terms are relevant in case of financial analysis.

We have,

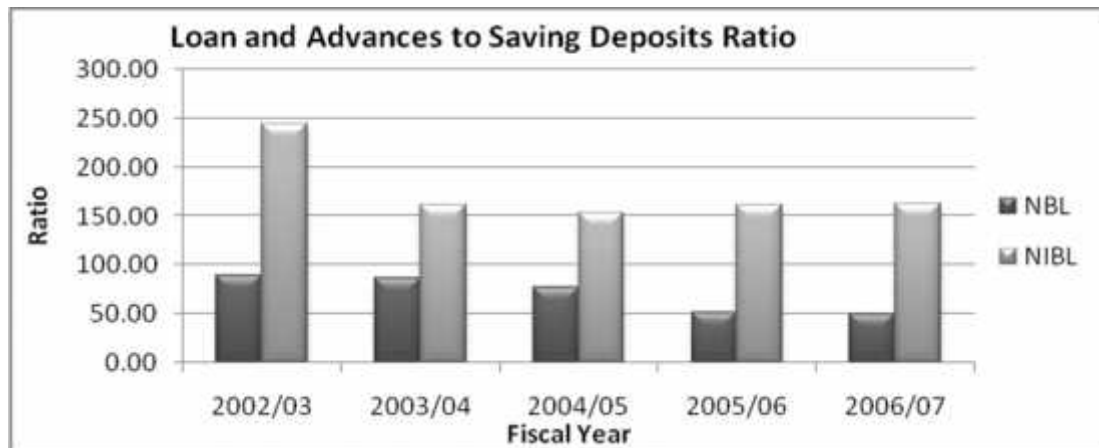
$$\text{Loan \& Advances to Saving Deposits Ratio} = \frac{\text{Loan \& Advances}}{\text{Saving Deposits}}$$

Table No. 4.7 Calculation of Loan and Advances to Saving Deposits Ratio

Fiscal Year	Loan & Advances (in Million)		Saving Deposits (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	19266.1	5949.2	21534.5	2433.9	89.47	244.43
2003/04	19141.7	7920.2	22063.0	4922.0	86.76	160.91
2004/05	17456.0	10295.0	22671.8	6703.5	76.99	153.58
2005/06	12180.0	13007.0	23547.9	8082.0	51.72	160.94
2006/07	13377.5	17482.0	26425.4	10742.2	50.62	162.74
Average (\bar{x})					71.11	176.52
Standard Deviation ()					18.79	38.13
Coefficient of Variation (C.V)					26.42	21.60

(Source: Financial Statements of the Banks.)

Figure 4.7



The above calculated table shows that loans and advances of NBL decreases frequently for most of the years but the NIBL got success to increase its loan amount for the outsiders. The ratio of NBL fluctuates from maximum of 89.47% in the FY 2002/03 to the minimum of 50.62% in the FY 2006/07 with an average of 71.11% during the study period of six years. Similarly, the ratio of NIBL also fluctuates in a huge difference. Its maximum ratio is 244.43% in the FY 2002/03 then it fluctuates frequently with the lowest ratio of 153.58% in the FY 2004/05 where its mean ratio is 176.52%. In other fiscal years the ratio is 160.91% in the FY 2003/04, 160.94% in the FY 2005/06 and 162.74% in FY 2006/07. This analysis reveals that NBL is lending only about 70% of its total saving deposits. But NIBL is seeking for more risky investment which is more than 1.75 times of the saving deposits. The analysis designates that the NIBL is mobilizing its saving deposits as well as other funds in loans and advances adequately.

The NBL's standard deviation (18.79) is much lower than the NIBL's (38.13) which shows that loan and advances to saving deposits ratio of the NIBL is moderately fluctuating than the NBL's ratio. On the contrary, the NIBL is more consistent than the NBL due to its lower degree of coefficient of variation (21.60%) whereas NBL's coefficient of variation is 26.42%.

4.2.3 Capital Structure Ratio (Leverage Ratio)

Leverage ratio shows the proportion of debt capital and equity capital. It shows the long-term solvency and judges the long-term financial position of the firm. Shareholder stands to gain with capital gearing during times of good profit as the debt capital is paid fixed interest and all balance of profit is available to equity holders. But in times of low profits, the payments of fixed interest on high debt capital may absorb all the profits leaving nothing for the shareholders. That's why at the time of high profit, leverage is favorable and unfavorable when profits are too low.

Leverage Management ratios are calculated to judge the long term financial position of the firm. These ratios indicate mix of funds provided by owners or lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. Administration of capital can smoothly be carried on with the help of such ratios.

An institution should have short term liquidity as well as long term solvency. Since liquidity relates to the short term solvency and capital structure ratio is concerned with long term solvency. As the short term, creditors are interested to know about the liquidity or short term financial position of the firm and long term creditors are interested to know the long term financial position of the firm and this is reflected through capital structure ratio. This ratio highlights the long term financial health, debt serving capacity and strengths and weaknesses of the firm.

Leverage ratios measure the proportion of outsiders' capital in financing the firm's assets and are calculated by establishing relationship between borrowed capital and equity capital. Higher leverage ratio indicates larger amount of borrowed funds used by the firm to finance its assets and it also indicates increasing obligations and known as risky firm. A firm must have sufficient margin of equity to pay the fixed charges and refund the borrowed fund in the

maturity date. The following ratios are used to measure the long term solvency position of Nepal Bank Ltd. and Nepal Investment Bank Ltd.

Hence, the leverage ratios are calculated to measure the financial risk and the firm's ability if using debt for the benefit of shareholders. The major ratios under capital structure are presented and calculated below.

- i. Total Debt to Equity Ratio
- ii. Total Debt to Capital Ratio
- iii. Total Debt to Total Assets Ratio

i) Debt to Equity Ratio

This ratio is calculated by dividing the total debt amount by total equity capital. This ratio helps to identify the amount of total equity is possessed for debt. Lower ratio indicates the low cost and higher refers to the higher risk which involves more return for the bank.

We have,

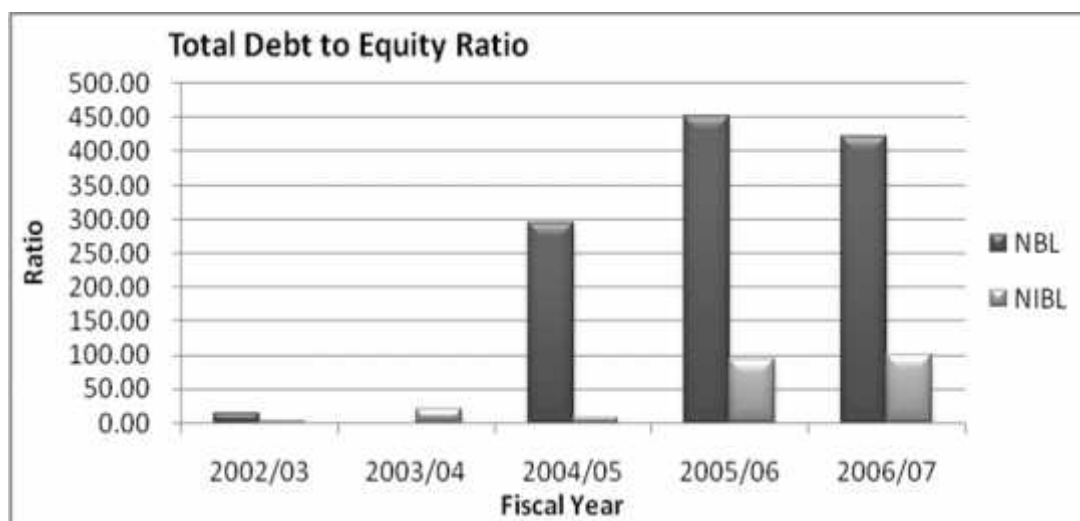
$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Table No. 4.8 Calculation of Debt to Equity Ratio

Fiscal Year	Total Debt (in Million)		Total Equity (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	52.4	6.8	380.4	295.3	13.77	2.30
2003/04	0.0	61.5	380.4	295.3	0.00	20.83
2004/05	1124.9	50.0	380.4	587.7	295.70	8.51
2005/06	1717.4	550.0	380.4	590.6	451.47	93.13
2006/07	1604.9	800.0	380.4	801.4	421.90	99.83
Average (\bar{X})					236.57	44.92
Standard Deviation ()					217.73	47.59
Coefficient of Variation (C.V)					92.04	105.96

(Source: Financial Statements of the Banks.)

Figure 4.8



The above table shows the debt to equity ratio of two commercial banks, NBL and NIBL. It shows the composition of debt and equity in the capital structure. The ratio is increasing substantially for the both banks. The highest ratio of NBL is 451.47% in FY 2005/06 and NIBL is 99.83% in FY 2006/07. The lowest is in the FY 2003/04 (0.00%) and 2.30% in FY 2002/03 for NBL and NIBL respectively. There is substantial difference in highest and lowest point of the ratio. Which means the NBL is pleasing with up to 451% of its equity capital but NIBL is captivating only about 100% of its equity. From this calculation it can be analyzed that NBL is more efficient or seeker than NIBL to maintain the level of total debt according to its equity capital structure.

For the first two years, the ratio of both banks is negligible but after the FY 2003/04, it rises drastically up to the last year. With an average ratio of 236.57% NBL is in foremost position where NIBL is at the bottom with 44.92%. The standard deviation of NBL is 217.73% and the NIBL is 47.59%. Coefficient of variation of NBL 92.04% and NIBL 105.96% means there is more variation in ratio of NIBL and NBL's variation in total debt and total equity capital is low.

ii) **Debt to Total Capital Ratio**

We have,

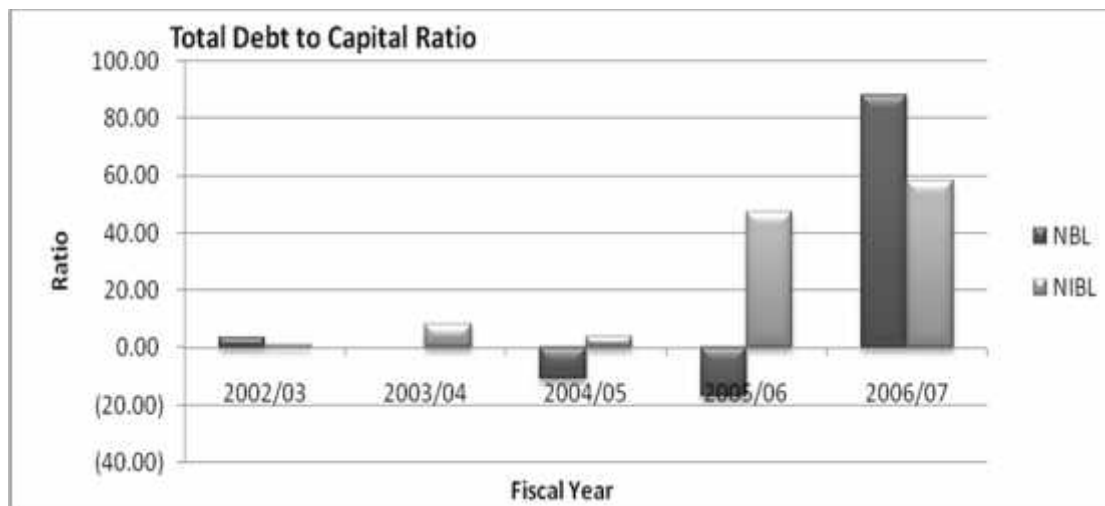
$$\text{Debt to Total Capital Ratio} = \frac{\text{Total Debt}}{\text{Total Capital}}$$

Table No. 4.9 Calculation of Total Debt to Total Capital Ratio

Fiscal Year	Total Debt (in Million)		Total Capital (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	52.4	6.8	1449.1	557.1	3.62	1.22
2003/04	0.0	61.5	1064.3	740.7	0.00	8.30
2004/05	1124.9	50.0	-10347.5	1234.5	-10.87	4.05
2005/06	1717.4	550.0	-10066.5	1158.1	-17.06	47.49
2006/07	1604.9	800.0	1820.6	1370.8	88.15	58.36
Average (\bar{X})					12.77	23.89
Standard Deviation ()					42.95	26.91
Coefficient of Variation (C.V)					336.39	112.65

(Source: Financial Statements of the Banks.)

Figure 4.9



The above table reveals the distinct trend on total debt to total capital ratio during the study period. For the NBL, the total debt and total capital are so fluctuating all over the period. The ratio for NBL is 3.62% in the FY 2002/03

then to 0.00% in the FY 2003/04, -10.87% in the FY 2004/05 then -17.06% in the FY 2005/06 i.e. the lowest ratio of the period and finally it increases to 88.15% in the FY 2006/07 which is the highest ratio throughout the study period.

On the other hand, both the debt capital and total capital of NIBL are disordering for these years. The ratio of NIBL is the highest at 58.36%, the lowest at 1.22% then 8.30%, 4.05% and 47.49% in the FY 2006/07, FY 2002/03, FY 2003/04, FY 2004/05 and FY 2005/06 respectively. Since there are other factors in total capital, the increment of it is not similar to the growth of total debt. Hence the ratio is not being similar for the fiscal years.

The average ratio for the NBL for the five year is 12.77% whereas the same ratio for the NIBL is 23.89% for the same duration. This indicates that the NIBL is utilizing more long-term debt in total capital. Similarly, the standard deviation of NBL (42.95) and NIBL (26.91) are totally different to each other. The coefficient of variation of NBL is showing a massive difference with more than three times of NIBL's C.V. This means the NIBL is making the right choice for its optimal capital structure.

iii) Debt to Assets Ratio

Debt to total assets ratio reflects the financial contribution of outsiders on total assets of the firm. It also measures the financial security of the outsiders. Generally, creditors prefer a low debt ratio and their earnings on the one hand and to maintain their concentrated control over the firm on the others. As this ratio is like the debt-equity ratio, it gives results similar to the debt-equity ratio in respect of the capital structure of the firm. Higher the debt ratio indicates higher financial risk as well as increasing claims of outsiders in total assets.

Total debt to total assets ratio is the relationship between creditors fund and owners capital. This ratio is calculated by dividing the total debt of the bank by its total assets which is presented below.

We have,

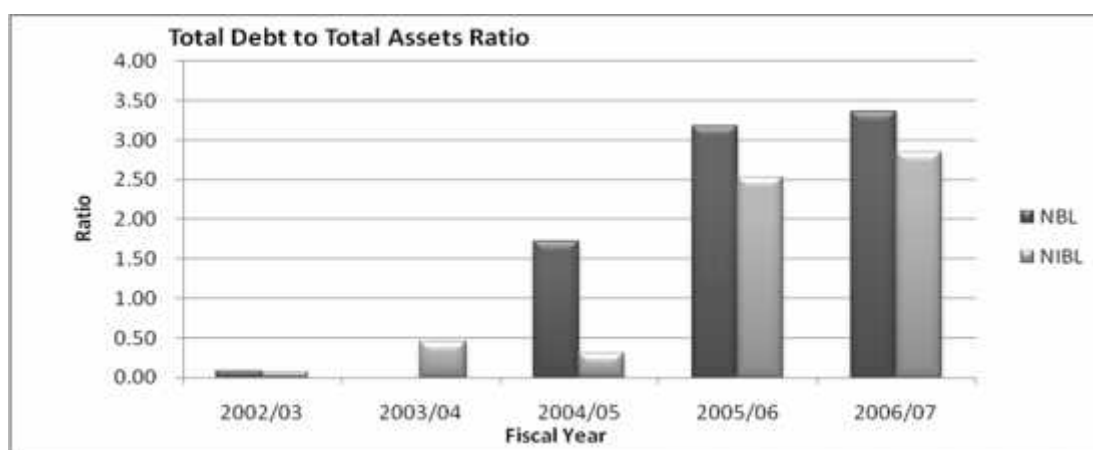
$$\text{Debt to Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Table No. 4.10 Calculation of Debt to Total Assets Ratio

Fiscal Year	Total Debt (in Million)		Total Assets (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	52.4	6.8	66329.5	9,163.9	0.08	0.07
2003/04	0.0	61.5	64063.8	13,463.9	0.00	0.46
2004/05	1124.9	50.0	65259.2	16,390.7	1.72	0.31
2005/06	1717.4	550.0	54133.0	21,732.1	3.17	2.53
2006/07	1604.9	800.0	47707.1	28,073.5	3.36	2.85
Average (\bar{x})					1.67	1.24
Standard Deviation ()					1.62	1.33
Coefficient of Variation (C.V)					96.91	107.19

(Source: Financial Statements of the Banks.)

Figure 4.10



The given table measures the total debt to total assets ratio of two banks of five consecutive fiscal years 2002/03-2006/07. The ratio has been ranged from 0.00% to 3.36% of NBL. The table further explains that the total debt capital to total assets ratio of NIBL is changing from 0.07% to 2.85% during the five year period. Ratios of both banks are fluctuating during the period. Both the banks

NBL and NIBL maintained the highest ratio in the FY 2006/07 whereas the lowest ratio of NBL is in the FY 2003/04 and the NIBL is in FY 2002/03.

The mean ratio of NBL is 1.67% and 1.24% of NIBL, if we measure the performance of these banks based in this mean, the performance of NIBL is weak than NBL. NIBL's standard deviation (1.33) is less than NBL's (1.62) which shows that the ratio of NBL is more fluctuating than the NIBL's ratio. Coefficient of variation of NBL (96.91%) is less than NIBL's (107.19%) which shows that NBL has more consistence than the NIBL in comparison with the ratio.

4.2.4 Profitability Ratios

A company should earn profit to survive and grow over long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profits, irrespective of social consequences. It is unfortunate that the word 'profit' is looked upon as a term of abuse since some firms always want to maximize profits at the cost of employees, customers and society. Except such infrequent cases, it is a fact that sufficient profits must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and growth and to contribute towards the social overheads for the welfare of the society.

Profit is the difference between revenues and expenditures over a period of time (usually one year). Profit is the ultimate 'output' of a company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profits. Profitability ratios indicate degree of success in achieving desired profit level. Profitability ratios, which measure management's overall effectiveness, are shown by the returns generated on sales and investment. A bank should be able to earn profit to survive and grow over long period of time

profit is the indicator of efficient operation of a bank. The banks acquire profit by providing different services to its customers or by making investment of different kinds around the world.

Profitability ratios measure the efficiency of bank. Greater profit ratio shows the higher efficiency of the bank and vice versa. The following profitability ratios are related to study in this heading.

i) Return on Total Assets

It measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks total assets are well managed and efficiency utilized.

We have,

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

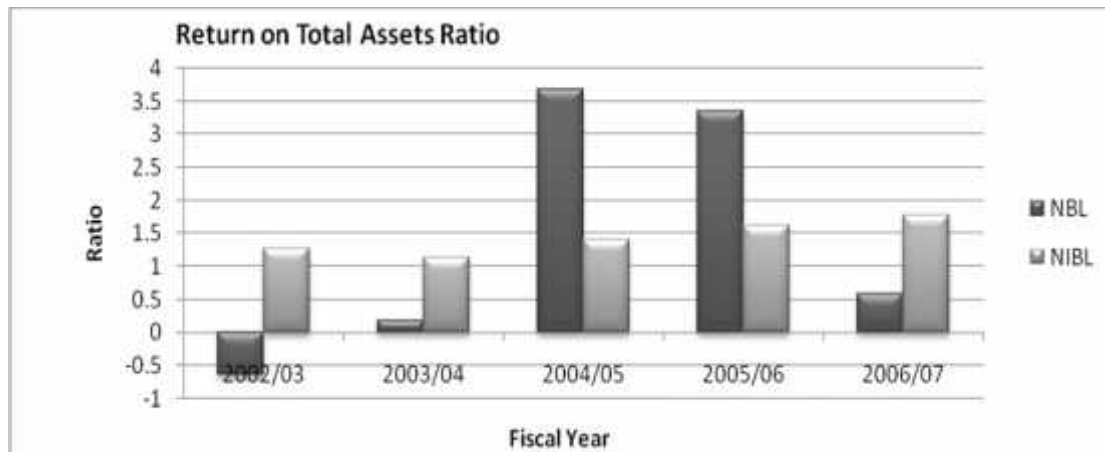
Net profit includes the profit that is left to the internal equities after all costs, charge and expense. Following tables shows the figure of this ratio.

Table No. 4.11 Calculation of Return on Total Assets Ratio

Fiscal Year	Net Profit After Tax (in Million)		Total Assets (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	-417.9	116.8	66329.5	9163.9	-0.63	1.27
2003/04	115.3	152.7	64063.8	13463.9	0.18	1.13
2004/05	2401.5	232.1	65259.2	16390.7	3.68	1.42
2005/06	1818.9	350.5	54133.0	21732.1	3.36	1.61
2006/07	276.7	501.4	47707.1	28073.5	0.58	1.79
Average (\bar{x})					1.43	1.44
Standard Deviation ()					1.96	0.26
Coefficient of Variation (C.V)					136.46	18.02

(Source: Financial Statements of the Banks.)

Figure 4.11



The above table shows the ratio between net profit after taxes and total assets. It shows that the profitability ratio of NBL is inconsistent because of its positive and negative return ratio for the periods. Its ratio in an initial year of this study period is negative (-0.63%) whereas it maintained its highest ratio in the year of FY 2004/05 (3.68%). NIBL is very consistent. It has an increasing trend. It has maximum ratio of 1.79% during the FY 2006/07 and minimum ratio of 1.13% at the second fiscal year of the study period i.e. FY 2003/04.

From the above analysis, we can see the lowest standard deviation of NIBL (0.26) and the different for NBL (1.96). Another support for analysis is coefficient of variation which is 136.46% for NBL and 18.02% for NIBL. With the help of this analysis, it can be concluded that the NBL's profitability with respect to financial resources' investment of the bank assets is not satisfactory as well as unstable but the NIBL's return according to its total assets is appropriate and seems to be stable for the period.

ii) Return on Net Worth

This ratio is calculated to measure the strength of a firm to make profit on its net worth. Generally the term net worth is the difference between total assets and total liabilities of a firm.

We have,

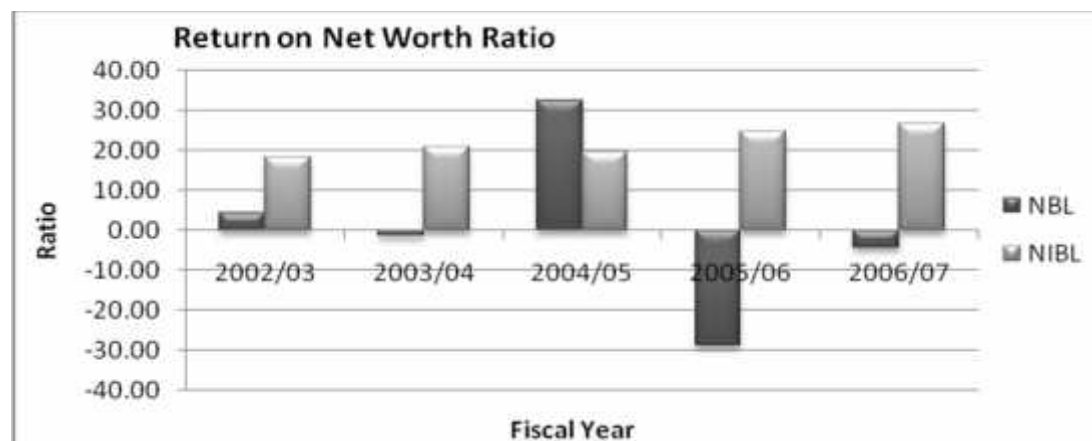
$$\text{Return on Net Worth Ratio} = \frac{\text{Net Profit After Taxes}}{\text{Net Worth}}$$

Table No. 4.12 Calculation of Return on Net Worth Ratio

Fiscal Year	Net Profit After Tax (in Million)		Net Worth (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	-417.9	116.8	-9832.9	638.5	4.25	18.29
2003/04	115.3	152.7	-9015.1	729.1	-1.28	20.94
2004/05	2401.5	232.1	7425.1	1180.2	32.34	19.67
2005/06	1818.9	350.5	-6314.4	1415.4	-28.81	24.77
2006/07	276.7	501.4	-6238.3	1878.1	-4.44	26.70
Average (\bar{x})					0.41	22.07
Standard Deviation ()					21.88	3.53
Coefficient of Variation (C.V)					5275.22	16.01

(Source: Financial Statements of the Banks.)

Figure 4.12



The above table measures the return on net worth ratio of two banks of five consecutive fiscal years 2002/03-2006/07. The ratio has been ranged from -28.81% to 32.34% of NBL. The table further explains that the same ratio of NIBL is almost the same which varies from 18.29% to 26.70% during the five year period. Ratio of NBL is unbalancing during the period. NBL has its highest ratio (32.34%) in the FY 2003/04 and NIBL maintained the highest

ratio (26.70%) in the FY 2006/07. The lowest ratio of NBL is in the FY 2005/06 i.e. -28.81% and the NIBL is 18.29% in FY 2002/03.

The mean ratio of NBL is 0.41% which is unlikely to be happened for the bank. But the NIBL is in very well position with an average ratio of 22.07%. If we measure the performance of these banks based in this mean, the performance of NBL is extremely poor because its ratio greatly suffers from negative return as well as negative net worth. NIBL's standard deviation (3.53) is less than NBL's (21.88) which shows that the ratio of NIBL has more consistency and similarity than the NBL's ratio. Coefficient of variation of NIBL (16.01%) is heavily less than NBL's (5275.22%). This type of variation is extreme and this is more than thirty times of the C.V of NIBL. This shows that NIBL has superiority in consistency than the NBL according to the comparison of profit and the ratio.

iii) Return on Total Deposits Ratio

Every bank should aim to make more profit by lending the deposits for the outsiders by the means of loan. Bank accepts deposits through customers at a lower interest rate and also provides loan for its customers at a higher interest charge. In this ratio, profit of bank is compared to its total deposits in form of percentage which is given below:

We have,

$$\text{Return on Total Deposits Ratio} = \frac{\text{Net Profit After Taxes}}{\text{Total Deposits}}$$

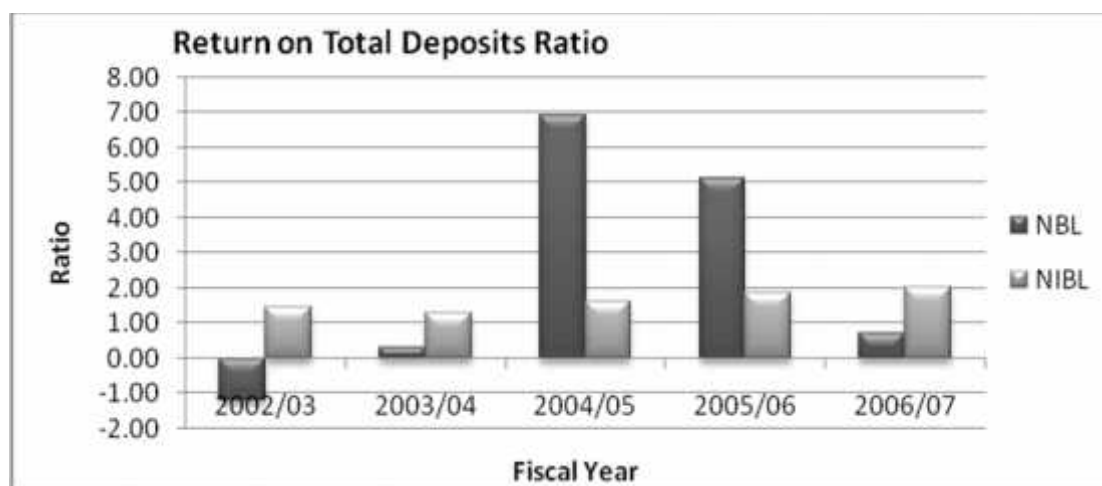
The following table calculates the ratio between net profit after tax and total deposits.

Table No. 4.13 Calculation of Return on Total Deposits Ratio

Fiscal Year	Net Profit After Tax (in Million)		Total Deposits (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	-417.9	116.8	34737.4	7922.8	-1.20	1.47
2003/04	115.3	152.7	36288.5	11706.3	0.32	1.30
2004/05	2401.5	232.1	34744.2	14254.8	6.91	1.63
2005/06	1818.9	350.5	35444.9	18927.3	5.13	1.85
2006/07	276.7	501.4	38715.2	24488.9	0.71	2.05
Average (\bar{x})					2.37	1.66
Standard Deviation ()					3.46	0.30
Coefficient of Variation (C.V)					145.84	17.78

(Source: Financial Statements of the Banks.)

Figure 4.13



The given table tests out the percentage of return on the total deposits of the two banks of five consecutive fiscal years from FY 2002/03 to FY 2006/07. The ratio has been varied from -1.20% to 6.91% of NBL and ratio of NIBL is altering from 1.30% to 2.05% during the five year period. Mostly, ratio of Nepal bank is fluctuating during the period. The NBL retained the highest ratio in the FY 2004/05 and the lowest ratio is -1.20% in the FY 2002/03. Similarly, the highest ratio of NIBL is 2.05% in FY 2006/07 and the lowest ratio is 1.30% in FY 2003/04. Rest of the years, NBL has less than 1% in two fiscal years and near to 6% in one year. But NIBL has similar ratios in the remaining fiscal years which range within 1% and 2%.

The mean ratio of the five fiscal year of NBL is 2.37% and 1.66% of NIBL. If we determine the performance of these banks based on this mean, the performance of NIBL is weak than NBL but NIBL's standard deviation (0.30) is swiftly less than NBL's (3.46) which shows that the ratio of NBL is more fluctuating than the NIBL's. Another calculation Coefficient of variation is made for checking consistency of banks where C.V of NBL is 145.84% and NIBL's 17.78%. This calculation further illustrates that NIBL has more consistency in earning profit on its utilized assets and deposits than the NBL in comparison with the ratio.

4.2.5 Overall Efficiency Ratios

After calculating liquidity, leverage, assets structure and profitability ratios, we need to calculate an overall efficiency ratios to analyze various efficiencies relating to incomes and expenditures of the banks.

i) Operating Expenses to Total Income Ratio

This ratio is tested whether the portion of operating expenses is increasing or decreasing as compared to total income. With the help of this base, a bank can formulate new policies and implement those according to the needs and situation. Mainly, this ratio is calculated to check the percentage of operating expenses on total income.

We have,

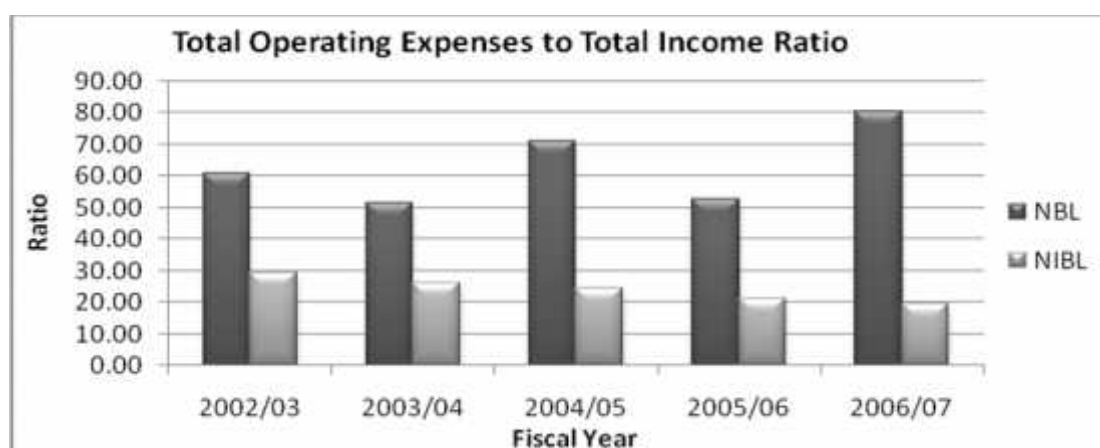
$$\text{Operating Expenses to Total Income Ratio} = \frac{\text{Operating Expenses}}{\text{Total Income}}$$

Table No. 4.14 Calculation of Operating Expenses to Total Income Ratio

Fiscal Year	Operating Expenses (in Million)		Total Income (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	1946.19	169.3	3194.0	577.9	60.93	29.30
2003/04	1644.42	239.2	3203.3	913.7	51.34	26.18
2004/05	1885.81	279.9	2660.7	1145.6	70.88	24.43
2005/06	2270.59	311.3	4325.5	1461.4	52.49	21.30
2006/07	2156.42	388.8	2679.3	1999.8	80.49	19.44
Average (\bar{x})					63.22	24.13
Standard Deviation ()					12.43	3.91
Coefficient of Variation (C.V)					19.66	16.18

(Source: Financial Statements of the Banks.)

Figure 4.14



The table no. 4.14 illustrates the ratio of operating expenses to total income. It shows the ratio of NBL is very high for all the periods. Its ratios in FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06 and FY 2006/07 are 60.93%, 51.34%, 70.88%, 52.49% and 80.49% respectively. On the other hand, the ratios of NIBL are 29.30%, 26.18%, 24.43%, 21.30% and 19.44% in FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06 and FY 2006/07 respectively. NIBL has regularly diminished its operating expenses along with staffs' salaries during the period. The minimum ratio of NBL is 51.34% even though it is not near to the maximum ratio of NIBL. This states that NIBL is able to reduce expenses related to staffs as well as other regular expenses, this maximizes the profit.

From the above statistical analysis, we can see the average operating expenses ratio to total income of NBL is excessively high i.e. 63.22% whereas the same ratio for NIBL is only 24.13%. Further analysis can be drawn by comparing lower standard deviation of NIBL (3.91) and the greater for NBL (12.43). That supports for the better performance of NIBL than the NBL. Another support for analysis is coefficient of variation which is 19.66% for NBL and 16.18% for NIBL. With the help of this analysis, it can be said that NIBL is reducing its operating expenses consistently but the NBL could not make control over its regular expenses which fluctuates the ratio from 51% to 80%.

ii) Total Interest Income to Total Interest Expenses Ratio

This is another integral part of the ratio analysis because a bank can examine its income and expenses ratio. It determines the level of income to be attained to meet the basic expenditures. So, bank should try to adjust the income and expenses according to the calculated ratios. For this ratio, we calculate as:

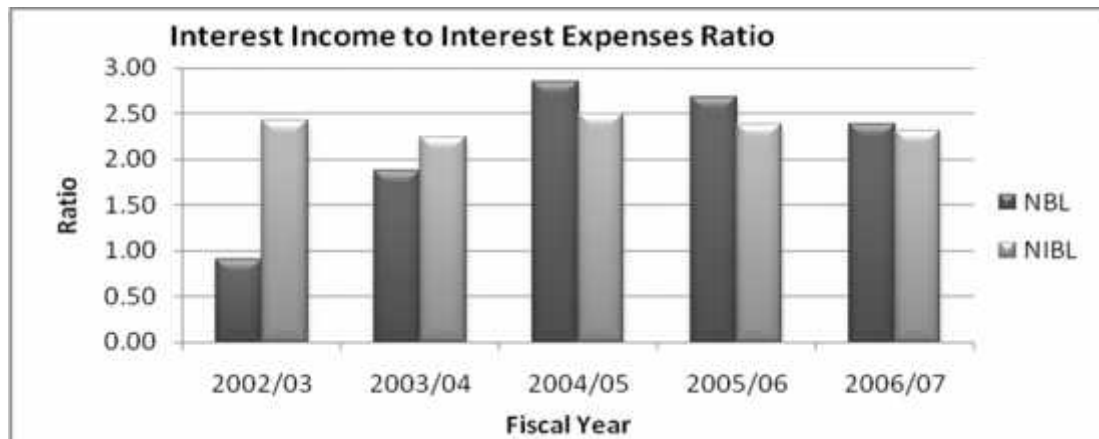
$$\text{Total Interest Income to Total Interest Expenses Ratio} = \frac{\text{Interest Income}}{\text{Interest Expenses}}$$

Table No. 4.15 Calculation of Interest Income to Interest Expenses Ratio

Fiscal Year	Interest Income (in Million)		Total Interest Expenses (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	1448.8	459.5	1593.4	189.2	0.91	2.43
2003/04	1946.7	731.4	1041.5	326.2	1.87	2.24
2004/05	2056.3	886.8	721.0	354.5	2.85	2.50
2005/06	2049.0	1172.7	765.5	490.9	2.68	2.39
2006/07	1848.6	1585.0	775.5	685.5	2.38	2.31
Average (\bar{x})					2.14	2.37
Standard Deviation (σ)					0.78	0.10
Coefficient of Variation (C.V)					36.55	4.24

(Source: Financial Statements of the Banks.)

Figure 4.15



Given analytical table represents the level of interest income over interest expenditure whether income is higher or lower. The interest income over interest expenses of NBL ranges from minimum of 0.91 times in the FY 2002/03 to a maximum of 2.85 times in the FY 2004/05 with an average of 2.14 times during the study period of six years. On the contrary, the ratio of NIBL remains unwavering during the study period. Its lowest ratio is 2.24 times in the FY 2003/04 and the highest ratio is 2.50 times in the FY 2004/05 where its mean ratio is 2.37 times. In other fiscal years the ratio is 2.43 times in the FY 2002/03, 2.39 times in the FY 2005/06 and 2.31 times in the FY 2006/07. This analysis reveals that NBL has an ability to maintain its interest income at a similar level even its interest expenses is increasing. The analysis designates that the interest income has always been excess over the interest expenses for the both banks NBL and NIBL.

The standard deviations of both commercial banks are less than one which is quite standard. S.D of NBL is 0.78 and NIBL is 0.10. Similarly, the NIBL is more consistent than the NBL due to its lower degree of coefficient of variation (4.14%) whereas NBL's coefficient of variation is 36.55%.

iii) Total Interest Expenses to Total Deposits and Borrowings Ratio

The ratio of staff expenses on total income is already calculated. Another important ratio to measure is total interest expenses to total deposits and borrowings ratio. How much amount is spent for interest is calculated as a whole on total deposits and borrowings. For this calculation,

We have,

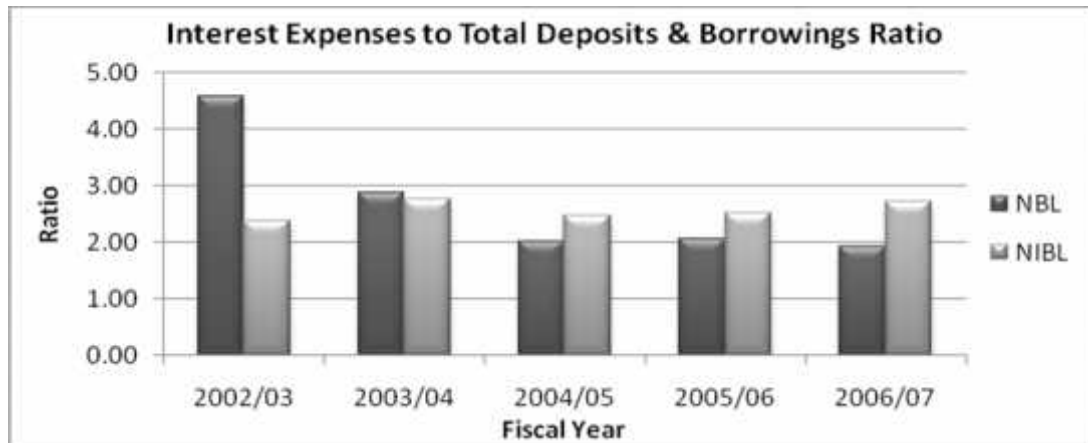
$$\text{Interest Expenses to Total Deposits and Borrowings Ratio} = \frac{\text{Interest Expenses}}{\text{Total Deposits \& Borrowings}}$$

Table No. 4.16 Calculation of Interest Expenses to Total Deposits and Borrowings Ratio

Fiscal Year	Interest Expenses (in Million)		Total Deposits & Borrowings (in Million)		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	1593.37	189.2	34789.8	7929.6	4.58	2.39
2003/04	1041.48	326.2	36288.5	11767.8	2.87	2.77
2004/05	720.97	354.5	35869.1	14304.8	2.01	2.48
2005/06	765.54	490.9	37162.3	19477.3	2.06	2.52
2006/07	775.50	685.5	40320.1	25288.9	1.92	2.71
Average (\bar{x})					2.69	2.57
Standard Deviation ()					1.12	0.16
Coefficient of Variation (C.V)					41.80	6.30

(Source: Financial Statements of the Banks.)

Figure 4.16



The above table illustrates the ratio of interest paid to total deposits and total borrowings. It shows the ratio of NBL is higher for the first fiscal year but it decreases the rate continuously. Its ratios in FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06 and FY 2006/07 are 4.58%, 2.87%, 2.01%, 2.06% and 1.92% respectively. Similarly, the ratios of NIBL are 2.39%, 2.77%, 2.48%, 2.52% and 2.71% in FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06 and FY 2006/07 respectively. It has similar trend on its interest expenses during the period, even though the inflation rate is high. The average ratio for NBL and NIBL are 2.69% and 2.57% correspondingly which indicates that both banks are quite able to provide cheaper interest to customers in the competitive market.

From the above statistical analysis, we can see the lower standard deviation of NIBL (0.16) and the greater for NBL (1.12). That ropes for the better performance of NIBL than the NBL. Another support for analysis is coefficient of variation which is 41.80% for NBL and 6.30% for NIBL. With the help of this analysis, it can be said that NBL has some different policies in interest provision which is slightly variable.

4.2.6 Market Based Ratios (Invisible Ratios)

The real owners of any business firms are common stockholders who invest their fund in the firm because of their expectation of future returns. The common stockholders are referred as a residual owner who receives what is left at last after all other claims on the firm's income and assets have been satisfied. The equity stockholders expect to be compensated with adequate dividend and ultimately capital gain. From the shareholders point of view the following financial ratios indicate the financial performance of the business firm.

i) Earning Per Share

This ratio is measured to identify the value per share which the shareholders earn. The total earning available to common stockholders is divided by total no. of shares outstanding.

We have,

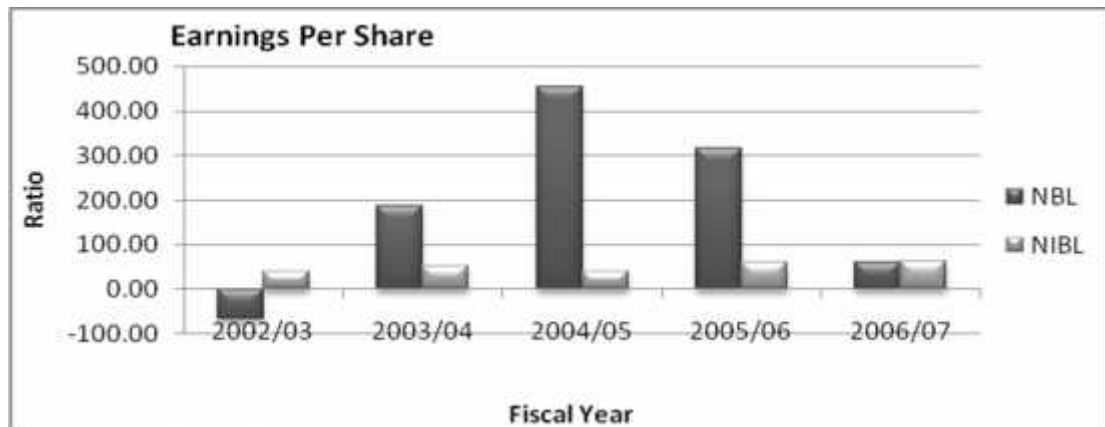
$$\text{Earning Per Share} = \frac{\text{Earning Available to Common Stockholders}}{\text{Total No. of Shares Outstanding}}$$

Table No. 4.17 Calculation of Earning Per Share

Fiscal Year	Total Earnings (in Million)		Total No. of Shares		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	-251.7	116.8	3803826	2952930	-66.18	39.56
2003/04	710.4	152.7	3803826	2952930	186.76	51.70
2004/05	1730.7	232.2	3803826	5877385	455.00	39.50
2005/06	1205.8	350.5	3803826	5905860	317.00	59.35
2006/07	226.9	501.4	3803826	8013526	59.66	62.57
Average (\bar{x})					190.45	50.54
Standard Deviation ()					205.54	10.79
Coefficient of Variation (C.V)					107.92	21.36

(Source: Financial Statements of the Banks.)

Figure 4.17



The above table shows the trend of EPS of two banks NBL and NIBL. The ratio of NBL is rapidly changing during the study period. At the beginning year, it started with Rs. -66.18 and in the FY 2004/05, it reaches to Rs. 455. The EPS of NIBL is in similar range which varies only from Rs. 39.50 to Rs. 62.57. Somehow, the trend seems to be increasing so it can be concluded that the EPS of the NIBL is satisfactory but there is no hypothetical assumption for increment or decrement of EPS for NBL. It can be said that it is good trace of operation performance of Nepal Investment Bank Ltd.

An average of Rs. 190.45 for NBL is very good whereas there is only Rs. 50.54 for NIBL but NBL has so many ebbs and flows during the period. S.D of NBL (205.54) is very greater than NIBL's S.D (10.79) which further determines the level of oscillation for two banks. C.V is another tool to check consistency of ratio where there is 107.92% for NBL and 21.36% for NIBL. This verifies that NIBL has more consistency in earnings which leads to strong EPS.

ii) Price Earning Ratio

This ratio is calculated by dividing the market value per share by earning per share. It is useful in checking consistency of earning whether it is sufficient of insufficient over the market price. This results the ratio of earning in relation to price in the market.

We have,

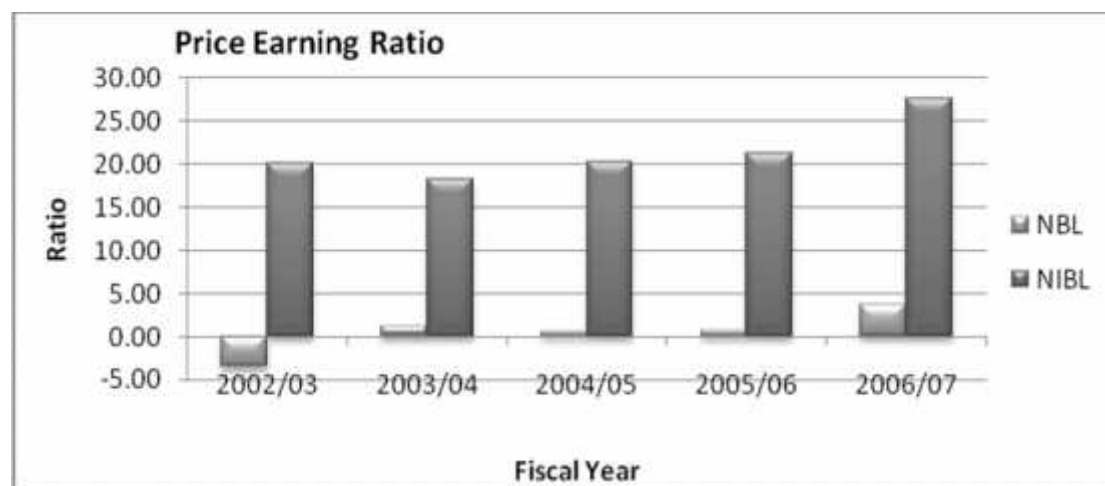
$$\text{Price Earning Ratio} = \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

Table No. 4.18 Calculation of Price Earning Ratio

Fiscal Year	Market Value Per Share		Earning Per Share		Ratio	
	NBL	NIBL	NBL	NIBL	NBL	NIBL
2002/03	225.0	795.0	-66.2	39.6	-3.40	20.10
2003/04	225.0	940.0	186.8	51.7	1.20	18.18
2004/05	225.0	800.0	455.0	39.5	0.49	20.25
2005/06	225.0	1260.0	317.0	59.4	0.71	21.23
2006/07	225.0	1729.0	59.7	62.6	3.77	27.63
Average (\bar{x})					0.56	21.48
Standard Deviation ()					2.57	3.61
Coefficient of Variation (C.V)					462.27	16.82

(Source: Financial Statements of the Banks.)

Figure 4.18



The preceding table exhibits the price earning ratio of two selected commercial banks. It shows the ratio of NBL is negative for the first fiscal year but it recovers the rate and finally reaches to 3.77 in the final fiscal year. The P/E ratio of NBL is below 5 in every year of the study period but NIBL has almost more than 20 in each year. NBL's and NIBL's ratios are in FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06 and FY 2006/07 are -3.4 & 20.10, 1.20 &

18.18, 0.49 & 20.25, 0.71 & 21.23 and 3.77 & 27.63 correspondingly. This analysis reveals that NBL has never been reached the lowest ratio of NIBL. The average ratio for NBL and NIBL are 0.56 and 21.48 in the same way which indicates that NIBL has achieved more faith and value from the customers of competitive market.

From the above statistical analysis, we can see the higher standard deviation of NIBL (3.61) and the greater for NBL (2.57). That indicates for the lower fluctuation in ratio of NBL. But coefficient of variation which is 462.27% for NBL and 16.82% for NIBL clarifies that NBL has more volatile nature in this ratio instead of having fixed market value per share. With the help of this analysis, it can be said that NBL inconsistent trend of earnings which leads the organization towards lower as well as negative price earning ratios.

4.3 Statistical Tools

After utilizing and analyzing financial tools, statistical tools are taken as crucial instruments for measurement of performance of banks. Some statistical tools such as; mean, standard deviation and coefficient of variation are used and also have analyzed the calculated ratio for NIBL and NBL. Under this heading some other statistical tools are used to achieve the objective of the study. The statistical tools used in this analysis are coefficient of correlation analysis between different variables.

4.3.1 Coefficient of Correlation Analysis

Under this chapter Karl Pearson's coefficient is used to find out the relationship between various variables like deposits, loan and advances, total investment and net profit etc.

i) Coefficient of Correlation Between Total Deposits and Loan & Advances

Deposits have played a very crucial role in performance of a commercial bank for maintaining liquidity. Similarly loan and advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan and advances measures the degree of relationship between two variables.

In this analysis total deposits is independent variable (X) and Loan and advances is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used on loan and advances in a proper way or not. The following table shows the value of coefficient of correlation "r", coefficient of multiple determination "r²", probable error (P.E) and 6 P.E between total deposits and loan & advances for the study period 2002/03 to 2006/07.

Table No. 4.19 Correlation Between Total Deposits and Loan & Advances

Fiscal Year	Total Deposits (in Million)		Loan and Advances (in Million)	
	NBL	NIBL	NBL	NIBL
2002/03	34737.4	7922.8	19266.1	5949.2
2003/04	36288.5	11706.3	19141.7	7920.2
2004/05	34744.2	14254.8	17456.0	10295.0
2005/06	35444.9	18927.3	12180.0	13007.0
2006/07	38715.2	24488.9	13377.5	17482.0
Coefficient of Correlation (r)			-0.459	0.997
Coefficient of Determination (r²)			0.210	0.994
Probable Error (P.E)			0.238	0.002
6 × P.E.			1.429	0.010

(Source: Financial Statements of the Banks.)

The above table reflexes that coefficient of correlation between total deposits and loan and advances are -0.459 and 0.997 of NBL and NIBL. This shows negative correlation between these two variables for NBL whereas there is strongly positive correlation between these two variables for NIBL.

Similarly the value of coefficient of determination (r^2) is to be found 0.210 for NBL and 0.994 for NIBL, which shows that 99.4% in the dependent variable (loan and advances) has been explained by independent variable (total deposits). Lower P.E of NIBL i.e. 0.002, which means the relation between total deposits and loans and advances is significant. In other words NIBL is successful to mobilize its fund in proper way through total deposits to loan and advances. On the contrary, higher probable error for NBL i.e. 0.238 means the poor relation between these two factors, seems to be insignificant. Similarly considering the value of (r) i.e. 0.997 and comparing it with 6 x P.E i.e. 0.010, which is more than 6 x P.E reveals that there is positive changes between total deposits and loan and advances. Conversely, value of 6 x P.E is higher than (r) explains that there is inconsistent relation between the factors for NBL.

ii) Coefficient of Correlation Between Total Deposits and Total Investment

Coefficient of correlation between total deposits and total investment measures the degree of relation between these two variables. Here total deposits is independent variable (X) and total investment is dependent variable (Y). The purpose of computing correlation between total deposits and total investment is to find out whether deposit is considerably used as investment or not.

The following table shows the value of coefficient of correlation “r”, coefficient of multiple determination “ r^2 ”, probable error (P.E) and 6 x P.E between total deposits and total investment for the study period 2002/03 to 2006/07.

Table No. 4.20 Correlation Between Total Deposits and Total Investment

Fiscal Year	Total Deposits (in Million)		Total Investments (in Million)	
	NBL	NIBL	NBL	NIBL
2002/03	34737.4	7922.8	11782.6	1745.3
2003/04	36288.5	11706.3	11023.7	4172.5
2004/05	34744.2	14254.8	13889.8	4074.2
2005/06	35444.9	18927.3	14421.4	5672.9
2006/07	38715.2	24488.9	16283.3	6518.6
Coefficient of Correlation (r)			0.574	0.953
Coefficient of Determination (r²)			0.329	0.909
Probable Error (P.E)			0.202	0.027
6 × P.E.			1.214	0.165

(Source: Financial Statements of the Banks.)

From the above table, we find that coefficient of correlation (r) between total deposits (independent) and total investments (dependent) are 0.574 and 0.953 of the banks NBL and NIBL respectively. It shows positive relationship between two variables for both banks however by application of coefficient of determination the value of (r²) is 0.329 of NBL and 0.909 for NIBL, which indicates that only 32.9% of the valuation of the total investment has been explained by total deposits for NBL but almost full (90.9%) is explained by the same for NIBL. Moreover by considering the probable error since the value of r is (0.953) is extremely more than 6 x P.E, NIBL has been maintaining significant relationship between these two factors but r (0.574) is less than 6 x P.E (1.214), we can say that there is insignificant relationship between total deposits and total investments. Lastly, it can be said that the Nepal Investment Bank Ltd. has followed the policy of maximizing the investment of their deposits.

iii) Coefficient of Correlation Between Total Deposits and Net Profit

Coefficient of correlation “r” between deposits and net profit measures the degree of relationship between these two variables. Here deposit is independent variable (X) and net profit is dependent variable (Y). The purpose of computing coefficient of correlation between total deposits and net profit is to find out the degree of slope of net profit towards total deposits.

Table No. 4.21 Correlation Between Total Deposits and Net Profit

Fiscal Year	Total Deposits (in Million)		Net Profit After Tax (in Million)	
	NBL	NIBL	NBL	NIBL
2002/03	34737.4	7922.8	-417.88	116.82
2003/04	36288.5	11706.3	115.31	152.67
2004/05	34744.2	14254.8	2401.54	232.15
2005/06	35444.9	18927.3	1818.87	350.54
2006/07	38715.2	24488.9	276.70	501.40
Coefficient of Correlation (r)			-0.333	0.991
Coefficient of Determination (r²)			0.111	0.982
Probable Error (P.E)			0.268	0.006
6 × P.E.			1.609	0.033

(Source: Financial Statements of the Banks.)

From the above table it has been found that the coefficient of correlation between total deposits (independent) and net profit (dependent) are -0.333 and 0.991 of NBL and NIBL correspondingly. This indicates poor negative correlation for NBL and strong positive correlation for NIBL between these two variables. Considering the NBL's value of coefficient of determination is r^2 is 0.111 points out only 11.1% and NIBL's r^2 i.e. 0.982 indicates 98.2% of the variation in the dependent variables has been explained by the independent variable. In addition, by considering the lower probable error we can further say that there is significant relationship between total deposits and net profit because the value of (r) is greater than six times P.E i.e. 0.033 but exactly opposite for the Nepal Bank Ltd. Again, it denotes that NIBL is capable of earning net profit by utilizing and mobilizing its total deposits.

iv) Correlation Coefficient Between Total Assets and Net Profit

To measure the level of relationship between the two variables total assets and net profit, "r" is calculated. Here total assets and net profit are independent variable (X) and dependent variable (Y) continuously. The purpose of computing coefficient of correlation between these variables is to find out whether the net profit is significantly correlated with particular assets or not.

Table No. 4.22 Correlation Between Total Assets and Net Profit

Fiscal Year	Total Assets (in Million)		Net Profit After Tax (in Million)	
	NBL	NIBL	NBL	NIBL
2002/03	66329.5	9,163.9	-417.88	116.82
2003/04	64063.8	13,463.9	115.31	152.67
2004/05	65259.2	16,390.7	2401.54	232.15
2005/06	54133	21,732.1	1818.87	350.54
2006/07	47707.1	28,073.5	276.70	501.40
Coefficient of Correlation (r)			-0.038	0.991
Coefficient of Determination (r²)			0.001	0.982
Probable Error (P.E)			0.301	0.005
6 × P.E.			1.807	0.033

(Source: Financial Statements of the Banks.)

The above table reflects that coefficients of correlation between total assets and net profit are -0.038 and 0.991 of NBL and NIBL respectively. This shows just negative correlation between these two variables for NBL whereas there is strongly positive correlation for NIBL between these same variables.

Similarly the value of coefficient of determination (r^2) is found as 0.001 for NBL and 0.982 for NIBL, which shows that 98.2% in the dependent variable (net profit) has been explained by independent variable (total assets). Lower P.E of NIBL i.e. 0.005, which means the relation between total deposits and loans and advances is significant but NIBL is successful to mobilize its assets in proper way through optimum utilization in order to achieve profit. On the contrary, higher probable error for NBL i.e. 0.238 means the poor relation and more complexity for making strong relation between these two factors. Similarly considering the value of (r) i.e. 0.991 and comparing it with 6 x P.E i.e. 0.033, is more than 6 x P.E reveals that there is positive and real relationship between total assets and net profit. Conversely, value of 6 x P.E is higher than (r) which indicates that there is inconsistent and illusory relation between the factors for NBL.

4.4 Major Findings of the Study

Ratio Analysis involves the method of calculating and interpreting financial ratios in order to assess the firm's financial performance and status. On the basis of data analysis and presentation in the previous sections of this chapter, some findings are picked up. The followings are the findings from presentation and analysis of financial as well as statistical data.

4.4.1 Findings from Primary Data Analysis (Questionnaires)

- The financing decision in Nepal Bank Ltd. and Nepal Investment Bank Ltd. is taken by the Managing Directors which is taken as effective way. Furthermore the NIBL has set its optimal capital structure and it is reviewed once in a year but NBL has not set its optimal capital structure and it is evaluated conditionally.
- The most preferred mode of financing in Nepal Bank Ltd. is Common Stock + Debt + Preferred Stock whereas Nepal Investment Bank Ltd. selects for Common Stock + Debt only.
- For leverage analysis, NBL follows the Debt to Total Assets Ratio whereas NIBL pursues Debt to Total Capital Ratio. Furthermore, both the bank prefer to use long term debt rather than using short term debts
- Average Total Debt to Total Assets ratio of Nepal Bank Ltd. is not explicitly stated and the Nepal Investment Bank Ltd.'s average is stated as 41%-60% but calculated value seems so fewer.
- Most of the clients dealing with these banks for loan are of trading or business concerns. Those loans are regularly paid by the clients and are utilized for the purpose for what they issued. Lending policies and procedures of Nepal Bank Ltd. are moderate but for Nepal Investment Bank Ltd. it is difficult and need to be changed.
- The amount of loan outstanding is decreasing for both banks. For NBL there is problem with reserve ratios in financing and security problems

for NIBL. The factors influencing performance of bank is labour problem for NBL and trade and policy of government for NIBL.

- Both banks accept the compulsory regulation of Nepal Rastra Bank which shall be performed occasionally. Since, the share of Nepal Bank Ltd. is not listed and it doesn't have positive net worth yet, it is not issuing preference shares and doesn't have problems regarding this which is same for NIBL.
- Nepal Bank Ltd. has not established a separate investors grievances handling unit in the bank but Nepal Investment Bank Ltd. has performed this operation successfully.
- Nepal Bank Ltd. is only agreed with the effect made by earning rate, tax rate, interest rate and dividend payout to capital structure but Nepal Investment Bank Ltd. is strongly agreed with this. Other factors like business risk, flexibility, debt service capacity and market condition are common for effect, so both banks agreed with this.

4.4.2 Findings From Secondary Data Analysis

- The average Cash and Bank Balance to Total Deposits Ratio of Nepal Bank Ltd. is 16.42%. It shows that the bank is maintaining 16.42% of total deposits as cash and bank balances. In the first and fourth fiscal year the ratio is below the average ratio. For Nepal Investment Bank Ltd., average Cash and Bank Balance to Total Deposits Ratio is 11.06% which indicates that this bank is investing most of the deposits rather than collecting as liquid funds. The lower Standard Deviations and Coefficient of Variations prove the similarity in cash reserving trends for both banks during the whole study period. Nevertheless the banks always have met the statutory criteria for Cash Reserve Ratio (Minimum of 6.5%) directed by the Nepal Rastra Bank.
- Fixed deposits are the highest interest bearing deposits and can be withdrawn only after its maturity period. Fixed Deposits to Total

Deposits ratio is calculated to identify the secured portion of liabilities which can be utilized for a specific period. Nepal Bank Ltd. has an average ratio of 18.62% whereas Nepal Investment Bank has 24.51%. Higher the ratio, higher the chance of lending or investing deposits for long time. This ratio reveals that NIBL is becoming successful to collect more fixed deposits than NBL. Ratio of NBL is in decreasing order whereas there is increasing trend of NIBL.

- From the investment point of view, Nepal Bank Ltd. is ahead than Nepal Investment Bank Ltd because its average Investment to Total Deposits Ratio (37.40%) is greater than NIBL's ratio (28.57%). There is continuous growth in ratio for Nepal Bank Ltd. but ratio of Nepal Investment Bank Ltd. is fluctuating. Lower Coefficient of Variation and Standard Deviation of NBL also refers promptness for investment. In the FY 2006/07, Total Investment to Total Deposits Ratio is the highest and the same for NIBL in FY 2003/04.
- Loans and advances and overdrafts are the main source of income of the commercial banks. Loan and advances to total deposit ratio measures the extent to which the bank is success to utilize the outsiders' fund. Nepal Investment Bank Ltd. is earning most of the income through loan and advances where Nepal Bank Ltd. is getting lower in figure. Nepal Investment Bank Ltd. has utilized 71.02% of its total deposits in loan and advances but Nepal Bank Ltd. is lending 45.47% of its total deposits. The easiest ways for earning are loans and overdraft services but these are risky as well. Lower Standard Deviation and C.V are other plus points for supporting better performance of NIBL in mobilizing its deposits.
- Only 71.11% of savings deposits in average is used for lending in Nepal Bank Ltd. This explains the rest amount of deposits may be using as investments and other assets. But the amount of loan and advances in Nepal Investment Bank Ltd. has exceeded more than 1.76 times of

savings deposits. This shows the most favourable utilization of deposits in lucrative sector. However, the Standard Deviation of NIBL is higher than NBL's S.D, C.V and higher ratio pushed up its cons to the flipside.

- The average Debt to Equity Ratio of Nepal Bank Ltd. is 236.57%. It shows that the creditors of NBL have 236.57% claims on its equity capital. In the first two fiscal years, claim of the owners of NBL was high because quantity of debt is negligible and the ratio became less than average. Nepal Investment Bank Ltd. also has a oscillating trend in this ratio. The average Debt to Equity Ratio of Nepal Investment Bank Ltd. is 44.92% implies the claim of creditors is low than the claim of owners.
- After computing Debt to Equity Ratio, Debt to Capital Ratio is performed. Nepal Bank Ltd. has an average of 12.77% of debt over total capital with negative ratios for two fiscal years FY 2004/05 and FY 2005/06. There is also a irregular movement for Debt to Capital Ratio for Nepal Investment Bank Ltd. Its average ratio is 23.89% and has lower degree of Standard Deviation as well as Coefficient of Variation.
- Most of the commercial banks are using debt as well equity to collect funds. Debt financing is an expensive alternative for firms. If a firm can mix up the optimal debt structure for its operation, better will be the performance. The average Debt to Total Assets Ratio or Nepal Bank Ltd. is 1.67% and 1.24% is for Nepal Investment Bank Ltd. Standard Deviations of both banks are not so greater but Coefficient of Variation is higher for both banks. From the analysis, the trend of debt financing as per the total assets is increasing.
- The comparative position of Return on Total Assets of the two commercial banks shows an average ratio of 1.43% and 1.44% for Nepal Bank Ltd. and Nepal Investment Bank Ltd. The overall trend is decreasing first and then increasing. However the FY 2004/05 shows the highest return (3.68%) for NBL and FY 2006/07 shows the highest return (1.79%) for NIBL. According to this average return, there is no

way to indicate any bank for better performance however the lower Standard Deviation and Coefficient of Variation of Nepal Investment Bank Ltd. heave to a higher efficiency.

- Net Profit to total deposit ratio indicates the percentage of profit earned by using the total deposit. The average Return on Total Deposits of Nepal Bank Ltd. is higher than Nepal Investment Bank Ltd. The table shows the loss for NBL for FY 2002/03 which causes the Return on Total Deposits negative. For second and last fiscal year of study period, the return is below 1% but in FY 2004/05 and FY 2005/06 it reaches to 6.91% and 5.13% respectively. Nepal Investment Bank Ltd. has lower average ratio than NBL however it has consistency in Return on Total Deposits Ratio and also has very lower degree of Standard Deviation and Coefficient of Variation. At glimpse, it seems that NBL has so many zigzags in return on total deposits but NIBL mobilizes the outsiders' fund adequately and effectively.
- Profit of any firm is directly related to the expenses made by the firm either it is fixed or variable. Staff expenses is one of the major variable expenses of an organization. If we see Staff Expenses to Total Expenses Ratio of Nepal Bank Ltd., the average ratio is just above half of the total operating expenses i.e. 51.33%. During the study period, the ratio crossed 52% for three fiscal years FY 2003/04, FY 2004/05 and FY 2006/07. Nepal Investment Bank Ltd. preserved the average ratio of 36.91% during the whole period. This clarifies that NIBL is hiring employees efficiently at a lower rate of payment.
- Interest earning is the major source of commercial banks. Interest Income to Interest Expenses Ratio reflects the proportion of interest earned by the bank to the total interest paid by the bank. Interest expenses of NBL are quite more than interest income in the first fiscal year but afterwards interest income increases and reaches to the highest ratio i.e. 2.85 times of the study period in the FY 2004/05. Average ratio

of NBL is 2.14 times whereas the mean ratio of Nepal Investment Bank Ltd. is 2.37 times. The highest ratio of NIBL is 2.50 times and also lies in FY 2004/05. The interest income of NIBL is more than two times of interest expenses in each year which is marvelous performance of the bank. Both the banks' ratios have Standard Deviation of less than one which states that there is grand relationship between the trends of earning and paying interest but lower C.V of NIBL reveals the truth of consistency in ratio.

- It is picked up from the Staff Expenses to Total Income Ratio that Nepal Bank Ltd. is paying 30.76% on an average of its total income for employees but Nepal Investment Bank Ltd. compensates only 8.04% of the total income for the staffs of NIBL. The payout ratio for staffs of NBL seems to be in increasing form while it is decreasing for NIBL. For an instance, the ratio of NIBL in FY 2002/03 was 10.61% and it continuously decreases to the extent of 3.06% in FY 2006/07 which shows the diminishing pattern for staff expenses. By performing this action, bank can really get success for its future but NIBL has to make its staffs contented because future of a firm depends upon the hands of employees.
- Income and Expenditure are the main indicators of the financial performance of a business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. The interest earning is from loans and advances, overdraft, government securities, treasury bills, debentures and others. The operating income of the Nepal Bank Ltd. is changing frequently but the income of Nepal Investment Bank Ltd. is in increasing trend from the beginning during the study period of five years. It shows that the NIBL is performing good business.
- Earning per share of an organization shows how much earning theoretically belongs to the ordinary shareholders. In other words, the

term EPS represents the amount earned on behalf of each outstanding share of common stock. The average Earning Per Share of Nepal Bank Ltd. is Rs. 190.45 and Nepal Investment Bank Ltd. is Rs. 50.54. The earning per share of NBL in FY 2002/03 is Rs. -66.18 and Rs. 455 in the FY 2004/05 whereas EPS of NIBL starts with Rs. 39.56 in the FY 2002/03 and reaches to Rs. 62.57 in FY 2006/07 which is the highest EPS of the study period. From this calculation, it is found that NBL allocates more earnings to common stockholders instead of having fixed no. of common stocks but NIBL has similar trend on EPS despite increasing no. of shares outstanding. On the whole, NBL has the highest earning per share.

- Price Earning Ratio is another important way for measurement of a firm's evaluation in the market. With the help of this ratio, a firm can easily find its value per share according to its EPS. Average P/E ratio of Nepal Bank Ltd. is 0.57 whereas the same ratio of Nepal Investment Bank Ltd. is 21.48. This illustrates the higher market value per EPS. The market value per share of NIBL is always higher than NBL and EPS of NBL is higher than NIBL. So that the P/E ratio of NBL is always lesser than the NIBL.
- The Correlation Coefficient (r) between Total Deposits and Loan and Advances of Nepal Bank Ltd. is -0.459 which implies that there is negative correlation between total deposits and loan & advances. It indicates that the values of total deposits and loan & advances of NBL deviate in the opposite direction. The six times of probable error ($6 \times P.E$) of NBL is 1.429 which is more than correlation coefficient (r). According to this P.E, the relationship between total deposits and loan & advances is irrelevant. Conversely, the Correlation Coefficient (r) of Nepal Investment Bank Ltd. is 0.997 which is very closer to 1 and positive so it can be said that the rapport between total deposits and loan and advances is closely positive associated. The $6 \times P.E$ of NIBL is

0.010 and enormously less than (r), which demonstrates that the value of correlation coefficient (r) is tremendously significant. In brief, according to the increment or decrement in total deposits doesn't affect consequently to the loan and advances of NBL nevertheless NIBL has positive changes towards the loan and advances for its small increment or decrement in total deposits.

- It can be analyzed from the Correlation Coefficient ($r = 0.574$) between total deposits and total investment of Nepal Bank Ltd. that there is moderate positive association. The 6 x P.E is 1.214 which is greater than correlation coefficient (r). According to this P.E, the relationship between deposits and investment is not significant. In case of Nepal Investment Bank Ltd., the Correlation Coefficient (r) is 0.953, which implies that there is strongly positive correspondence between total deposits and total investment. The 6 x P.E of NIBL is 0.165 which is fewer than the calculated value of (r), the affiliation between total deposits and total investment is really noteworthy.
- Coefficient of Correlation (r) linking net profit and total deposits are - 0.333 and 0.991 of Nepal Bank Ltd. and Nepal Investment Bank Ltd. correspondingly. The 6 x P.E of NBL is 1.609 which is more and opposite than correlation coefficient. According to this P.E, the relationship between total deposits and net profit is inappropriate. In opposition, the Coefficient of Correlation (r) of Nepal Investment Bank Ltd. is 0.991 which is nearest to 1 and positively correlated, it can be understood that the affinity between total deposits and net profit is reputedly associated. The 6 x P.E of NIBL is 0.033 and a lot less than calculated (r), which makes obvious that the correlation is tremendously significant.
- The relation between Total Assets and Net Profit is very crucial and should be positive for any firm. But opposing is this that the Correlation Coefficient between these two factors is -0.038 for Nepal Bank Ltd. The

6 x P.E is also higher than the coefficient of correlation, so there is inadequate relationship between total assets and net profit. Nevertheless, this coefficient of Nepal Investment Bank Ltd. is 0.991 and the 6 x P.E is also lesser than (r). This reveals that the relationship between total assets and net profit is strong and significant. It also means that NIBL is earning more according to its assets structure and getting success for its utilization of available resources.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This is the concluding chapter of this research study. It is divided into two sections: Summary & Conclusions and Recommendations. The Nepalese financial sector is composed of banking sector and nonbanking sector. Banking sector comprises Nepal Rastra Bank (NRB) and commercial banks. The non-banking sector includes development banks, finance companies, micro-credit development banks, co-operative financial institutions and other institutions. In this study, to analyze about financial performance, two commercial banks; Nepal Bank Ltd. and Nepal Investment Bank Ltd. have been selected. The study has been summarized in brief and some probable recommendations have been presented which could be useful to stakeholders, owners and concerned companies as well.

5.1 Summary and Conclusions

Economic development of a country can not be imagined without the development of commerce and trade. No doubt, banking promotes the development of commerce to its extreme since banking itself is a part of commerce. Though the economic development was in snail speed in earlier years, it has caught its full swing with restoration of democracy in the country. The whole study has been divided into five chapters to make the study more reliable. The main objectives of this research study are to evaluate the liquidity, efficiency of assets management and profitability position of the banks under study and to find out the positive factors that enhanced the performance of the banks and to provide suggestions and recommendations on the basis of findings. For the pragmatic study, filling questionnaires, review of various books, research studies and articles have been used. Various sequential steps to adopt a systematic analysis have been explained in the third chapter. Both the primary and secondary types of data are used in this study but mostly

secondary data are presented. Five years data are taken as sampled years, which are analyzed by using financial and statistical tools such as: Ratio Analysis, Leverage Analysis, Correlation Analysis etc. Detailed calculations are presented in the appendix. Finally, Summary and Conclusions and Recommendations of the study are presented separately to understand instantly about the whole study.

Measurement of financial performance of an organization is very crucial because the precautionary remedies can be performed before the firm goes to failure activities and new plans and policies can also be formulated and implemented according to the position and requirement of the firm. By changing plans & policies in the accurate time, returns to various organizational constituencies can be maximized and firm's ability to deal with its competitive environment can be increased. This present study evaluated the financial ratios and the relationship between deposits, capital, assets and profitability of firms.

This research study reveals that the banks are holding one fifth of current and saving deposits as cash balances whether they are pleased with around one third of total deposits by mobilizing in investments. The Nepal Investment Bank Ltd. has best utilized the outsiders' fund in loan and advances with above seventy percent of deposits. Amount of long term debt is negligible as compared to total assets, so the debt to assets ratio is also trifling for NBL as well as NIBL. An added advantage of this study is that the relationship between various elements of the selected banks is drawn. There is strong positive link between loan and advances, investments and assets to total deposits for Nepal Investment Bank Ltd. but there is always negative relationship between these items for Nepal Bank Ltd.

5.2 Recommendations

In this section of the study, it endeavors to recommend few points that may be helpful to stakeholders as well as to the banks. These recommendations are based upon above calculations and draw conclusions. These recommendations are guidelines, which would be helpful in taking prompt and appropriate decision about capital structure. These are presented below.

- Deposits are the major source of liquidity and investment of commercial banks. So they have to utilize most of the deposits in the most profitable sector i.e. Loan and Advances. Since, the Loan and Advances to Total Deposits Ratio of NBL is about 45% where the same ratio of NIBL is 71%, the Nepal Bank Ltd. should raise this percentage near to NIBL, so that it can earn more interest earnings.
- The Debt-Ratio of about 33% is considered appropriate (According to J. Fred Weston and T.E Copeland). So, this level can be assumed as standard ratio while analyzing. With comparison to above standard both banks have negligible ratio. This shows that the share of total assets financed by outsiders' funds is very low. It indicates that the owners' claim on total assets of the company is very higher than the creditors'. If the bank is disastrous to yield a substantial percentage of return, the owners should bear heavy losses but the creditors incur only the moderate loss. Therefore, it is recommended that both banks raise their debt ratio.
- The calculated ratios of two banks reveal that the total debt is composed of high amount of current liabilities. Higher contribution of current liabilities is preferable or not, it depends upon the liquid assets and operating efficiency of the firm. Generally, 70% long term to total debt is preferable but both banks have negligible ratios, which show unsatisfactory condition. All the firms can use long-term debt to collect money, to take advantage of employing debt capital optimally. So, it is

suggested that both banks should properly balance long-term debt and short term debt or current liabilities.

- About 40-50% of permanent capital can be assumed as reasonable level of long-term debt (Source: M.K Khan and P.K Jain). From the analysis, it can be said that average ratio of long term debt to total capital of both bank are lesser than standard however NBL got 88.15 % in the FY 2006/07 and NIBL kept the average standard ratio in fourth and fifth fiscal years of the study period. But the average ratio is still less than the industry average and it seems to be more risky, it is recommended to increase the debt level.
- Shareholders seek high return from their investment. Observing Return on Net Worth, it has been found that NBL has the least and NIBL has the highest ratio. The ratio of NIBL is negative in all fiscal years except in FY 2004/05 and average ratio is becoming so poor. So, to keep the shareholders happy, to retain the goodwill and to maximize the value of the firm, net worth must be in positive figure. For all this, both banks are advised to plan their capital structure well by analyzing the possible financial alternatives especially NBL has to improve this.
- Capital structure is a serious matter, which affects EPS, value of the firm, cost of capital etc. Among the two banks, both banks are hugely depending upon equity capital and no punctuality in their ratio is found. So, both banks should raise the amount of debt and should adjust and monitor the optimal capital structure. In other words, these banks must follow or give more attention into the theoretical aspects of the capital structure management and try to manage their activities accordingly.
- According to the earning per share analysis, the EPS of NBL is relatively higher than NIBL. So, it is expected that NBL shall issue preference as well as right shares soon. The NIBL has to make better provisions for shareholders fund and also shouldn't increase its total share numbers while the earnings to its shareholders is not increased frequently.

- From the correlation analysis, it seems that Nepal Bank Ltd. always has negative relationship between loan and advances, investments, total deposits as well as total assets. So, the bank should change its lending policy and should mobilize the outsiders' fund to loan and advances as well as investments according to the increment or decrement in total deposits.
- Since there is a neck competition among commercial banks. So the banks should strive hard to enhance their operational efficiency. This can be achieved through reduction in operational costs, prompt customer services etc. The bank needs to provide prompt services to win the credibility of the customers, although all operating cost can not be minimized. However, there are some costs which can be reduced by improving operational efficiency. These expenses could be Staff expenses, general expenses, fuel, stationery expenses and miscellaneous expenses. Almost 31% of the total income of NBL is spent for staff expenses whereas the same cost for NIBL is only 8%. Similarly, 63% of income is expensed for operating expenses but NIBL is paying only 24% for its regular operation. At last, the training should be given to employees on regular basis to improve the efficiency in their performance so that they can use their expertise more effectively.
- Nowadays most of the commercial banks are providing ABBS services without charges. Customers can get such type of services like cash deposit and withdrawal of money from other branches, ATM services for free of charges and issuance of debit cards without any charges. NIBL is still taking these charges and should waive these charges and should provide extra services for valuable customers. For NBL, it should expand its branches among the private banks and must provide ATM services because people are being busier in this era.

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Websites

www.nepalbanklimited.com

www.nibl.com

www.nrb.org.np

APPENDICES

Appendix I

Calculation of Total Deposits and Loan and Advances of Nepal Bank Ltd.:

Rs. in Million

Fiscal Year	Cash & Bank Balance	Total Deposits	Ratio (in %)	$(x - \bar{x})$	$(x - \bar{x})^2$
2002/03	4770.6	34737.4	13.73	-2.69	7.22
2003/04	6444	36288.5	17.76	1.34	1.79
2004/05	5886.2	34744.2	16.94	0.52	0.27
2005/06	5517.4	35444.9	15.57	-0.85	0.73
2006/07	7003.6	38715.2	18.09	1.67	2.79
Sum ()	29621.80	179930.20	82.09	0.00	12.80

$$\text{Average } (\bar{x}) = \frac{\sum X}{n}$$

Where, n is the number of observation.

$$= \frac{82.09}{5}$$

$$= 16.42$$

$$\text{Standard Deviation } (\uparrow) = \sqrt{\frac{\sum (x - \bar{x})^2}{n - 1}} \quad (\text{Because of sample population})$$

$$= \sqrt{\frac{12.80}{4}}$$

$$= 1.79$$

$$\text{Co-efficient of Variation (C.V.)} = \frac{\text{Standard Deviation}}{\text{Average}} \times 100\%$$

$$= \frac{1.79}{16.42} \times 100\%$$

$$= 10.89\%$$

Appendix II

Calculation of Cash and Bank Balance to Total Deposits Ratio of Nepal Investment

Bank Ltd.:

Rs. in Million

Fiscal Year	Cash & Bank Balance	Total Deposits	Ratio (in %)	$(x - \bar{x})$	$(x - \bar{x})^2$
2002/03	926.4	7922.8	11.69	0.63	0.40
2003/04	1215.2	11706.3	10.38	-0.68	0.46
2004/05	1340.4	14254.8	9.40	-1.66	2.75
2005/06	2354.9	18927.3	12.44	1.38	1.91
2006/07	2791.5	24488.9	11.40	0.34	0.11
Sum ()	8628.40	77300.10	55.32	0.00	5.63

$$\text{Mean } (\bar{x}) = \frac{\sum X}{n}$$

Where, n is the number of observation.

$$= \frac{55.32}{5}$$

$$= 11.06$$

$$\text{Standard Deviation } (\uparrow) = \sqrt{\frac{\sum (x - \bar{x})^2}{n-1}} \quad (\text{Because of sample population})$$

$$= \sqrt{\frac{5.63}{4}}$$

$$= 1.19$$

$$\text{Co-efficient of Variation (C.V.)} = \frac{\text{Standard Deviation}}{\text{Average}} \times 100\%$$

$$= \frac{1.19}{11.06} \times 100\%$$

$$= 10.72\%$$

Note: Similarly, the same process is followed for calculation of average, standard deviation and coefficient of variation of other financial ratios.

Appendix III

Calculation of Correlation Co-efficient between Total Deposits and Loan and Advances of Nepal Bank Ltd.:

Rs. in Million

Fiscal Year	Total Deposits (X)	Loan and Advances (Y)	X ²	Y ²	XY
2002/03	34737.4	19266.1	1206686959	371182609	669254222
2003/04	36288.5	19141.7	1316855232	366404679	694623580
2004/05	34744.2	17456.0	1207159434	304711936	606494755
2005/06	35444.9	12180.0	1256340936	148352400	431718882
2006/07	38715.2	13377.5	1498866711	178957506	517912588
Sum ()	179930.20	81421.30	6485909272	1369609130	2920004028

Coefficient of Correlation (r),

$$\begin{aligned}
 &= \frac{n\sum xy - \sum x \sum Y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum Y)^2}} \\
 &= \frac{(5 \times 2,920,004,028) - (179,930.2 \times 81,421.3)}{\sqrt{(5 \times 6,485,909,272) - (179,930.2)^2} \sqrt{(5 \times 1,369,609,130) - (81,421.3)^2}} \\
 &= \frac{-50,130,653.26}{7,393.88 \times 14785.72} \\
 &= -0.459
 \end{aligned}$$

Coefficient of Multiple Determination (r²) = -0.459 x -0.459

$$= 0.210$$

For Probable Error,

$$\begin{aligned}
 &P.E = 0.6745 \sqrt{\frac{1-r^2}{n}} \\
 &= 0.6745 \times \frac{1-0.210}{\sqrt{5}} \\
 &= 0.6745 \times 0.353 \\
 &= 0.238
 \end{aligned}$$

Appendix IV

Calculation of Correlation Co-efficient between Total Deposits and Loan and
Advances of Nepal Investment Bank Ltd.:

Rs. in Million

Fiscal Year	Total Deposits (X)	Loan and Advances (Y)	X ²	Y ²	XY
2002/03	7922.8	5949.2	62770760	35392981	47134322
2003/04	11706.3	7920.2	137037460	62729568	92716237
2004/05	14254.8	10295.0	203199323	105987025	146753166
2005/06	18927.3	13007.0	358242685	169182049	246187391
2006/07	24488.9	17482.0	599706223	305620324	428114950
Sum ()	77300.10	54653.40	1360956451	678911947	960906066

Coefficient of Correlation (r),

$$\begin{aligned}
 &= \frac{n\sum xy - \sum x \sum Y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum Y)^2}} \\
 &= \frac{(5 \times 960,906,066) - (77,300.1 \times 54,653.4)}{\sqrt{(5 \times 1,360,956,451) - (773,00.1)^2} \sqrt{(5 \times 678,911,947 - (54,653.4)^2)}} \\
 &= \frac{579,817,044.7}{28,800.64 \times 20,188.25} \\
 &= 0.997
 \end{aligned}$$

Coefficient of Multiple Determination (r²) = 0.997 x 0.997

$$= 0.994$$

For Probable Error,

$$\begin{aligned}
 \text{P.E.} &= 0.6745 \sqrt{\frac{1-r^2}{n}} \\
 &= 0.6745 \times \frac{1-0.994}{\sqrt{5}} \\
 &= 0.6745 \times 0.0027 \\
 &= 0.002
 \end{aligned}$$

Note: Similarly, the same process is followed for calculating coefficient of correlation, coefficient of multiple determination and probable error.

5. Which of the leverage analysis technique does your bank follow to take financing Decision?
 Debt to Total Capital Ratio Debt to Total Assets Ratio
 Long Term Debt to Capital Employed Ratio
 Long Term Debt to Total Debt Ratio
 Others (If any), Specify please
6. Do tax issues have a major influence on capital structure decision?
 Yes No Don't Know
7. What kind of debt have you employed in your bank?
 Short Term (< 1 Year) Long Term (> 1 Year)
8. What is your average debt ratio (Total Debt/Total Assets)?
 40 % 41% – 60% 61%
9. Do you agree, does optimal debt ratio (Capital Structure) increase value of firm?
 Yes No Don't Know
10. What types of clients you usually deal with?
 Farmers Traders
 Community / Organizations Others
11. Do you feel that loan is utilized for the purpose it is actually taken?
 Yes No
12. Did debtors pay regular installment?
 Yes No
- If no, what may be the cause?
.....
13. How is the lending policy & procedure by your bank?
 Easy not need to change Difficult need to change Moderate
14. Do the officials of your Bank supervise and monitor the project / task after investment?
 Yes, Frequently Sometimes Never
15. What is the status of outstanding loan?
 Increasing Decreasing
If increasing, what are the reasons?
.....

