CHAPTER - I

INTRODUCTION

1.1 General Background

In today's context a sound financial system is a hallmark of developed economy. Finance is the lifeblood of any country is demonstrated by the development of financial sector of the country. So, east availability of money at the low cost helps the rapid increment in economic activities and increase in economic growth as well. A well developed financial system contributes the society's well being and to raise standard of living by channeling the nation's wealth into the best and profitable uses. It is obvious that economic development is impossible without the development of different sectors like agriculture, industry, trade, tourism, etc. of the country. So, development of these sectors needs a regular supply of financial resources. In developing countries there is always shortage of the capital for the development activities. It is not possible to handle and develop all the sectors by the government alone at a time. Private people also cannot undertake large business because per capita income of the people is very low while their propensity to consume is very high. Due to low income their saving also becomes very low and capital formation might be very low. So without saving people will not sufficient for carrying on development works.

The development of a country is always measured by its economic development. Economic development demands transformation of saving or investable resources into the actual investment. It is the financial institution that transfers funds from surplus spending units to deficit units. Commercial banks, finance companies, insurance companies, corporative societies, development banks, etc. all are the part of financial institution. The development of financial system virtually benefits all the members of the economy. Thus, financial sector plays an important part in the development of the country.

Financial sector is the most crucial aspect of the present world economy. Every nation wants to develop a well and sustainable financial sector. The national objective of developing financial sector is to contribute the large-scale growth of efficient resource mobilization and investments along with ensuring a high level of sound, sustained and board based economic growth and development process in the country. The importance of this sector is highly recognized in all society for economic development. This sector not only promotes pace of development but also makes economy sustainable and strong. In developing countries like Nepal financial sector provide huge possibilities for eliminating poverty through creating wider employment opportunities and circulating savings of people.

1.2 Introduction of Bank & Commercial Bank

A bank is an organization, the major function of which is to deal in money and credit. Bank's main business is to pool the scattered idle deposits in the public and channel it to productive use. It collects deposits and lends or invests to those who stand in need of money. Bank in other words is a custodian of money received from the depositors.

Banks also render many other useful services – like collection of bills, payment of foreign bills, safe-keeping of jeweler and other valuable items, certifying the credit-worthiness of business, and so on. Banks accept deposits from the general public as well as from the business community. Any one who saves money for future can deposit his savings in a bank. Businessmen have income from sales out of which they have to make payment for expenses. They can keep their earnings from sales safely deposited in banks to meet their expenses from time to time. Hence, its responsibility towards the general public is pretty different than those who are involved in other types of trade and services. Modern day bank's business is not confined in borrowing deposits and lending advances only, it performs a host of other financial activities which has immensely contributed to achieve industrial and commercial progress of every country.

Though there is much controversy as to the origin of the word ‘Bank’, some believe that it originated from the Latin word ‘Bancus’ meaning a bench. Similarly, some believe that it originated from the french word ‘Banque’ and some to Italian word ‘Banca’ all meaning a bench. Some have stronger belief that it originated from the German word ‘Banck’ meaning collective fund. Some people write defination on bank, some of them are as fallow;

As per R.S. Sayers, ‘ A bank is an institution whose debts are widely accepted in settlement of other people’s debts.’

As per Kent, ‘A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure.’

Commercial banks are the dominant institution in the financial sectors and are the foundation of the national economy. They transfer monetary sources from savers to users. They involve in various functions like creation money, facilitating credit, facilitating foreign trade safe keeping of the values etc. the activities of the commercial banking sector have contribution to eliminate poverty and reduce unemployment. Thus, commercial bank plays a vital role in the economic growth of the nation. They hold the deposits of persons, government and business houses. They make fund available through their lending and investing activities to borrows, individuals, business firms and governments. Moreover they provide technical and administrative assistance to industries, trade and business enterprise.

Modern commercial banks can be identified by different names such as business banks, retail banks, clearing banks, joint venture banks, merchant banks etc. No matter what names we give to bank, they all perform the same basic function i.e. they provide link between lenders and the borrowers. Basically by charging a rate of interest to the borrowers slightly higher than they pay to the lenders, the banks make their profit.

The commercial bank has its own goal and contribution in the economic development." It is a resource for economic segments and extends credit to people" (International monitory fund, 1996).

According to John Holland, "Commercial banks are financial intermediaries that barrow money from savers in the form of deposit the relend them to ultimate borrower by making loan on buying securities."(Holland 1997:67)
Commercial Bank Act 2031B.S. defines it as "A commercial bank is one, which exchange currency, accepts deposits, grants loans and perform commercial banking functions and which is not a bank meant for co-operation, agriculture and industries or for such specific purpose"(Commercial Bank Act 2031).

Commercial banks are controlled and regulated by central banks. In Nepal, Nepal Rastra Bank is the central banks that controls and regulates the commercial banks through Rastra Bank Act 2012B.S.

1.3 History of Bank in Nepal

It is assumed that the regular history of coinage in Nepal began from the 5th century A.D. The advent of 12th century marked a new period in economic history of Nepal. Silver coinage was introduced in this period which widened the scope for trade. The second major logical order of development was found in the innovation of interest bearing private debt such as bonds, mortgages and loans. The development of banking in Nepal is of relatively recent origin. Like other countries, the existence of unorganized money market consisting of landlords, shahukars (Rich merchants), shopkeepers and other money lenders were the ancient bankers of Nepal. In the context of Modern banking, an attempt toward a more formal and organized form of banking, was made in the year 1994 B.S. with the enactment of the first codified law "Nepal Bank Kanoon" and the establishment of Nepal Bank Limited(NBL), as the first bank in the country, in the same year in kartik 30. After almost eighteen years from the establishment of NBL, the need of Central Bank for the surveillance of banking activities was felt. This leads to the establishment of Nepal Rastra Bank (NRB). Nepal Rastra Bank was set up on 2031 B.S. as a central bank under NRB act 2012 B.S. with an objective of supervising, protecting and directing the function of commercial banking activities. Since than it has contributed to the government's bank and has contributed to the growth of financial sector. After this, government established Rastriya Banijya Bank (RBB) in 2022 B.S. as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of quality service because of political interference. For industrial development, Industrial Development Centre was set up in 2013 B.S. which was converted to Nepal Industrial Development Corporation (NIDC) in 2016 B.S. Similarly, Agriculture Development Bank (ADB) was established in 7 Magh 2024 B.S. under the ADB Act 2024 with an objective to promote agricultural productivity could be enhancing through introduction of modern agricultural techniques.

It was only in the early 40s that three foreign commercial banks made their way to Nepal. Nepal Arab Bank Limited, a joint venture bank established in 2041B.S. was co-owned by the Emirates Bank International Limited (Dubai), Nepalese financial institution and the local public. Nepal Indosuez Bank Ltd., now known as Nepal Investment Bank Limited (NIBL) established in 2042 B.S. was jointly owned by the French Banque Indosuez, Rastriya Banijya Bank, Rastriya Bema Sansthan and the local public. Thirdly, Nepal Grindlays Bank Nepal Limited (NGBL), now called Standard Chartered Bank established in 2043 B.S. was co-owned by a British firm called Grindlays Bank, Nepal Bank Limited and the local public.

1.4 Statement of the Problem

The main objectives of the commercial banks are to mobilize ideal resources from Unproductive sectors to the growth of trade, industry and commerce. They pull together. The saving of the community and arrange for their productive use. They supply the financial needs of modern business by various means. In fact banking sector is considered as the back bone for economic development of the country. So sound banking system is more essential for the under developed country like Nepal. Maximization of profit is the main objective of each and every organization. It is very necessary to earn maximum profit for the successful running of an organization. The profit is also important to preserve the existence of organization as well as strengthen and expand it. Modern bands have to adopt new rules in order to remain competitive and responsive to public needs. So at present commercial banks are performing many functions. The present study basically focuses on the financial performance of sample banks. After implementation of the liberal economic policy by the government there is rapid growth in the number of the commercial bank with in short span of time .They have been facing neck to neck competition against one another. As a consequence commercial banks have become very competitive and they have ultimately affected their profit ability. These commercial banks have not been found much responsive to met the increasing resources need to the economy as expected before specially in agriculture and other productive sector due to their nature of centralizing them in major cities and around the activates if some big industrialist , trade and entrepreneurs . Beside these banks are forced to invest their fund in treasury bills, inter bank lending and development bond, which yield lower rate to the bank.

Another increasing problem of these commercial banks is rather than investing in productive sectors for the development of indigenous enterprises. They have focused their investment for the promotion of overseas impact trading services being directed by their profit-maximizing objective. So the prevailing challenge for the country is to direct these institutions to provide eservices to small and middle class entrepreneurs and towards the productive sectors of the nation.
The government of Nepal unstable. So, there is a direct link or relationship with the change of government in change of management and regulatory bodies in banking institution. Thus, the rules and regulated with the banking sectors was also changes as changes in government. Which make negative impact in the development of banking sector?

This study was related to performance evaluation of the NBBL. The problem of the study lies on analyzing the strength and weakness of NBBL. No one can study on the performance evaluation of NBBL. So I would like to research on this topic. It also aimed in answering the following questions:

- Are the NBBL's financial health are in good condition?
- Are the NBBL are efficiently utilizing its assets or not?
- What is the liquidity position of the bank?
- How sound is the operational result?

This study attempts to evaluate the performance of the bank with the help of various financial and statistical tools. This study also attempts to recommend some suggestions for improvement in performance aspect.

1.5 Objectives of the Study

Since the commercial banks have introduced advanced banking technique with international networking of bank branches, they are becoming more competent regarding creation of deposits, mobilization and investment. As a consequence they are playing pivoted role in economic growth of the country. In this context, the general objective of this study is to evaluate the financial performance of NBBL bank. As the financial aspect of the company is the key indicator evaluation of performance analysis has always been the concern of its stake holders like depositors, shareholders, employee general public management and other related authority bodies. So, the specific objectives of the study are elucidated as follows:

- To examine the financial position of the bank from 2061-2063 and 2064-2066.
- To analyze income and expenditure areas.
- To analyze the financial performance through the use of appropriate financial and statistical tools.
- To identify various aspects relating to financial performance of sample for the period.
- To provide decisive suggestion to improve the financial performance of two commercial banks.

1.6 Sample of the Study

This study "Financial Performance of Commercial Banks with reference to NBBL" concentrates on the financial performance of the NBBL operating in Nepal and implications of new directives of Nepal Rastra Bank towards the performance. The performance of the NBBL was evaluated with the brief analysis of the state of the economy, which provides the opportunities as well as threats to the commercial banks. This study is basically focused on financial performance of the selected period to know their impacts on the national economy as a whole. The financial performance of the bank can be evaluated on the basis of meeting of their objectives and fulfilling of the functions. Analyzing financial performance is a process of evaluating relationship between components parts of financial statements to obtain a better understanding of a banks position and performance.

1.6.1 An Introduction to Nepal Bangladesh Bank Limited

This bank was established in 1st Magh 2050 B.S. and started its operating from jestha 23rd 2051 (June 6 1994) as a joint venture with International Finance Investment and Commerce(IFIC) Bank Ltd. of Bangladesh under the Company Act 2021B.S. The bank is managed by IFIC Bank Ltd. Bangladesh in according with the joint venture and technical service agreement between it and Nepalese promoters. The main objectives of the bank are to carry out commercial banking activities under the Commercial Act-2031. The bank was established with an authorized capital of Rs.240 million and Paid up capital of Rs. 60 million as a Joint Venture Bank.

Nepal Bangladesh Finance and Leasing Company Limited have been merged at this Bank on 2064/06/01 B.S (18-09-2007A.D.). After the merge of previous company at this bank the branch office which was of previous company equivalent to that new branch office will be operated at Sallaghari of Bhaktapur district in January 15, 2010 A.D. Therefore the number of branch offices will be 18. Head office Main Branch of this bank of located at Bijulibazar, Kathmandu. Among 18 branches 5 branches are in the valley and the remaining branches are in Nuwakot, Janakpur, Butwal, Hetauda, Birjung, Nepalgunj, Biratnagar, Tatopan, Dhangadi, Pokhara, Dharan.

In accordance with Nepal Rastra Bank Act, 2058BS (2001A.D) since 2063/07/26 B.S. (12-11-2006 A.D.) Nepal Rastra Bank has declared this bank in the crucial stage and than Board of Director of this bank was suspended under Section 86 C (1) of Nepal Rastra Bank Act. Than after, Nepal Rastra Bank has taken in control the management of this Bank has achieved a marvelous progress in capital fund and recovery of the debt which were taken by promoters.

NBBL is providing full fledged commercial banking service to its clients. Besides accepting deposits in various forms, many facilities and services are made available by the bank. Services and facilities provided by NBBL are like consortium finance, working capital loan, term loan, demand loan, hire purchase loan, education loan, housing loan, trade loan, letter of credit, bank guarantee, remittance services all over the world, locker facilities, free ATM (Automated Teller Machine) and debit card service, free any branch system (ABBS), mobile banking facility of, DD, TT, traveler cheque (TC) etc. It has also introduced the Accidental Insurance scheme up to Rs.5 Lac and medical insurance benefit up to Rs.10 thousand to the Individual Saving Account holders. It has started Grihini saving account also. The bank has an authorized capital of Rs.3000 Million, issued capital of Rs.1860.315 Million and paid-up capital of Rs.1860.315 Million. The numbers of shareholders of NBBL is 18603150.

1.7 Limitation of the Study

Along with the significance every study has some limitations and this study cannot be far from an exception. Thus some of the limitations are listed below:

- This study was focused only on financial performance of the bank.
- Due to availability of limited information this study will not cover every part of the performance aspects.
- This study is mostly based on secondary as well as primary sources of data, due to the lack of time and other difficulties. So it could not make the strong result for research.
- Certain period’s data (6 years) has been taken for the analysis.
- Financial data of the bank was changed day by day so it does not able to show the exact financial figure of the bank.
- The study is fully based on the student’s financial resources and it is to be conducted and submitted with in a time constraint.

1.8 Organization of the Study

The whole study had been divided into five chapters as follows:

Chapter- I: Introduction

This chapter deals with the introduction part of the study. It includes general and economic-historical background of Nepal, general introduction of NBBL, background of the study, statement of problem, objectives of the study, limitation of the study and organization of the study.

Chapter- II: Review of Literature

The second chapter deals with the review of literature which includes conceptual reviews, review of articals and journal, review of previous thesis.

Chapter- III: Research Methodology

This chapter is the most important part of the study and includes the interpretation parts like research assign, sources of data, sampling and population, data collection techniques and data analysis tools which are financial tools and statistical tools.

Chapter- IV: Presentation and Analysis of Data

The fourth chapter is analyzing chapter which deals with the presentation and analysis of data and major findings of the study are also included.

Chapter- V: Summary, Conclusion and Recommendations

Fifth chapter is the last chapter of the study which provides summary, conclusion and recommendations.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature is basically a stock taking of available literature in the field of research. It is the process of locating, obtaining, and reading, evaluating, learning and understanding the concept of the related topic. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. In the course of research review of the existing literature would help to check the chances of duplication in the present study. Thus, one can find what studies have been conducted and what remains to go with this chapter devotes to review some of the existing literature regarding the Profitability concepts. In this regard, various books, journals and articles concerned to this topic have been reviewed. The first part of the chapter deals with the conceptual framework of the study and the second part is concern with the review of previous articles, journals and dissertation.

2.1 Commercial Bank

Commercial banks are the largest source of finance and its business is largely confined to business institutions. Hence, the name is appropriated as commercial banks. Though the commercial banks are established with the concept of supplying short term credit and working capital needs of industries. Commercial banks are major financial institutions, which occupy quite an important place in the economy because through the deposits they collect, they provide much need capital for the development of industry, trade and business and other deficit sectors, thereby contributing to the economic growth of nation. Commercial banks are the suppliers of finance for the trade and industry and play a vital role in the economic and financial life of the country. By investing the saving the saving in the productive areas they help in the formation of capital.

2.1.1 Functions of Commercial Banks

The functions of commercial banks are of two types.

- Primary functions; and
- Secondary functions.

Primary Functions: The primary functions of a commercial bank include:

(A) Accepting deposits; and

(B) Granting loans and advances.

A) Accepting Deposits: The most important activity of a commercial bank is to mobilize deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. Depending upon the nature of deposits, funds deposited with bank also earn interest. Thus, deposits with the bank grow along with the interest earned. If the rate of interest is higher, public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank.

B) Grant of Loans and Advances: The second important function of a commercial bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts. The rate of interest charged on loans and advances varies according to the purpose and period of loan and also the mode of repayment.

i) Loans: A loan is granted for a specific time period. Generally commercial banks provide short-term loans. But term loans, i.e., loans for more than a year may also be granted. The borrower may be given the entire amount in lump sum or in installments. Loans are generally granted against the security of certain assets. A loan is normally repaid in installments. However, it may also be repaid in lump sum.

ii) Advances: An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances is to meet the day-to-day requirements of business. The rate of interest charged on advances varies from bank to bank. Interest is charged only on the amount withdrawn and not on the sanctioned amount.

Types of Advances

Banks grant short-term financial assistance by way of cash credit, overdraft and bill discounting.

a) Cash Credit

Cash credit is an arrangement whereby the bank allows the borrower to draw amount up to a specified limit. The amount is credited to the account of the customer. The customer can withdraw this amount as and when he requires. Interest is charged on the amount actually withdrawn. Cash Credit is granted as per terms and conditions agreed with the customers.

b) Overdraft

Overdraft is also a credit facility granted by bank. A customer who has a current account with the bank is allowed to withdraw more than the amount of credit balance in his account. It is a temporary arrangement. Overdraft facility with a specified limit may be allowed either on the security of assets, or on personal security, or both.

c) Discounting of Bills

Banks provide short-term finance by discounting bills that is, making payment of the amount before the due date of the bills after deducting a certain rate of discount. The party gets the funds without waiting for the date of maturity of the bills. In case any bill is dishonored on the due date, the bank can recover the amount from the customer.

Secondary Functions

In addition to the primary functions of accepting deposits and lending money, banks perform a number of other functions, which are called secondary functions.

- Issuing letters of credit, traveler's cheque, etc.
- Undertaking safe custody of valuables, important document and securities by providing safe deposit vaults or lockers.
- Providing customers with facilities of foreign exchange dealings.
- Transferring money from one account to another; and from one branch to another branch of the bank through cheque, pay order, demand draft.
- Standing guarantee on behalf of its customers, for making payment for purchase of goods, machinery, vehicles etc.
- Collecting and supplying business information.
- Providing reports on the credit worthiness of customers.
- Providing consumer finance for individuals by way of loans on easy terms for purchase of consumer durables like televisions, refrigerators, etc.
- Educational loans to students at reasonable rate of interest for higher studies, especially for professional courses.

2.2 NRB Directives

NRB's directives are as fallow

Capital Fund (Directive No. 1)

1.1 Computation of Core Capital, Supplementary Capital and Capital Fund

1.2 Computation of Risk Weighted Assets

1.3 Comments on the Capital Plan

1.4 Overall opinion on capital adequacy

Loan Classification and Loan Loss Provisioning (Directive No.2)

2.1 Comment on the Assets Quality and Classification

2.2 Adequacy of Loan Loss Provisions

2.3 Whether the rescheduling/restructuring comply with the provisions of the directive

2.4 Loan Loss Provisions in case of restructuring and rescheduling of loans

2.5 Loan Classification and loan loss provision in respect of force loans

2.6 Loan Classification and loan loss provision in respect of loan against Personal/corporate guarantees

2.7 Whether the adjustment and Write back of loan loss provision comply with the provisions of the directive

2.8 Overall opinion on Loan classification & provisioning

Single Obligor Limit (Directive No.3)

3.1 Bank's procedures to identify a group of borrowers

3.2 Comment on the Facilities in excess of Single Obligor Limits, if any

3.3 Loan Loss Provision in case of borrowers availing facilities in excess of the SOL

3.4 Review and ratification mechanisms for excessive exposures in respect of sectoral credit.

Presentation and Disclosure in the Financial Statement (Directive No.4)

4.1 Comment on the Consistency of the Accounting Policies and financial reporting framework.

4.2 Recognition of interest income from loans and advances

4.3 Reconciliation of Interest Receivable and Interest Suspense

4.4 Recognition of other interest, fees and commission and expenses.

4.5 Publication of annual accounts and periodical highlights

4.6 Non-compliance/deviations in accounting policies followed as compared to prescribed accounting policies by NRB/Nepal Accounting Standard 240

Risk Minimization (Directive No 5)

5.1 Mechanisms to minimize liquidity risk

5.2 Use of GAP Analysis and other mechanisms to measure and manage interest rate risk

5.3 Mechanisms to minimize foreign exchange risk

Corporate Governance (Directive No.6)

6.1 Formulation and implementation of required plans, policies and guidelines

6.2 Code of conduct of Directors, Chief Executive and Employees

6.3 Cases of conflict of interest of Directors, Chief Executive and Employees

6.4 Mechanism to identify related parties promoters, directors or senior management.

6.5 Lending to directors, chief executive, employees (except as per employee rules) and their related parties, if any

Implementation of Supervisory Findings (Directive No.7)

Auditor's finding on the status of compliance of directions given by NRB based on its onsite and offsite supervision.

Investments in Shares and Debentures (Directive No.8)

8.1 Investments in unlisted companies

8.2 Investment in companies with financial interest

8.3 Investment in shares of other bank/FIs

8.4 Investments arising out of Underwriting Commitments

8.5 Investment in shares and debentures exceeding the limits

8.6 Review of the investment portfolio

8.7 Adequacy of Provisioning requirements

Reporting Requirements (directive No.9)

Comment upon the reliability of mechanism used for NRB reporting and the accuracy of such returns.

Sale or Transfer of Promoters Share (Directive No. 10)

10.1 Sale or transfer against the statutory requirements

10.2 Sale or pledge of promoter shares, during the lock-in period

10.3 Where the promoter of the Bank is an entity, unauthorized transfer of ownership of such entity

Consortium Financing (Directive No.11)

11.1 Formation and dissolution of consortium

11.2 Fulfillment of the specified duties of lead bank/member bank, where applicable.

11.3 Frequency of consortium meetings where it is lead bank/FI

11.4 Adherence to the spirits of consortium

Credit Information and Blacklisting (Directive No.12)

12.1 Periodic Submission of information to CIC

12.2 Mechanism to obtain required information from borrowers

12.3 Credit Information at the time of sanction /renewal /restructuring /rescheduling of facilities

12.4 Recommending defaulted borrower to the CIC for blacklisting

12.5 Lending to individual/firm/company included in the blacklist

Cash Reserve Requirement (Directive No. 13)

Comment on any exceptions on the maintenance of CRR as stipulated by the directive

Branch/Office Operation (Directive No. 14)

14.1 Unauthorized branches/offices/extension counters/remittance counters

14.2 Unauthorized transactions

Interest Rates (directive No. 15)

15.1 Interest rate determination procedures

15.2 Publication of interest rates

Mobilization of Financial Resources (Directive No. 16)

16.1 Concentration of deposits

16.2 Resource mobilization beyond the limit

16.3 Issuance of debenture and other debt instruments

Deprived Sector Lending (Directive No.17)

17.1 Comment on the exceptions observed in the deprived sector lending

17.2 Whether the loans classified as deprived sector lending meet the stipulated pre-requisite conditions

17.3 Monitoring mechanism for utilization of deprived sector lending on a half yearly basis 241

2.3 Need of Financial Analysis

The analysis is mainly done in order to address the following questions

- How was the past performance of the firm? Which are the problem existing areas?
- What is the present performance of the firm? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in which areas?
- What will be the position of the firm in future? What are the projections? Is there any likely problem on the way in the future? What corrective actions can be taken now to solve the problems and improve the performance?
- What are the recommendations?

2.4 Meaning of Performance Evaluation

Performance analysis can be considered as a heart of the financial decision. The growth and the development of any enterprises is directly influenced by the financial policies. Rational evaluation of the financial performance of the financial management in public enterprise is too much involved in record keeping, raising necessary funds and maintaining relationship with the bank or other financial institutions. But financial aspect is one of the most neglected aspects of public enterprises in Nepal. However commercial banks have analyzed financial performance for their corrective actions. But their analysis is limited within the banks themselves.

Financial performance as a part of the financial management is the main indicator of the success or failure of the firm. There are different persons/institutions that affect or are affected by the decision of the firm. Financial condition of business firm should be sound from the point of view of shareholder, debenture holders, financial institution and nation as whole. Though, the type of analysis varies according the specific interest of the party involved, shareholder of the firm are concerned principally with the present and expected future earning, the stability of the earnings as well as their variations with the earnings of other enterprises. This indicates that they analysis on the profitability of the firm.

Ratio analysis is a powerful tool of financial analysis. A ratio is designed as "the indicated quotient of two mathematical expressions" and as "the relationship between two or more things". "Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account". In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm (Pandey, "Financial Management", 1989: 104).

"Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statement. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The analysis is attempting to measure the firm's liquidity, profitability and other indications that business is conducted in a relationship among data that seen reasonable, the analysts note the deviations. The burden of explaining the apparent problems may then be placed upon management" (Hampton, "Financial Decision Making", 2006: 98).

"Financial statement analysis includes the study of relationship within a set of financial statement at a point in time and with trends in these relationships over the time"(Forter, "Financial Statement Analysis", 2002: 58).

Financial performance of corporation is depends upon how effective plan and policy the firm has followed. Financial planning involves analyzing the financial floe of the firm as a whole forecasting the consequences of various investment financing and dividend decisions and weighing the effects of various alternatives. The idea is to determine where the firm has been where it is now, and where it is going not only the most likely cruise of events, but only the most likely course of events, but deviations from the most likely outcome. If things become unfavorable, The company should have a backup plan, so that it is not caught flat – fooled, without financial alternatives (Van Horne, "Fundamental of Financial Management", 1988 : 799).

Financial performance as a part of the financial management is the main indicator of the success or failure of the enterprises. There are different personal institutional that are affected by the decision of the enterprises stockholders such as owners, managers, creditors, investors, customers; tax authorities etc are indirectly interested about the financial performance of the enterprise. Though the type of analysis various according to the specific interest of the party involved. Shareholders of the enterprise are concerned principally with the present and expected future earning and the stability of the earning of the enterprises. Management of the enterprises is interested in all aspect of financial analysis to adopt a good financial management system and for interested in liquidity position to see the ability of the enterprises to pay their short term claims, long term creditors are more interested in the case flow ability of enterprises to service debt over along run. This statement is prepared in order to reveal clearly the various sources from where the fund are procured to finance the activities of a business concern during the accounting period this also brings highlight to the use in which these funds are put during the same period.

2.5 Review of Articles and Journals

Paudel (2007) expresses his view in his articles "*The changing scenario of Nepalese Banking and Financial Institution*" that the Nepalese economy is rapidly integrated with the global economy with its outward oriented policies followed by membership of WTO, SAFTA and BIMSTEC and the country is in process of institutional restructuring of financial sector. The face of banking has changed tremendously after the adoption of financial liberalization policy since 1986. Hence, Nepal is in process to make banking system more transparent and international delivery standard. Banks need to go beyond peripheral issues and tackle significant issues like improvement in profitability, efficiency and technology, while achieving economies of scale through available cost effective solution. These are some of the major issues that need to be address banks in recent scenario, for their success and not just survival, in the changing milieu. As a regulator of country's financial and banking institutions, Nepal Rastra Bank always directly and indirectly advised banks and financial institutions to increase their financial base. The plan for capital enhancement is one of the best solutions to increase capital strength of banks and complying basle accord. The financial performance of joint venture and private small banks are efficient and making fairly good levels of profit, while government dominated banks are still less efficient in the face of increase competitive environment.

Thapa (1994) express his research paper " *Financial system of Nepal*" that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to high credit needs particularly by newly emerging industries, the bank still seems to lack adequate funds. The banks are increasing their lending to non traditional sectors along with the traditional sectors. Out of all commercial banks (excluding two recently opened regional commercial banks), Nepal Bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit, the later turning towards negative from time to time. Because of growing competition and limitation of investment sectors, the spread between interest income and interest expenses declining. These banks have not been able to increase their income from commission and discount on the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected. On the other hand, the foreign joint venture banks have been functioning in and efficient way. They are making profit year after year and have been distributing bonus to their employee and dividends to their shareholders.

He concludes that by it very nature of the public sector, these two domestic banks couldn't compete with the private sector bank. So only remedy to the problems of these bank's as the government decided is to handover the ownership as well a the management of these banks to the private hand.

Commercial Bank Act 2031B.S. defines it as "A commercial bank is one, which exchange currency, accepts deposits, grants loans and perform commercial banking functions and which is not a bank meant for co-operation, agriculture and industries or for such specific purpose"(Commercial Bank Act 2031).

Shrestha expresses his view in the articles "*Productivity in Banking Industry*" that bank in the business making money around. It trades money and moneys worth and acts as an intermediate between savers (depositors) and users (borrowers) of money. Banking industry is essentially a service industry. It does not produce any physical (goods) product. It produces service like prime function (deposit, credit) and auxiliary functions: (letter of credit (L/C) guarantees remittance, agency, social banking merchant banking, treasury operation, government transaction etc). Since, its operations are confined to financial transactions; the manpower employed in it plays a key role in its functioning.

It is said that banking is 95% of men and 5% money. Hence high productivity is the result of highly, competent, obedient, team building and motivated staffs which results high quality product innovation and client oriented marketing. Since the bank is mostly run by human resources they should have to poses using the knowledge and skill of him/ her as well as other staffs. Therefore, measurement of productivity becomes an intricate problem in a labor intensive service industry like banking. Human resources are highly prioritized in modern organization in general and banking industry in particular (Souvenir, 2009).

Thapa (2009) express his view in articles "*Nepal's Financial Sector and Its Reform*" that the dictionary meaining of " Finance" is the manipulation and management of money or the capital involved in a project. Financial institutions are the organizations, such as bank, that collects funds from individuals, other organizations or the government agencies and invests these funds or lends to the borrowers. Some financial institutions are non-deposit taking. At one regulatory division between deposit-taking and non-deposit taking financial institutions. Now there is no longer the case. Whereas bank is a commercial institution licensed as taker of deposits. Banks are concerned mainly with making and receiving payments on behalf of their customers, accepting deposits and making short-term loans to private individuals, companies and other organizations. The banking system comprises the central bank, the commercial banks and other banks. Their main activities are borrowing and lending money. Banks borrows by accepting deposits from the general public, from the central bank and other institutions. Commercial banks may be all purpose or may specialize in the form of

- Investment banks specialize on loans to firms,
- Merchants banks specialize on financing capital market transaction and international trade,
- Saving banks specialize on collecting and lending the such savings of the small savers

Banking system refers to the network of institutions responsible for providing banking services. Banking system consists of two parts. First, there are the actual banks providing services to the general public. Second, there are higher-level institutions, which are not directly involved with the general public. And financial sector is the part of the economy concerned mainly with lending and borrowing, long or short financial intermediaries, insurance companies, pension funds etc.

2.6 Review of Thesis

Earlier to this study, the several researchers have done various studies regarding financial performance. In this topic, it is tried to review the thesis that are supposed to be important and relevant for the study, which have been conducted by previous researchers.

Sharma (2005) conducted a research on "*A study on financial performance of commercial banks*" with followings objectives:

- To evaluate the financial performance of Nepal SBI Bank (NSBL), NBB and EBL in terms of their liquidity, efficiency of assets management and profitability position of the banks under study.
- To compare the performance of three banks
- To provide meaningful suggestions and recommendations to these banks for the improvement of their future performance.

Through his research Mr. Suman had presented the following finding of the study which is as follows:

- Current ratio of three banks showed slightly fluctuating trend. The average ratio showed that the banks could not maintain the conventional standard of 2 to 1 except NBB.
- Average cash and bank balance to current deposit of EBL appeared greater than NSBL and NBB. Average liquidity position of NBB and EBL is almost same during the study period. It indicates that solvency position of NBB AND EBL is better than NSBL.
- Debt-equity ratio of the banks depicted the employment of debt in their capital. Comparatively, capital structure of NSBL seemed more leverage than NBB and EBL.
- The average total investments to total deposit ratio of EBL seemed higher among the three banks. The average ratio of NSBL seemed lower among the three banks. The average ratios of NBB and EBL do not differ significantly. The greater ratio of NBB and EBL do not differ significantly. The greater ratio indicates efficiency in utilizing total deposits for investment purpose.
- Loans and advances to total deposit ratio appeared considerably higher in NBB. It indicates that NBB is more successful in utilizing the depositors fund to earn profit. The ratio of NSBL and EBL is almost same. The average ratios of the banks do not differ significantly.
- The average return on shareholders equity ratio of NBB remained greater among the banks. The ratios of EBL were found in decreasing trend. The trend ratios of NSBL and NBB are fluctuating. The higher average ratios of NBB and EBL reveal that the banks have utilized the shareholders equity more efficiently than NSBL.

Joshi (2006) conducted a research on "*Financial Performance of Everest Bank Limited*" with the following objectives:

- To analyze the financial indicators of the bank such as liquidity ratio, leverage ratio, capital structure ratio, profitability ratio, leverage of EBL.
- To examine the structure and trend of income and expenditure of EBL.
- To find the future trend of total deposit, loan and advances, net profit
- To identify financial strength and weakness of EBL.
- To highlight the review of previous study.
- To provide suggestions and recommendations for the improvement of the bank on the basis of the findings.

Through her research Miss Sami had presented following findings of the study which are as follows:

- Although EBL could not maintain conventional standard of 2:1, current ratio seems to be satisfactory. EBL has made enough investment in HMG securities like treasure bond development bond and shares of debentures in the final years of the study period.
- Cash and bank balance to current and saving deposit ratio seems to be inconsistent. In year 2004/2005 the ratio was 15.68%. This exhibit that EBL may not be able to meet its immediate obligation as the bank balance is much lower than the current and saving deposit.
- Only 7.83% of total deposit was held as cash and bank balance in year 2003/3004 by EBL which shows week liquidity position. EBL is very inconsistent maintaining its liquidity position.
- EBL has maintained NRB balance to fixed deposit ratio above the standard prescribed by NRB.
- EBL has more debt than equity in the total capital as revealed by debt equity ratio. Debt assets ratio showed that more than 50% of the total assets had been financed by the outsider's fund.
- Return on assets ratio showed that profitability with respect to financial resources investment of the bank assets is unsatisfactory as well as unstable.

- Income analysis showed that interest remained dominant in EBL.
- Correlation coefficient between DPS and MVPS is negative coefficient of correlation is less than probable error that means the value of r is insignificant. The trend analysis of total deposit, loans and advances and net profit shows the increasing trend.

Maharjan (2006) conducted a research on "*A study on Financial Performance of Nabil Bank Limited*" with the following objectives:

- To analyze the liquidity, profitability, capital structure, capital adequacy, leverage, ownership ratios and operation of Nabil Bank.
- To analyze the relationship between dividend per share (DPS), EPS of Nabil Bank.
- To evaluate the soundness of profitability and operating efficiency of Nabil Bank.
- To analyze the Bankruptcy source of the bank.
- To provide recommendations and suggestions of improvement of financial performance of Nabil Bank for the future on the basis of study.

Through her research Miss Mandira had presented the following finding of the study which is as follows:

- The current ratio analysis of the bank over the seven years period indicates that the bank has been able to meet its short term obligations and is in sound liquidity position.
- The analysis designates that the bank is mobilizing its total deposits in loans and advances adequately and it has efficiency utilized its Total Deposit for Loans and advance purpose.
- Debt-Equity Ratio analysis indicated that the bank has the high debt ratio, which means the creditors have invested more in the bank than the owners.

- Net profit to Total Deposit Ratio reveals that the bank is mobilizing its funds effectively and efficiently.
- Earning Per Share of Nabil Bank in good in overall years
- Dividend Per Share of Nabil Bank is low and the shareholder's are being compensated slowly.

Rajbhandary (2006) conducted a research on "*Financial Performance of selected commercial banks in Nepal*" with followings objectives:

- To measure liquidity, leverage, activity, profitability ratio and ownership ratio of NBL, HBL, Nabil
- To analyze the comparative financial position of NBL, HBL, Nabil.
- To examine whether there commercial banks are following NRB directives or not
- To provide suggestions and recommendation based on findings of the analysis.

Through her research Miss Ekta had presented the following finding of the study which is as follows:

- The study reveals that the current ratio of all three banks show that though there is more or less fluctuating in the ratio they are able to maintain the industry liquidity.
- Total debts to equity ratio of all three banks reveal that the claims of the outsiders exceed for more than those of the owners over the banks assets. Comparatively Nabil seems more levered over the study period.
- According to the study, all three banks have been able to earn positive profit but not satisfactory level. The profitability ratios like interest earned to total assets ratios, Net profit to total deposit ratio, Net profit to Net worth(Return on Equity), Return on risky assets ratio of Nabil are greater than those of HBL and NIBL.
- Analysis of activity ratios reveals that all three banks have been able to utilize and manage the resource or assets, satisfactory. Comparatively,

loan and advance to total deposit ratio and loan and advance to total deposit ratio of NBIL is higher than that of Nabil and HBL, this implies that NIBL is more efficiently utilizing the outsiders fund in extending credit to profit generation.

- The average ratio of Earning per share, dividend per share and dividend payout ratio of Nabil is higher than that of NBL and HBL. From, the view point of shareholders Nabil is giving higher dividend.

Shrestha (2007) conducted a research on "*Financial Performance of commercial banks with reference to Nepal Bangladesh Bank and Machhapuchhre Bank*" with followings objectives:

- To analyze the financial performance through the use of appropriate financial and statistical tools.
- To identify various aspects relating to financial performance of sample baks for the period of last 5 years(2059/060-2062/063).
- To examine the liquidity, profitability, capital structure turnover, cost effectiveness and growth position of sample banks.
- To provide decisive suggestion to improve the financial performance of two commercial banks.

Through his research Shrestha had presented the following finding of the study which is as follows:

- Among sample banks, the current ratios of MBL dominate the respective current liabilities. However average of all banks shows the satisfactory level of current ratio.
- The loan and advance to total deposit ratios of NBBL were in decreasing trend and that of MBL were in increasing trend upto fourth study period. The analysis indicated that the banks had satisfactorily invested on loan and advances. However MBL had a highest mean ratio it showed that MBL's liquidity position with respect to this ratio is more satisfactory than NBBL.

- Debt-equity ratios of sample banks were in fluctuating trend. NBBL was able to maintain the debt-equity ratio than other sample bank but had failed the variability. In case of MBL, they were able to maintain consistency but failed to use the equity fund to creditors.
- Return on total assets ratios of all sample banks were in fluctuating trend. Among them, MBL found to be best since it had higher mean.the analysis indicated that the fund mobilization of the sample banks were unsatisfactory as well as unstable.
- The EPS of NBBL were in fluctuating trend and that of MBL were in an increasing trend. Increasing trend indicates better performance in generating income. The analysis indicates that the earning per share of MBL was very good.
- The positive correlation between the deposit and loan & advances were found in all sample banks. The correlation between deposit and loan & advances was perfect in MBL as there was significant between them. It means that MBL had provided the loan & advances from its deposits. MBL was successful in mobilizing the deposits as loan & advances. But in NBBL the correlation between the loan & advances was imperfect as there was insignificant between them.

Karkee (2010) conducted a research on "*A Study on Profitability Position Of Nepal Investment Band Limite*d" with followings objectives.

a. To study financial position of NIBL.
b. To ascertain the total assets and total liabilities
c. To find out the SWOT of NIBL.
d. To provide appropriate suggestion on the bases of above analysis.

Through her research Karkee had presented the following finding of the study which is as follows:

- Cash and Bank Balance to Total Deposit and Current Deposit Ratio is increased and Fixed Deposit and Saving Deposits to Total Deposit Ratio is also in good condition for current year than previous. So, it is observed that liquidation position of this bank is better.

- Leverage Ratio was in good condition because in this year Interest Income to Total Income Ratio in this year is much better than previous year. But in this year Interest Expenses and Operating Expenses to Total Income Ratio is slightly increased.
- Profitability Ratio of NIBL is in better condition in this year than preceding year. ROA, ROI, ROE and RONFA all are not so better and not so bad.
- There is high degree of positive correlation of trend analysis with time period in year and total deposit, total investment, loan and advance, total assets, total income net profit, interest income, interest expenses, operating expense. Co-efficient of correlation matrix exhibits all items are in positive relation between each other.
- NIBL's objective is profit and service oriented. The achievement of this bank is satisfactory. However, its achievement could be raised more than this. So, bank should increase rating system and also offer high value added products and services as well as a free and unrestricted professional working atmosphere for staff. It has often invested in Health-Education-Sport sector plus in Macro and Small Enterprises sector.

Shrestha (2010) conducted a research on " *Financial Performance Evaluation of ADBNL*" with followings objectives

- To analyze liquidity, leverage, profitability, and ownership ratios of the bank.
- To examine the income and expenditure statements of the bank.
- To identify the deposit and lone and advances.
- To examine the areas in which the banks have been utilizing their assets though the analysis of their financial performance.
- To assess the fund mobilization and investment areas of the banks, which would contribute to draw their core strength and areas to be worked on.

Through his research Shrestha had presented the following finding of the study which is as follows:

- The current ratio analysis of the bank indicates that the bank is unable to meet its short-term obligations. In over all, the bank has poor liquidity position.
- The analysis indicates that ADBNL has greater capacity to meet its daily customers cash requirement but it also indicates that the bank is unable to utilize the cash and bank balance due to the high cash and bank balance to current assets ratio.
- Loan and advance to total deposit ratio is in increasing trend. It shows the bank is successfully utilizing its funds.
- The investment of bank in government securities and other financial and non-financial institutions are very low.
- The analysis indicates that the portion of non performance loan and advances to total loan and advances has been gradually decreasing. It seems ADBNL has utilizing its loan and advances to performance loan and advances rather than no performance loan and advances.
- Interest coverage ratio of ADBNL was lower, which indicates there excessive use of debt for which interest to be paid.

2.7 Research Gap

Financial performance is the major factor of commercial bank which is made on the basis of NRB directives and policy of concerned bank. The directives of NRB change over time. NRB makes necessary amendments in prevailing directives and circulars and communicate to commercial banks. So, the upto dated study over the change of time frame is major concern for the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. Commercial banks should follow these directives and circulars of NRB; otherwise they should bear a penalty of NRB. There are numbers of studies conducted in order to analyze the financial performance of commercial banks. But, no study has yet has been conducted about performance evaluation of NBBL. This study on performance evaluation with reference to NBBL covers the data of 6 years including latest data to analyze and identify the financial position of the banks. Therefore, this study is quite can be regarded as one of the distinct and useful study for fulfilling the research gap about financial performance of the commercial banks. Hope this study will be helpful to others in future to research in the related field.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

Research is common parlance refers to a search for knowledge one can define research as a scientific and systematic search for pertinent information on a specific topic. The Webster International Dictionary gives a very inclusive definition of research as a careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something. (Saravanavel, 1990:1) Research methodology 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 we study various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. It is necessary for the researchers to know not only research methods/techniques but also the methodology. Researchers not only need to know how to develop certain indices or tests, how to calculate the mean, the mode, the median or the standard deviation or chi-square, how to apply particular research techniques, are relevant and which are not, and what would they mean and indicate and why. Researchers also need to understand the assumptions underlying various techniques and they need to know the criteria by which they can decide that certain techniques and procedures will be applicable to certain problems and others will not. All this means that it is necessary for the researcher to design his methodology for his problem. From what has been stated above, we can say that research methodology has many dimensions and research methods do constitute a part of the research methodology. (Kothari; 2000:10-11). The main objective of the study is to evaluate the performance of NBBL. In order to reach and accomplish the objectives of the study, different activities are carried out and different stages are crossed during the study period. For this purpose the chapter aims to present and reflect the methods and techniques those are carried out and followed during the study period.

The study basically helps to conduct the real financial position of Nepal Bangladesh Bank Limited (NBBL). The major objectives of this research are to analyze the financial position in NBBL, its effective use of short term and long term reference planning tools and find out financial strength and weakness. This chapter includes the following research methodology.

- Research Design
- Population and Sample
- Sources and Techniques of Data Collection
- Data Analysis Tools

3.2 Research Design

Decision regarding what, when, how, by what means concerning an enquiry of a research study constitute a research design. A research design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research constitutes the blueprint of the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data.

A research design, bearing the techniques and systematic steps of research, helps to collect various in formations required to researcher thesis writing or any investigation. In lack of the research design, the functional process on researches is never achieved. “After the research study had been formulated, the next logical steps are to construct the research design which refers to the entire process of planning and carrying out a research study. The research design asks what approach to the problem should be taken? What method will be used? what strategies will be most effective? Identification, selection and formulation of a research problem may be considered as the planning stage of a research. The remaining activities refer to the designs, operation and completion of the research study (Wolf and Pant, 1999:53).

This study follows descriptive and analytical research design. To achieve the objectives of the study, some financial and statistical tools have been applied to evaluate the financial performance of NBBL.

3.3 Sources of Data

Both primary and secondary data has been used in this study.

Primary Data

The primary data are those which are collected for the first time, and thus happen to be original in character. In this study primary data are collected by distributing questionnaire to 50 individuals which include business person, service holder and students to support the analysis. Besides, primary data are collected to some extent through discussion with financial experts and personnel of the bank.

Secondary Data

The secondary data are those that have used from published sources or used by someone previously. The annual reports of the banks are the major sources of data for the study. Besides the annual reports of the banks, other sources of data like test books; articles published in newspaper, journals, magazines, unpublished thesis, various reports published by NRB; laws, guidelines and directives regarding the subject matter have also used in the study.

3.4 Population and Sample

The population refers to the industries of the same nature and its services and product in general. A population in most studies usually consists of large group because of its large size it is fairly difficult to collect detailed information from each member of population. Rather than collecting information from each member, a sub-group is chosen which are took as representative of population. This sub-group is called a sample and the method of choosing this sub-group is done by sampling. The sampling allows the researchers more time to make an intensive study of a research problem. All the commercial banks are the population of this study. The current study is only related with the performance evaluation of NBBL. The present study is undertaken for period of past six years.

3.5 Data Collection Techniques

The study has been conducted to examine and evaluate the financial performance of NBBL. For this purpose data are required. The secondary data, annual reports of NBBL for the period of six years from the fiscal year 2061 to 2066 were obtained from the related banks and share department at its head office.

Various publications of NBBL were collected from its head office. Various websites were surfed to gather relevant information. Reference materials were collected from libraries of Shanker Dev Campus and Central Library T.U, journals, magazines, newspaper and from well wishers that helped a lot in conducting the study.

3.6 Data Analysis Tools

Presented and analysis of the collected data is the core of the research work. The collected raw data are first scanned and tabulated under various heads. The calculated results were than compared and interpreted. Suitable tools and proper analysis makes data effective. The data collected and processed have been analyzed using financial and statistical tools to achieve research objectives. The tools applied are:

3.6.1 Financial Tools

Financial Tools are used to get the precise knowledge of a business which in turn is fruitful in exploring the strengths and weakness of the financial policies and strategies. Ratio analysis is one of the important financial tools that have been used in the study. Although there are many ratios, only those ratios have been covered in this study, which are related to the financial performance of the bank. This study contains following ratios:

Liquidity Ratios

The Liquidity ratios measure the firm's ability to meet its short-term obligations and reflect the short-term financial strength of the firm. It measures the speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. The following ratios are calculated under liquidity ratios:

a. Current Ratio

This ratio shows the bank's short-term solvency. It shows the relationship between current assets and current liabilities. The widely accepted standard of current ratio is 2:1. This ratio can be computed as:

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

Current assets are those assets, which can be converted into cash within a year and so it includes cash and bank balance, investment in treasury bills, bills purchased and discounted, customer acceptance liabilities, prepaid expenses, bills for collection. Likewise, current liabilities denotes current account deposits, saving account deposits, margin deposits, bills payable, call deposit, bank overdraft, intra bank reconciliation account, provisions, customer's acceptance liabilities, etc.

b. Cash and Bank Balance to Total Deposit Ratio

Deposit is one of the major liabilities of the commercial bank. Bank has to manage its liquidity to meet depositor's demand. This ratio indicates the proportion of total deposits held as most liquid assets. Optimum ratio shows the strong liquidity position of the bank. High ratio is not favorable as it affects profitability due to idleness of high-interest bearing fund.

Total deposit consists of current deposit, saving deposit, fixed deposit, money at call and short notice and other deposits. This ratio can be computed as follows:

Cash & Bank Balance to Total Deposit Ratio = $\frac{\text{Cash\&}\,Bank\ Balance}{\text{Total deposit}}$

c. Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid form of current assets. This ratio measures the proportion of cash and bank balance held by the banks under study. Higher ratio indicated the bank's sound ability to deposit. If bank maintain low ratio, bank may not be able to make the payment of against cheques. So bank has to maintain cash and bank balance to current assets ratio properly. This ratio can be computed as:

Cash & Bank Balance to Current Assets Ratio = $\frac{\text{Cash\&}\,Bank\ Balance}{\text{Current Assets}}$

Leverage Ratio

Leverage ratio shows the proportion of debt capital and equity capital. It shows the long-term solvency of the firm. It evaluates the financial risk of long term creditors. Greater the proportion of the owner's capital in the capital structure lesser will be the financial risk borne by supplier of credit funds. Debt is more risky from firm's point of view. The firm has legal obligation to pay interest to debt holders irrespective of the profit or loss incurred by the firms. This ratio is also known as capital structure ratio.

The extent, to which a firm uses debt financing or financial leverage, has three important implications:

- By raising funds through debt, stockholder ownership is not diluted.
- Creditors look to equity, or owner supplied funds, to provide a margin of safety, if the stockholders have provided only a small proportion of the total financing the risks of the enterprises are borne mainly creditors.

- If the firm earns more on investments financed with borrowed funds than it pays in interest, the return on the owner's capital is magnified, or "leveraged" (Weston, Besley and Brigham, 1996:99).

The firm should maintain optimal mix of investor's and outsider's fund for the benefit of owners and its stability. Following ratios are used to test the optimality of capital structure of NBBL.

a. Debt Assets Ratio

This ratio measures the percentage of the firm's assets financed by creditors. Total debt includes both current liabilities and long term debt. Creditors prefer low debt ratios because the lower the ratio, the greater the cushion against creditors losses in the event of liquidation. The owners, on the other hand, can benefit from leverage because it magnifies earnings, thus the return to stockholders. But too much debt often leads to financial difficulty, which eventually might cause bankruptcy (Weston, Besley and Brigham, 101).

This ratio is computed by dividing total debt by total assets as follows

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

b. Debt Equity Ratio

It is a test of long-term solvency of the bank. Debt equity ratio measures the relative claims of creditors and owners against the assets of the bank. This ratios indicates the relationship between debt and equity i.e. outsiders fund and shareholders funds which are sometime called as external and internal equities. It is calculated to measure the extent of debt financing used in the business (Munankarmi, 2059:474).

Total debt consists of all interest bearing long term debts. These include loans and advances taken from other financial institutions, deposits carrying interest etc. Shareholder's equity includes paid-up capital, reserves and surplus and undistributed profit.

The ratio is computed by dividing total debt by shareholder's equity as follows:

$$\text{Debt Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

The ratio shows the mix of debt and equity in the capital. It measures creditor's claims against owners. High ratio shows that the creditor's claims are greater than those of owners. This brings inflexibility in the firm's operation due to increasing interference and pressures from the creditors. Low ratio implies a greater claim of owners than creditors.

The ratio should be neither too high nor too low.

c. Interest Coverage Ratio

This ratio measures how much net income before interest and taxes could decline and still provide coverage of total interest expenses. It is sometimes called as debt service ratio. This ratio is developed with the expectation that annual operating earnings can be considered a basic source of funds for debt service. The prospective debt holders often require convenience in the loan arrangement spelling out the number of times the business is expected to cover its debt service obligations. This ratio emphasizes the ability of the firm to generate enough income to cover interest expanses. This ratio is directly connected to the ability of the firm to pay interest (Munankarmi, 2002: 470).

This ratio is obtained by dividing net profit before deduction on interest and tax by interest charges as follows:

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit before Interest and Tax}}{\text{Interest}}$$

This ratio indicates the ability of bank to pay interest out of its profits. It also indicates the extent to which the profits of the company may decrease without in any way affecting its ability to meet its interest obligations. Higher ratio is desirable but too high ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation.

Activity Ratio

This ratio measures the efficiency of the firms. Activity ratio is set of ratios that measure how effectively firm is managing its assets. Activity ratio is also known as utilization ratios or turnover ratios or assets management ratio or efficiency ratios. They measures how effectively the firm uses investment and economic resources at its command. High ratio depicts the managerial efficiency in utilizing the resources. They show the sound profitability position of the bank. Low ratio is the result of insufficient utilization of the resources. Following ratios are developed and calculated to find the activity ratios of NBBL.

a. Loans and Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances. Loan and advances consists of loans, advances, cash credit, overdrafts and foreign bills purchased and discounted. The ratio indicates the proportion of total deposits invested in loans and advances. This ratio is obtained by dividing total loans and advances by total deposit as follows:

$$\text{Loan and Advance to Total Deposit} = \frac{\text{Loan and Advances}}{\text{Total deposit}}$$

b. Loans and Advances to Total Working Fund Ratio

Loans and advances are the major components in the working fund, which indicates the ability of banks in successful mobilization of their loan and advances on the working fund ratio. This ratio measures the management's attitude towards risk assets.

This ratio is computed dividing loans and advances by total working fund (total assets) as follows:

Loans and Advances to Total Working Fund = $\frac{\text{Loan and Advances}}{\text{Total Working Fund}}$

Here total working fund includes all assets of on balance sheet items. In other words, this includes current assets, net fixed assets, loans for development bonds and other investment in share, debenture and other, etc. A high ratio indicates a better mobilization of fund as loan and advances and vice versa.

c. Investment to Total Deposit Ratio

Investment to total deposit ratio shows how efficiently the major resources of the bank have been mobilized. Investment consists of investment in Nepal Government (NG) Treasury bills, development bonds, company shares and others type of investment.

This ratio is calculated by dividing investment by total deposits collected in the bank as follows:

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

Profitability Ratio

Profit is the difference between total revenues and total expenses over a period of time. Profit is essential for the survival of the business, so it is regarded as the engine that drives the business and indicates economic progress. Profitability is an indicator of efficiency of business organization. Profitability ratio measures the managements overall efficiency as shown by the return generated from sales and investment. Profitability ratios and profitability is those ratios which indicate degree of success in achieving desired profit levels.

Profitability ratio is the indicator of the financial performance of bank. Moreover higher the profitability ratio shows the better financial performance of bank and vice versa. Following ratios are calculated under profitability ratios.

a. Return on Total Asset

This ratio measures the productivity of the assets. It shows the relationship of net profit and total assets and determines how efficiently the total assets have been used by the management. This ratio evaluates the overall return on investment earned by the firm. Net profit refers to the profit after deduction of interest and tax. Total assets mean the assets that appear in assets side of the balance sheet. It measures the efficiency of bank in utilization of the overall operation. Higher ratio shows the higher return on the assets used in the business thereby indicating effective use of the resources available and vice versa.

This ratio is calculated by dividing net profit after tax by total assets as follows:

Return on Total Asset = $\frac{\text{NPAT}}{\text{Total Assets}}$

b. Return on Total Deposit

Return on total deposit ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio indicates strong profitability position and vice versa.

This ratio is calculated by dividing net profit after tax by total deposit as follows:

Return on Total Deposit =$\frac{\text{NPAT}}{\text{Total Deposit}}$

c. Return on Investment

This investment consist the whole amount of investment. The bank has invested their fund in different profitable sector to generate more profit if it can't get expected return or unable to recover invested amount, they suffer. ROI invests their fund on treasury bills, Nepal Government development bonds and other investment too. The investment directly returns to bank, however, the coast of arranging investment like interest payment and other additional expenses like income tax payment and bad debts provision reduce the gross return. Hence, the NPAT is taken to measure the return on investment. It informs the bank, its return is adequate to meet the obligations created by investment like interest payment, bad investment provision etc. This ratio is calculated by dividing net profit by loans and advances as follows:

Return on Investment= $\frac{\text{Net Profit}}{\text{Total Investment}}$

d. Interest Earned to Total Asset Ratio

Interest earned to total assets ratio show percentage of interest income as compared to the assets of the bank.

This ratio is calculated by dividing interest income by total assets as follows:

Interest Earned to Total Asset Ratio = $\frac{\text{Total Interest Income}}{\text{Total Assets}}$

e. Return on Loan and Advances Ratio

This ratio measures the earning capacity of the commercial banks through its fund mobilization as loan and advances. Higher ratio indicated greater success to mobilize fund as loan and advances and vice versa. Mostly loan and advances includes cash credit, over drafts, bills purchased and discounted. This ratio is calculated by dividing net profit by loans and advances as follows:

Return on Loan and Advance = $\frac{\text{Net Profit}}{\text{Loan \& } Advance}$

f. Interest Income to Interest Expenses Ratio

Interest income to interest expenses ratio measure the gap between interest rates offered and interest rate charged. NRB has restricted the gap between the interest taken in loan, advances and interest offered in deposits. The credit creation power of commercial banks has high impact on this ratio.

This ratio is calculated by dividing interest income by interest expenses as follows:

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

Earning Performance Ratio

The true owners of any business firms are the common stockholders who invest their fund in the firm because of their expectation of future returns. This ratio is also known as ownership ratios. From, the point of view of shareholders the following financial ratios indicates the financial performance of the business firm.

a. Earning Per Share (EPS)

Apart from the rate of return, the profitability of a firm from the point of view of the ordinary shareholders is the Earning Per Share. It measures the profit available to the equity shareholders on per share basis; i.e. the amount that they can get on each share held. In other words, this ratio measures the earnings available to equity shareholders on a per share basis. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis. This ratio enables us to compare whether the earning based on per share basis has changed over past period or not. Investors favor higher EPS.

This ratio is calculated by dividing total earnings available to the common shareholders by number of equity share outstanding as follows:

EPS = $\frac{\text{Earning Available to Common Shareholders}}{\text{NO.of Equity Sharesholders}}$

Growth Ratio

Growth ratio shows the annual percentage growth in the variable. Here, the growth analysis of total deposits, loan and advances, investment and net profit has done. Growth ratio indicates how much growth in deposit liability in supported by growth in assets. The analysis insures whether the assets portfolio has significant increment corresponding to the increment in deposit liability or not. The following ratios are calculated under growth ratios:

a. Growth Ratio of Total Deposit

Deposits made by the customers are the major sources for the banks that can be mobilized by investing in different profitable sector for making profit. For the bank it is very important to increase its deposit in order to make sufficient amount for investment. This ratio can be calculated as follow:

$$\text{Annual \% change in total deposit} = \frac{\text{Current Year's deposits} - \text{Previous year's deposits}}{\text{Previous year's deposits}}$$

b. Growth Ratio of Loan and Advances

Loan and advances are the major activity for the bank for making profit. Growth ratio in loan and advances represents the performance of the bank. This ratio can be computed as follow:

$$\text{Annual \% change in Net Profit} = \frac{\text{Current Year's net profit} - \text{Previous year's net profit}}{\text{Previous year's deposits}}$$

c. Growth Ratio of Investment

The profitability of the bank is mainly depends upon how it invest its deposits. Increment in total deposit has no sense unless it is invested in profitable sectors. This ratio can be computed as follow:

$$\text{Annual \% change in Investment} = \frac{\text{Current Year's investment} - \text{Previous year's investment}}{\text{Previous year's deposits}}$$

d. Growth Ratio of Net Profit

Net profit represents the overall performance of the bank. This ratio can be computed as follow:

$$\text{Annual \% change in Loan and advance} = \frac{\text{Current Year's L\&D} - \text{Previous year's L\&D}}{\text{Previous year's deposits}}$$

3.6.2 Statistical Tools

Various statistical tools may be used for the evaluation of financial performance of banks. Among various some important statistical tools are used here to achieve the objectives of the study. The statistical tools which are used are as follows:

Arithmetic Mean

Arithmetic mean also called 'the mean' or 'average' is the most popular and widely used measure of central tendency. Arithmetic mean represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of numerical data. A mean is obtained by adding together all the items and dividing this total by the number of items. It is denoted as (X) and formula used to calculate it is as follows.

$$\overline{X} = \frac{\Sigma X}{N}$$

Where,

ΣX = Sum of observation

N = Number of observation

Standard Deviation

Standard Deviation (S.D.) is defined as the positive square root of the arithmetic means of the squares of the deviations of the given observations from their arithmetic mean. The S.D. measures the absolute dispersion or variability. It is said that higher the value of S.D. the higher the variability and vice versa. It is denoted as (δ) and formula used to calculate S.D. in sample case is as follows.

$$\delta = \sqrt{\frac{\Sigma(X-\overline{X})^2}{N}}$$

Where,

N = No. of observations

Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the improvement of deterioration of its financial situation. Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term on the basis of the tendencies in the dependent variable in the past period. Straight- line trend implies that irrespective of the seasonal, cyclic and irregular fluctuation the trend value increases or decreases by absolute amount per unit of time. Using this least square method, the projection for five years is done. For the estimation of linear trend line following formula has been used.

$Yc = a+bX$

Where,

y = dependent variable

x = independent variable

b = slope of trend line

a = Y- intercept

Normal equations fitting above are

$\Sigma y = na + b\Sigma x$

$\Sigma xy = a\Sigma x + b\Sigma x^2$

Since,

$\Sigma x= 0$ $a = \frac{\Sigma Y}{n}$ $b = \frac{\Sigma X^2}{\Sigma XY}$

By using above method, trend analysis of following variable is conducted:

a. Trend analysis of total deposit
b. Trend analysis of investments
c. Trend analysis of loan and advances
d. Trend analysis of total assets
e. Trend analysis of total income
f. Trend analysis of total expenses
g. Trend analysis of net profit after tax

Correlation Coefficient

Correlation analysis is a statistical tool can use to describe the degree to which one variable is linearly related to another (Levin, Richard & Rubin, 1999: 114). Correlation analysis enables in determining the degree and direction of relationship between two variables. This tool is used for measuring the intensity or the magnitude of linear relationship between two series. It measures correlation coefficient between two variables. However, it does not tell anything about cause and effect relationship. Thus, correlation does not necessarily imply causation while causation always implies correlation. Correlation coefficient is denoted as 'r' and formula used to calculate r is as follows:

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

Where,

$x = X - \bar{X}$

$y = Y - \bar{Y}$

n = number of observation in series x and y

Σx = sum of observation in series x

Σy = sum of observation in series y

Σx^2= sum of squared observation in series x

Σy^2 =sum of squared observation in series y

Σxy= sum of the product of observation in series x and y

The value of r falls between -1 to +1. The value of -1 denotes perfect negative correlation and value of +1 denotes perfect positive correlation and value of o denotes that there is no correlation.

3.6.3 Probable Error of Correlation Coefficient

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. It shows the extent to which correlation coefficient is dependable as it depends upon the condition of random sample. Probable error of correlation coefficient is denoted by P.Er. and obtained as:

$$P.Er. = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

CHAPTER - IV
DATA PRESENTATION AND ANALYSIS

In this chapter, the data collected from various sources about the NBBL have been presented, analyzed and interpreted to fulfill the objectives of this study. To obtain the best result, the data have been analyzed according to the research methodology as mentioned in third chapter. The data presentation and analysis is the basic organization and classification, which are then used for analysis purpose. After data collection is completed, the data is in raw form so; it is arranged in proper way. Different types of data require different methods of summery and presentation. Here, the arrangement of raw data is presented in three ways. They are:

- Tabular Presentation
- Diagrammatic Presentation and
- Graphic Presentation

For the purpose of this study of the performance of NBBL, the data of six years from F.Y. 2061 to 2066 is Covered. This study divide the total study period in two study period, first study period cover three years from year 2061 to 2063 and second study period cover three years from year from 2064 to 2066.

4.1 Primary Information Analysis

The questionnaire (detail in appendix no.1) was distributed to the 50 individuals who include business person, service holder and students to support the analysis. Here the analysis of primary information's collected through survey are analyzed which are as follows:

Analysis of question no. a: Objective of the NBBL

When asked what are the objective of the NBBL, 20% respondents said the objective of NBBL was profit oriented, 42% respondents said profit and service oriented, 30% respondent said service oriented and 8% respondents said other.

Table 4.1

Analysis of Question No a

S.N	Alternatives	No of Respondent	Percentage %
1.	Profit Oriented	10	20
2.	Profit and Service Oriented	21	42
3.	Service Oriented	15	30
4.	Other (Specify)	4	8
Total		50	100

Source: Appendix No. 1

Analysis of Question no. b: Account Holders in Banks & Finance Company

When asked whether they have an account in any organization, 22% respondents said they have an account in commercial banks, 6% respondents said in development bank, 30% respondents have an account in finance company, 20% in government bank, while 22% respondents do not have an account.

Table 4.2

Analysis of Question No. b

S.N	Alternatives	No of Respondent	Percentage %
1.	Commercial Banks	11	22
2.	Development Banks	3	6
3.	Finance Company	15	30
4.	Government Banks	10	20
5.	Do not have account	11	22
Total		**50**	**100**

Source: Appendix No. 1

Analysis of Question No. c: Strength Point of the NBBL

When asked about the strength point of the NBBL, 10% respondents said winning the confidence of the shareholder, 34% respondent said best human resource, 26% respondent said earning the higher level of trust and 30% respondent said all of above.

Table 4.3

Analysis of Question No. c

S.N	Alternatives	No of Respondent	Percentage %
1.	Winning the Confidence of Shareholder	5	10
2.	Best Human Resource	17	34
3.	Earning the Higher Level of Trust	13	26
4.	All of Above	15	30
Total		50	100

Source: Appendix No. 1

Analysis of Question No. d: Reason for the Under Taken by NRB

When asked about the reason for the under taken by NRB, 40% respondents said weakness of the management team, 16% respondent said effect of political environment, 20% respondent said untrained staff and 24% respondent said other.

Table 4.4

Analysis of Question No. d

S.N	Alternatives	No of Respondent	Percentage %
1.	Weakness of the management team	20	40
2.	Effect of political environment	8	16
3.	Untrained staff	10	20
4.	Other	12	24
Total		50	100

Source: Appendix No. 1

Analysis of question No e: Weakness of the NBBL

When asked about the weakness of the NBBL, 4% respondents said lack of coordination, 2% respondents said lack of proper direction, 14% respondents said lack of right staff in the right job and 80% respondent said none.

Table 4.5

Analysis of Question No. e

S.N	Alternatives	No of Respondent	Percentage %
1.	Lack of Coordination	2	4
2.	Lack of Proper Direction	1	2
3.	Lack of Right Staff in the Right Job	7	14
4.	None	40	80
Total		50	100

Source: Appendix No. 1

Analysis of question no. f: Effect of different type of deposit on Profitability

When asked effect of different type of deposit on profitability, 22% respondent said fixed deposit, 46% respondent said saving deposit, 18% respondent said current deposit, 14% respondent said all of above.

Table 4.6

Analysis of Question No. f

S.N	Alternatives	No of Respondent	Percentage %
1.	Fixed Deposit	11	22
2.	Saving Deposit	23	46
3.	Current Deposit	9	18
4.	All of Above	7	14
Total		50	100

Source: Appendix No. 1

Analysis of Question no. g: Satisfaction Level with Facilities Provided by the Concerned Organization

When asked how far they are satisfied by the facilities provided by their organization, 28% respondents said they are highly satisfied with the services, 36% said they are not satisfied with the services provided by their organization and 26% respondents said they do not know about it. Among all 10% of the respondents did not answer this question.

Table 4.7

Analysis of Question No. g

S.N	Alternatives	No of Respondent	Percentage %
1.	Highly Satisfied	14	28
2.	Not Satisfied	18	36
3.	Do not Know	13	26
4.	No Response	5	10
Total		**50**	**100**

Source: Appendix No. 1

Analysis of Question no. h: Effectiveness of NRB in Monitoring and Supervision

When asked whether the present monitoring and supervision of Nepal Rastra Bank is effective, only 34% respondents said it is effective, 44% respondents said the present monitoring, supervision is not so effective and 10% respondents said they do not know and 12% respondent do not response on the question.

Table 4.8

Analysis of Question No. h

S.N	Alternatives	No of Respondent	Percentage %
1.	Effective	17	34
2.	Not so Effective	22	44
3.	Do not Know	5	10
4.	No Response	6	12
Total		**50**	**100**

Source: Appendix No. 1

Analysis of Question no. i: Affect from Non-Performing Loan

When asked what extend banking industry is affected by the problem of non-performing loan, none of the respondents said the banks are not affected, 50% respondents said the banks are normally affected, 40% respondents said the banks are severely affected by non-performing loan and 10% respondents said they don't know.

Table 4.9

Analysis of Question No. i

S.N	Alternatives	No of Respondent	Percentage %
1.	Not Affected	0	0
2.	Normally Affected	25	50
3.	Severely Affected	20	40
4.	Don't know	5	10
Total		**50**	**100**

Source: Appendix No. 1

Analysis of Question No. j: NBBL Able to Run in Competitive Market

When asked do NBBL able to run in competitive market,50% respondent said yes, 38% respondent said no, 12% respondent said I don't no.

Table 4.10

Analysis of Question No. j

S.N	Alternatives	No of Respondent	Percentage %
1.	Yes	25	50
2.	No	19	38
3.	I don't no	6	12
Total		50	100

Source: Appendix No. 1

Analysis of Question no k: Sector that Banks Should Increase its Activities

When asked for better performance of banks in which sector should the bank increase its activities, 34% respondents said in investment sector, 50%

respondents said in NPA,8% respondents said in loan and advance, 4% of respondent said in staffing and 4% respondents said in other sectors.

Table 4.11

Analysis of Question No. k

S.N	Alternatives	No of Respondent	Percentage %
1.	Investment	17	34
2.	NPA	25	50
3.	Loan and advance	4	8
4.	Staffing	2	4
5.	other	2	4
Total		50	100

Source: Appendix No. 1

Analysis of Question no l: Changes did you see after Undertaken by NRB

When asked what changes did you see after undertaken by NRB, 30% chance in management, 38% respondents said change in banking activities,18% respondents said no change, 14% of respondent said other.

Table 4.12

Analysis of Question No.l

S.N	Alternatives	No of Respondent	Percentage %
1.	Change in management activities	15	30
2.	Change in banking activities	19	38
3.	No change	9	18
4.	other	7	14
Total		50	100

Source: Appendix No. 1

Analysis of Question No. m: Problem Faced by Bank of Nepal

When asked what are the problems faced by bank of Nepal 38% respondent said lack of proper education, 50% respondent said tough competition, 8% respondent said government intervention, and 4% respondent said other.

Table 4.13

Analysis of Question No. m

S.N	Alternatives	No of Respondent	Percentage %
1.	Lack of Proper Education	19	38
2.	Tough Competition	25	50
3.	Government Intervention	4	8
4.	other	2	4
Total		50	100

Source: Appendix No. 1

Analysis of Question no. n: Reason Behind other Banks not Interested in Opening Branch in Rural Areas

When asked except the government owned banks other banks are not found so interested in opening branch in rural areas, 62% respondents said they are profit oriented, 16% respondents said due to political disturbance, 18% respondents said due to lack of clients and 4% respondents said due to other reasons.

Table 4.14

Analysis of Question No. n

S.N	Alternatives	No of Respondent	Percentage %
1.	Profit Oriented	31	62
2.	Political Disturbance	8	16
3.	Lack of Clients	9	18
4.	other	2	4
Total		50	100

Source: Appendix No. 1

Analysis of Question No. o: Opinion and Suggestion

When asked whether they have any opinion and suggestion about the topic of my research only 10 respondents i.e. 20% answered this question and their opinions were as follows:

Banks should increase research and development sector to increase its services

- Banks should focus on retail banking and search new areas for lending

- Banks should also invest in rural areas.
- Banks should not differentiate its client in interest rate on loan & advances.
- Banks should invest in agriculture sector

4.1.1 Findings from the Primary Information Analysis

- Most of the respondent thinks that the objective of the NBBL was profit and service oriented.
- In the total respondents, 94% respondents had an account which can be taken as a good sign for economic development.
- In the response of strength of NBBL, 34% of respondent choose best human resource and 26% choose higher level of trust.
- In the response of reason for undertaken by NRB, 34% of respondent choose weakness of management and 24% choose other.
- In the response to weakness of the NBBL, most of respondent think lack of coordination and proper people in proper place are the main weakness of the NBBL.
- Most of the respondent thinks that saving deposit effect on profitability position of the organization.
- In the total respondents, 28% respondents were highly satisfied by the facilities provided by the bank and 36% respondents were not satisfied.
- In the total respondents, 34% and 44% said that monitoring and supervision of NRB is effective and not so effective respectively.
- In the total respondents, none of them said that banking industry is not affected by the problem of non-performing loan. 50% and 40% said that banking industry is normally affected and severely affected respectively by non-performing loan.
- In the total respondent, 50% said that NBBL was able to run and 38% said not able to run.

- In the response of necessary sector to improve,50% said NPA, 34% said investment sector has to be improved.
- In the response of change comes in bank after undertaken by NRB, 30% said change in management, 38% said change in banking activities, 18% said no change.
- In the total respondents, 50% respondents said tough competition and 38% respondents said lack of proper education are main problem faced by the in Nepal.
- In the total respondents, 62%, 16% and 18% respondents said that banks are not interested in opening branch in rural areas because they are profit oriented, political disturbance and lack of clients respectively.
- In the total respondents, only 20% gave their opinion. Most of them said that bank should increase research and development sector to increase its services and its goodwill.

4.2 Secondary Analysis

4.2.1 Ratio Analysis

a. Liquidity Ratios

Commercial banks collect funds from community on commitment of return when they demand it. Thus, a commercial bank must maintain satisfactory liquidity position to satisfy the credit needs of the community, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to the bank and without consequent impact on long-run profitability of the bank. To measure the liquidity position of the bank, the following measures of liquidity ratio has been calculated and a brief analysis of the same has been done as below.

Current Ratio

Current ratio indicates the ability of the bank to meet its current obligation. This is the board measure of liquidity position of the banks. It shows the relationship between current assets and current liabilities. This ratio is computed as dividing current assets by current liabilities.

Table 4.15

Current Ratio of Current Assets and Current Liabilities

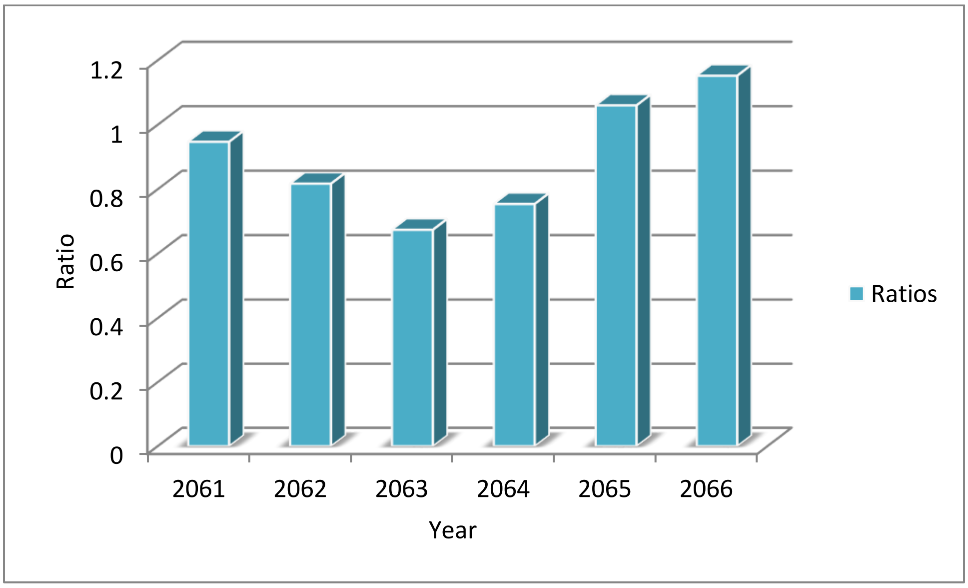
Years	Ratios	Mean of ratio ($\overline{X}$)	Standard deviation(δ)	Coefficient of Variance(C.V)
2061	0.947	0.813	0.111	14.3%
2062	0.817			
2063	0.674			
Total	**2.138**	**0.813**	**0.111**	**14.3%**
2064	0.754	0.99	0.17	17.2%%
2065	1.06			
2066	1.152			
Total	**2.966**	**0.99**	**0.17**	**17.2%%**

Source: Appendix No. 2

It is also represented by diagram in below:

Figure 4.1

Current Ratio of Current Assets and Current Liabilities



In above table no. 4.15 and figure no. 4.1 indicates the current ratios for the two study period of the NBBL. The table shows that the current assets had not exceeded current liabilities in first study periods (2061-2063) of NBBL but it was exceeded in second study period (2064-2066). In second study period, current liabilities had not exceeded current assets only in the first year (2064) and it was exceeded in 2065 and 2066. The ratio of NBBL is in a decreasing trend in the first study period and ranges from maximum of 0.947 in 2061 to the minimum ratio of 0.674 in 2063. But the ratio of second study period is in increasing trend and ranges from minimum ratio of 0.754 in 2064 to the maximum ratio of 1.152 in 2066.

The mean ratio of NBBL is 0.813 in first study period and second study period mean ratio is 0.99. If we measure the performance ratio of the banks based on this mean, the performance of first study period is weak than that of second study period. This implies low level of liquidity ratio in the first study period. The standard ratio is 2:1. More or less standard deviation is not preferable. The current ratio in the table shows that the solvency position of the banks is not good.

Besides, this standard deviation of first study period is 0.086 and second study period standard deviation is 0.132 of NBBL. The coefficient of variation (C.V.) of first study period is 14.3% and that of second study period is 17.2% which is higher than that of first study period. Lower coefficient of variation shows more significance and consistence. Thus, the current ratio of first study period is more significant and consistent than that of second study period of NBBL.

Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio measures the capacity of the banks to meet unexpected demand made by the depositors i.e. current account holders, saving account holders and other margin account holders. The bank needs to maintain cash balance to meet its day-to-day with drawls of customers. Total deposits are the most important source of a bank's fund, which should be utilized in a profitable sector. As this is a nonearning asset the bank has to plan to maintain optimal amount of cash balance according to its needs. From viewpoint of liquidity, excess cash and bank balance shows strong position of bank where in viewpoint of profitability, excess cash and bank balance is negative aspect. This ratio is computed dividing cash and bank balance by total deposit.

Table 4.16

Cash & Bank Balance to Total Deposit

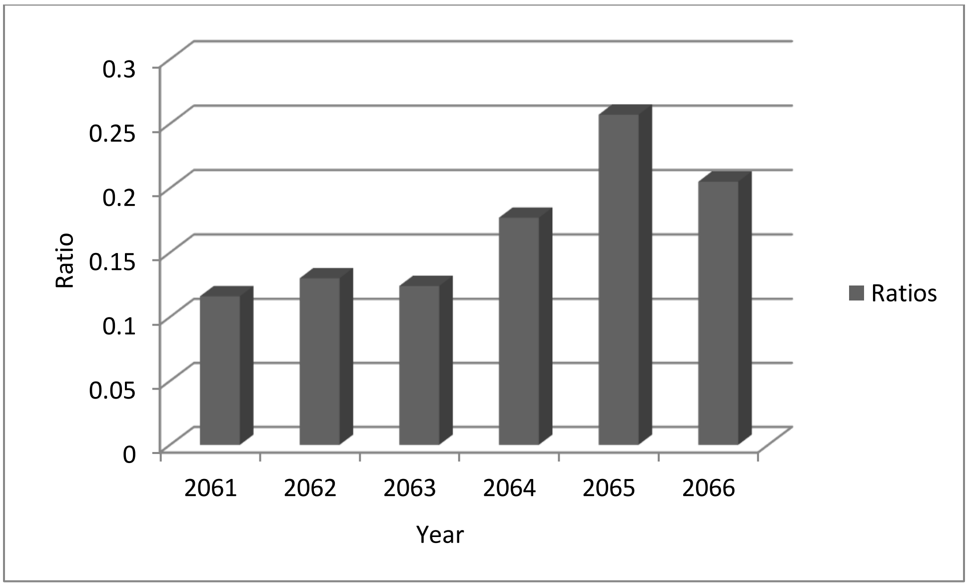
Year	Ratios	Mean of ratio($\bar{X}$)	Standard deviation(δ)	Coefficient of Variance(C.V)
2061	0.116	0.1233	0.0057	4.6%
2062	0.13			
2063	0.124			
Total	**0.37**	**0.1233**	**0.0057**	**4.6%**
2064	0.177	0.213	0.033	15.5%
2065	0.257			
2066	0.205			
Total	**0.639**	**0.213**	**0.033**	**15.5%**

Source: Appendix No. 3

It is also represented by diagram in below:

Figure 4.2

Cash and Bank Balance to Total Deposit



The above table no. 4.16 and figure no. 4.2 shows that cash and bank balance to total deposit ratios of the NBBL had a fluctuating trend in both first and second study period. In the first study period of NBBL, has the highest ratio of 0.13 in 2062 and the lowest ratio of 0.116 in 2061. In the second study period of NBBL, has the highest ratio of 0.257 in 2065 and lowest ratio of 0.177 in 2064.

The mean ratio of first study period is 0.1233 and mean ratio of second study period is 0.213. So the second study period had maintain the highest mean ratio among the two study period, which shows that in second study period NBBL had been successful in maintaining the higher cash and bank balance to total deposit ratio. But it does not mean it had invested in profitable sector. It actually means that in second study period NBBL was successful in meeting the daily cash requirement.

Even though first study period had maintained low cash balance which is shown by low mean ratio 0.1233, they had a consistency in utilizing the cash balance among the two study period. This consistency is measured by lowest C.V. 4.6% which is lowest among the two study period. Holding cash and bank balance have a negative impact on the goodwill and reputation of the bank to fulfill the demand of the profit holders and lower cash balance have a negative impact on the customers. Therefore, banks should maintain the enough liquidity.

Cash and Bank Balance to Current Assets Ratio

This ratio reflects the portion of cash and bank balance to current assets of the bank. Cash and bank balance are highly liquid assets than other current assets. It represents what percentage of current assets is in form of cash. The cash and bank balance are already in state of cash, which can be used anytime and anywhere according to the need of the firm. Hence, the cash and bank balance to current assets ratio shows what portion of total current assets represents cash or how much from total current assets can be used as ready cash to discharge short term obligation of the bank. This ratio is computed dividing cash and bank balance by current assets.

Table 4.17

Cash & Bank Balance to C.A.

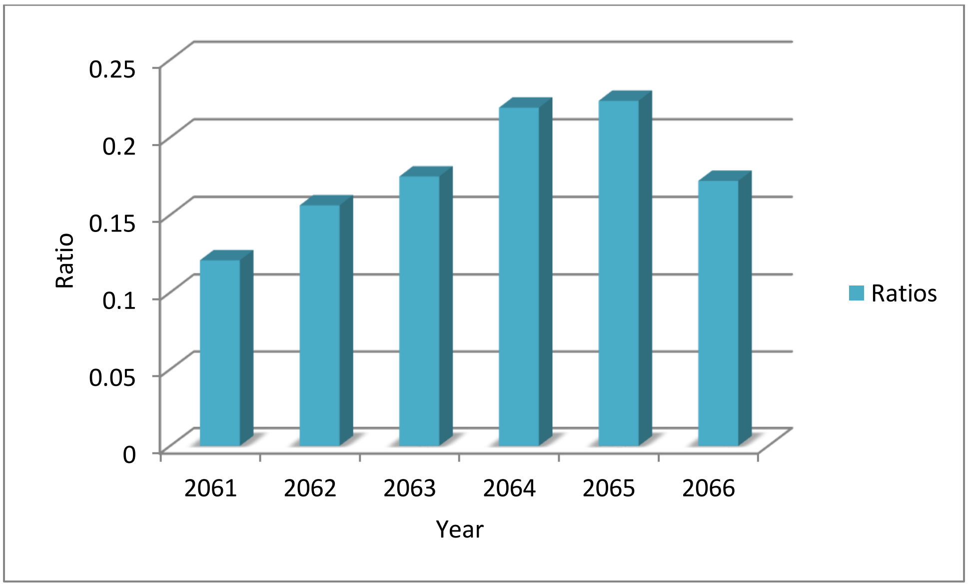
Years	Ratios	Mean of ratio ($\overline{X}$)	Standard deviation(δ)	Coefficient of Variance(C.V)
2061	0.1208	0.1506	0.0225	14.9%
2062	0.1562			
2063	0.1748			
Total	**0.4518**	**0.1506**	**0.0225**	**14.9%**
2064	0.2192	0.2049	0.0235	11.47%
2065	0.2236			
2066	0.172			
Total	**0.6148**	**0.2049**	**0.0235**	**11.47%**

Source: Appendix No. 4

It is also represented by diagram in below:

Figure 4.3

Cash and Bank Balance to Current Assets



The above table no. 4.17 and figure no. 4.3 shows that the ratios of first study period of NBBL were in increasing trend and ranges from minimum ratio of 0.1208 in 2061 to maximum ratio of 0.1748 in 2063. The table shows that ratios of second study period of NBBL were in fluctuating trend which ranges from minimum ratio of 0.172 in 2066 to maximum ratio of 0.2236 in 2065.

First study period had a mean ratio of 0.1506 and second study period had mean ratio of 0.2049. Since the mean ratio of second study period is higher than the average mean of first study period. So in second study period NBBL had been successful in maintaining its higher cash and bank balance to current assets ratio. It means in second study period NBBL can meet its daily cash requirement more efficiently than first study period.

Even though in first study period had less liquidity, they were not successful in maintaining a stability of cash and bank balance in comparison to second study period which is indicated by lowest C.V. 11.47%. in second study period and 14.9% in first study period.

b. Leverage Ratio

A bank should have strong short-term as well as long-term financial position. The long-term financial position of the bank is judged by the leverage or capital structure ratio analysis. It measures the extent of the bank's total debt burden. It reflects the bank's ability to meet its short-term as well as long-term obligation. This ratio also reveals the proportion of funds used by the institution either from the creditor's side or from the owner side. In order to maintain healthy financial position any institution need to maintain proper proportion of debt and equity. The following ratios calculate the leverage of the sample banks.

Debt Assets Ratio

This ratio measures the relationship between financial contribution of outsiders and owners on total assets of the firm. It measures the proportion of debt out of total assets of the firm. Higher debt ratio indicates higher financial risk as well as increasing claims of outsiders in total assets and lower ratio indicates lower financial risk as well as decreasing claims of outsiders over the total assets of the firm. This ratio is computed dividing total debt by total assets.

Table 4.18

Debt Asset Ratio

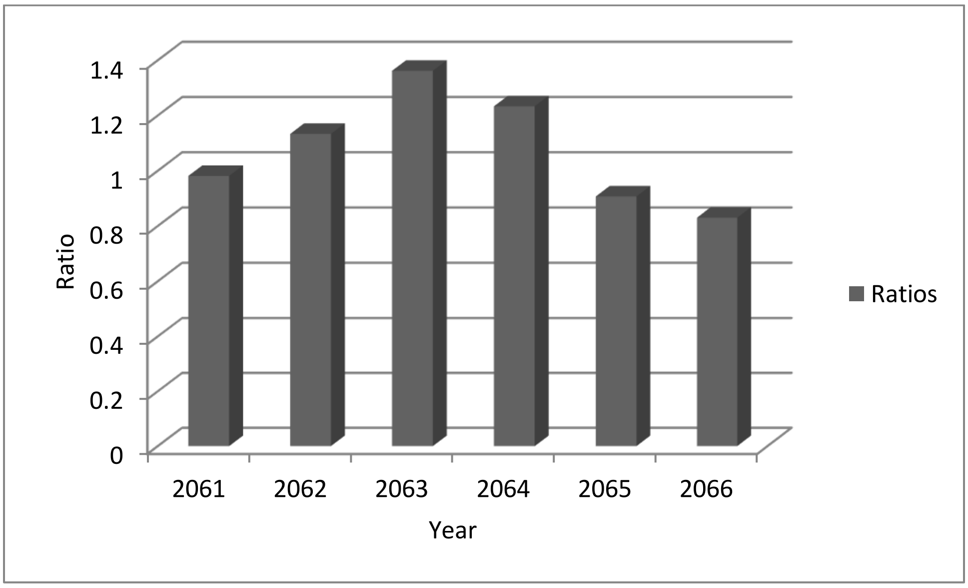
Years	Ratios	Mean of Ratio(X)	Standard Deviation(δ)	Coefficient of Variance(C.V)
2061	0.9812	1.16	0.3828	33%
2062	1.1334			
2063	1.3617			
Total	**3.4763**	**1.16**	**0.3828**	**33%**
2064	1.2333	0.99	0.1748	17.66%
2065	0.907			
2066	0.83			
Total	**2.9703**	**0.99**	**0.1748**	**17.66%**

Source: Appendix No. 5

It is also represented by diagram in below

Figure 4.4

Debt Assets Ratio



The above table no. 4.18 and figure no 4.4 shows the debt assets ratio of two study period of NBBL. The ratio of first study period was in increasing trend which range from minimum ratio of 0.9812 in 2061 to the maximum ratio of 1.3617 in 2063. The ratio of second study period was in decreasing trend range from minimum ratio of 0.83 in 2066 to maximum of 1.2333 in 2064.

The mean ratio of first study period was 1.16 and that of second study period was 0.99. The mean ratio helps us to conclude that the sample of two study period of bank are aggressive and are using high portion of their debt capitals. Among two study period banks, first study period had higher mean ratio which indicates that the bank was highly levered in comparison to second study period.

In case of consistency, NBBL seems to be more consistency in second study period than first study period which is shown by lower C.V. 17.66%. The first study period had C.V. 33%.

Debt Equity Ratio

The debt equity ratio implies the debt equity proportion used by the institution. It is a test of long-term solvency of the bank. This ratio shows the percentage of debt in compare to equity (net worth). This ratio indicates the lender's contribution for each rupee of the owner's contribution. A high ratio shows that claims of creditors are greater than those of owners and vice-versa. There is a need to strike a proper balance the use of debt and equity. The most appropriate debt-n-equity combination would involve a trade-off between return and risk (Pandey; 1997:115).

Table 4.19

Debt Equity Ratio

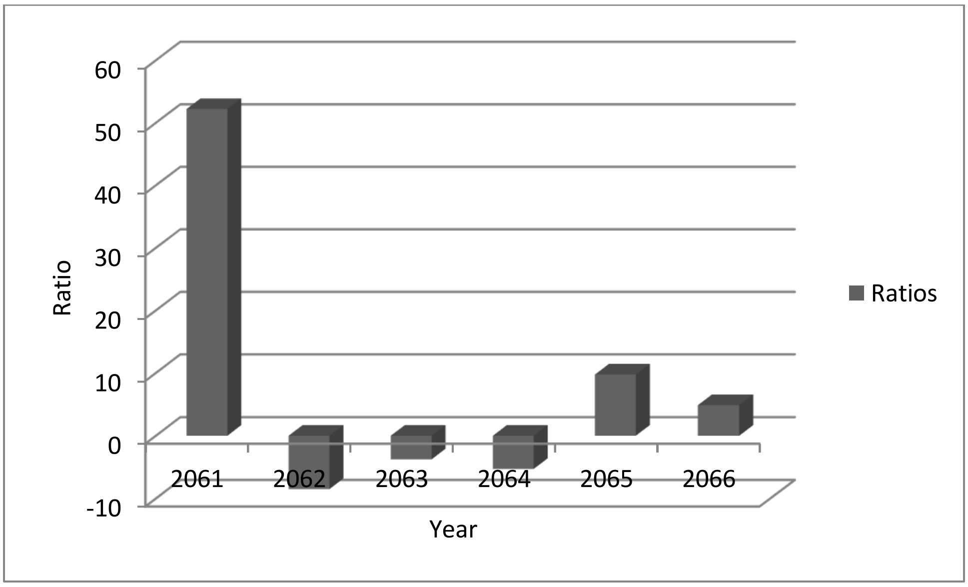
Years	Ratios	Mean of Ratio($\bar{X}$)	Standard Deviation(δ)	Coefficient of Variance(C.V)
2061	52.205	13.3156	27.57	207.05%
2062	-8.4936			
2063	-3.7645			
Total	**39.9469**	**13.3156**	**27.57**	**207.05%**
2064	-5.2853	3.1149	6.27	201.29%
2065	9.757			
2066	4.873			
Total	**9.3447**	**3.1149**	**6.27**	**201.29%**

Source: Appendix No. 6

It is also represented by diagram in below

Figure 4.5

Debt Equity Ratio



The above table no. 4.19 and figure no. 4.5 shows the debt equity ratio of two study period of the NBBL. The ratios of both study periods are in fluctuating trend. The ratios of first study period ranged from minimum ratio of (8.4936) in 2062 to maximum of 52.205 in 2061. The ratio of second study period ranged from minimum ratio of (5.2853) in 2064 to maximum of 9.757 in 2065.

The mean ratio of first study period was 13.3156 and that of second study period was 3.1149. Second study period had lower mean which declare that the in second study period of the bank had lowest debt cost and higher investment from equity fund. Since highest mean ratio was recommended by first study period of NBBL, they had more investment from debt than equity fund which cost a higher than equity. Higher debt investment brings a higher cost to the bank.

The C.V. of NBBL in first study period was 207.05% and that of second study period was 201.29%. Among these two study period second study period had lower C.V. which defines that in second study period of NBBL had consistency in debt equity ratio.

Interest Coverage Ratio

The interest coverage ratio or the times-interest earned is one of the most conventional coverage ratio used to test the firm's debt-serving capacity. The interest coverage ratio shows the number of times the interest charges are covered by funds that are ordinary available for their payment. (Pandey; 1997: 116). This ratio is computed dividing net profit before interest (NIBT) by interest.

Table 4.20

Interest Coverage Ratio

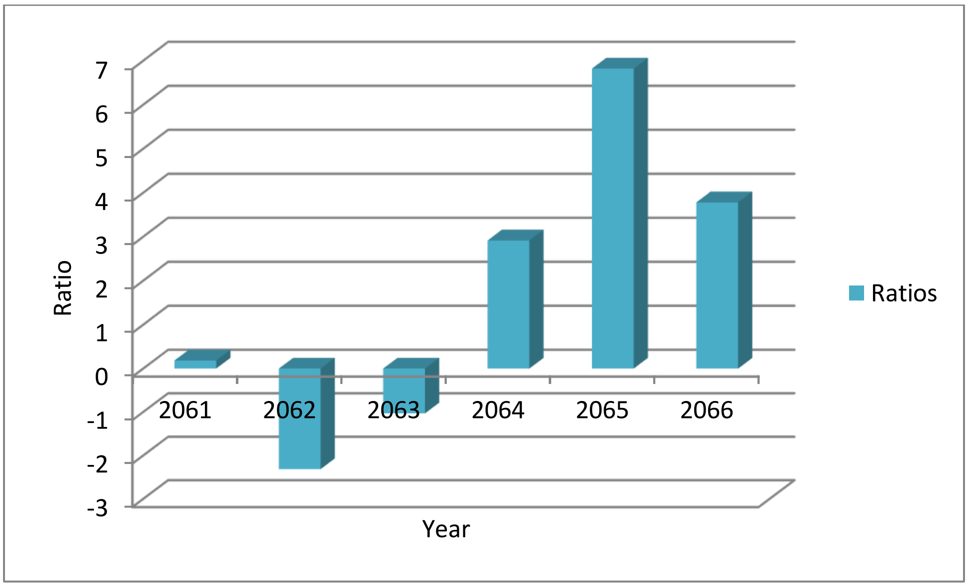
Years	Ratios	Mean of Ratio($\bar{X}$)	Standard Deviation(δ)	Coefficient of Variance(C.V)
2061	0.1854	-1.0527	1.02	-96.89%
2062	-2.3137			
2063	-1.0299			
Total	**-3.1582**	**-1.0527**	**1.02**	**-96.89%**
2064	2.9146	4.5059	1.6759	37.18%
2065	6.8217			
2066	3.7814			
Total	**13.5177**	**4.5059**	**1.6759**	**37.18%**

Source: Appendix No. 7

It is also represented by diagram in below:

Figure 4.6

Interest Coverage Ratio



The above table no. 4.20 and figure no. 4.6 shows the interest coverage ratio of two study period of NBBL. The ratios of first study period were in fluctuating trend ranged between minimum ratios of (2.3137) in 2062 to the maximum ratio of 0.1854 in 2061. The ratios of second study period were also in fluctuating trend which ranged between minimum ratios of 2.9146 in 2064 to the maximum ratio of 6.8217 in 2065.

The mean ratio of first study period was (1.0527) and that of second study period was 4.5059. Second study period had higher mean ratio than the first study period of the NBBL. According to conventional rule, higher ratio is desirable. In case of second study period, it seems capable to meet its interest commitments from its profits. But in case of first study period it seems that the bank was not capable to meet its interest commitments from its profit since mean ratio is lower or in negative (1.0527).

The C.V. of first study period and second study period were (96.89%) and 37.18%. In consistency level, the first study period seems more consistency than second study period of the NBBL.

c. Activity Ratio

This ratio measures the effectiveness of asset utilization, reflecting the management's efficiency to creditors and owners in various profit generating assets like loan & advances, investment etc. So an attempt has been made to analyze and interpret financial data of the subject matter in sequential order.

Loan & Advances to Total Deposit Ratio

This ratio measures the extend to which commercial banks are successfully utilizing outsiders funds or total deposit in profit generating purpose by extending for use of loan & advances. Higher the ratio shows the higher utilization of its deposits on loan and advances and vice-versa. This ratio is computed dividing loan and advances by total deposits.

Table 4.21

Loans & Advance to Total Deposit Ratio

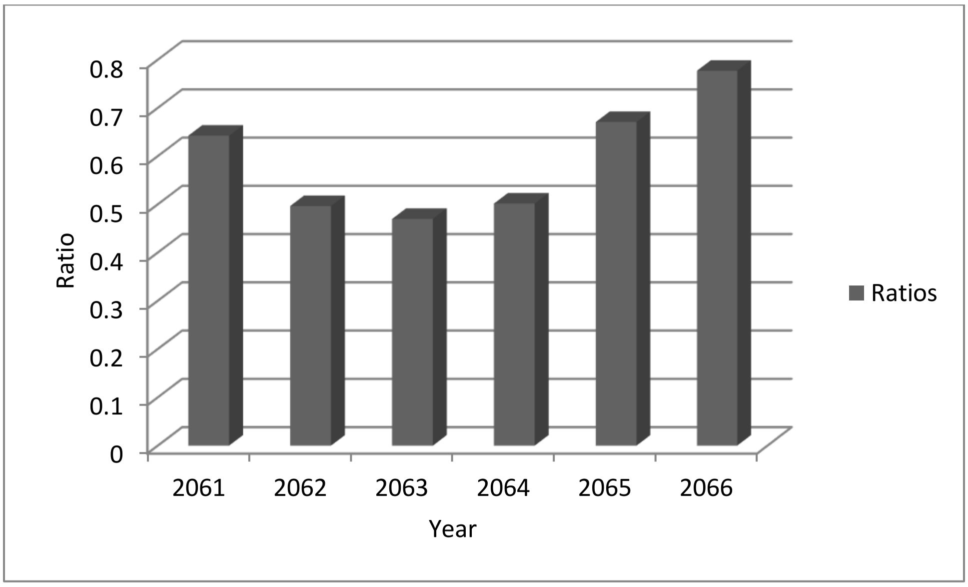
Years	Ratios	Mean of Ratio($\bar{X}$)	Standard Deviation(δ)	Coefficient of Variance(C.V)
2061	0.6423	0.54	0.076	14.07%
2062	0.4964			
2063	0.4697			
Total	**1.6087**	**0.54**	**0.076**	**14.07%**
2064	0.5015	0.65	0.1133	17.43%
2065	0.6706			
2066	0.7769			
Total	**1.949**	**0.65**	**0.1133**	**17.43%**

Source: Appendix No. 8

It is also represented by diagram in below:

Figure 4.7

Loan and Advance to Total Deposit Ratio



The above table no. 4.21 and figure no. 4.7 shows the loan & advances to total deposit ratios of two study period of NBBL. The first study period were in decreasing trend ranged from maximum ratio of 0.6423 in 2061 to the minimum ratio of 0.4697 in 2063. The decreasing trend indicates lower deposits were being invested in loan & advances. The ratio of second study period was in increasing trend, ranged from minimum ratio of 0.5015 in 2064 to the maximum ratio of 0.7769 in 2066. This indicates that in second study period NBBL had invested higher deposits in loan and advances.

The mean ratio of second study period was 0.65 which is higher than that of first study period mean ratio 0.54. Higher mean shows that in study period NBBL was successful in mobilizing the loan and advances to profitable sector with respect to total deposits.

As concern with consistency, NBBL had failed to maintain the consistency in second study period comparison to first study period because second study period had a higher C.V. 17.43%. First study period had lowest C.V. 14.07%, thus NBBLwas able to maintain the consistency better in first study period than second study period.

Loan & Advances to Total Working Fund Ratio

This ratio measures the volume of loan and advances in the structure of total assets. The high degree of this ratio indicates the good performance of the bank in mobilizing its funds by way of lending function. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice-versa. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation.

Table 4.22

Loans & Advance to Total Working Fund Ratio

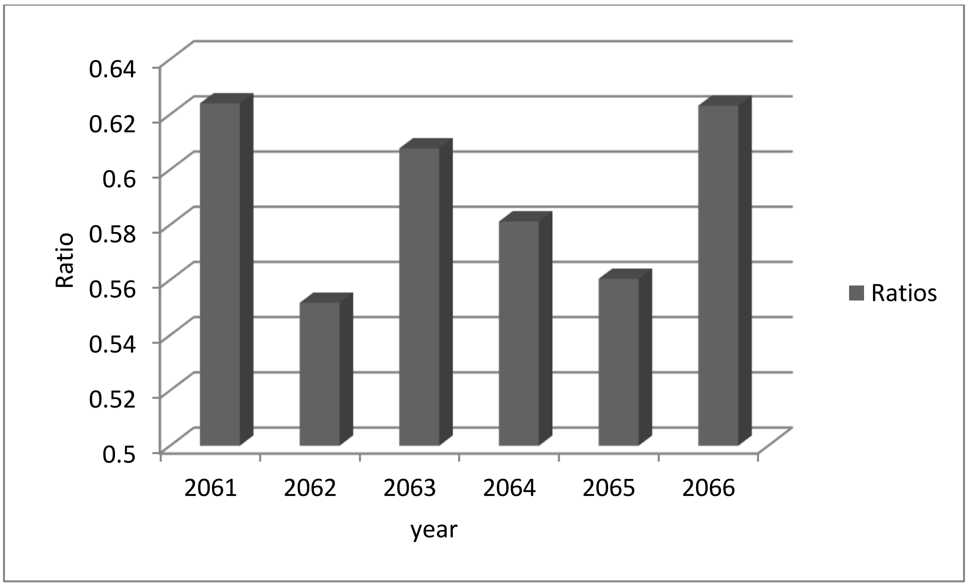
Years	Ratios	Mean of ratio($\overline{X}$)	Standard deviation(δ)	Coefficient of Variance(C.V)
2061	0.624	0.5945	0.031	5.2%
2062	0.5517			
2063	0.6077			
Total	**1.7834**	**0.5945**	**0.031**	**5.2%**
2064	0.5812	0.5884	0.026	4.42%
2065	0.5604			
2066	0.6232			
Total	**1.7648**	**0.5884**	**0.026**	**4.42%**

Source: Appendix No. 9

It is also represented by diagram in below

Figure 4.8

Loan and Advance to Total Working Fund Ratio



The above table no. 4.22 and figure no. 4.8 shows the loan and advances to total working fund ratios of the two study period of NBBL. The ratio of first study period were in fluctuating trend which ranges from maximum ratio of 0.624 in 2061 to the minimum 0.5517 in 2062. The ratios of second study period were also in fluctuating trend up to, ranges from 0.5604 in 2065 to maximum ratio of 0.6232 in 2066.

The mean ratio of first study period was 0.5945 and that of second study period was 0.5884. NBBL was successful to maintain higher mean ratio in first study period, which means that in first study period NBBL was successful in mobilizing loan and advances with respect to the total assets (working funds).
As far as competency level, NBBL was successful in maintaining consistency in mobilizing total assets in loan and advances in second study period. This is shown by lowest C.V. 4.42% in second study period.

Investment to Total Deposit Ratio

This ratio measures the extent to which the bank is successful to mobilize its total deposit of the public towards different securities. This ratio indicates the proportion of deposits utilized for the purpose of income generation. A high ratio indicates the success to mobilize deposits in investment and vice-versa. This ratio is computed dividing total investment by total deposits.

Table 4.23

Investment to Total Deposit

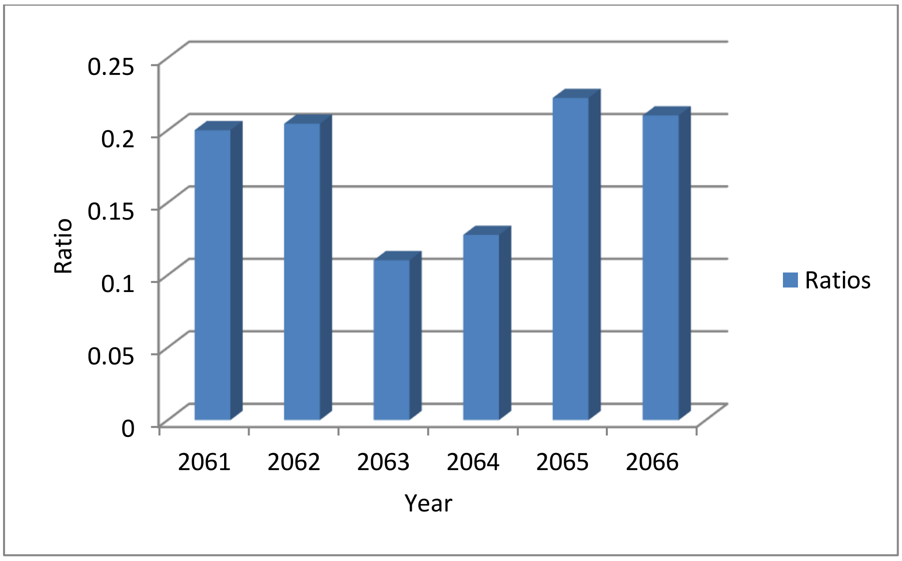
Years	Ratios	Mean of ratio($\overline{X}$)	Standard deviation(δ)	Coefficient of Variance (C.V)
2061	0.2	0.1716	0.0436	25.41%
2062	0.2045			
2063	0.1102			
Total	**0.5147**	**0.1716**	**0.0436**	**25.41%**
2064	0.1277	0.19	0.0424	22.32%
2065	0.2223			
2066	0.2102			
Total	**0.5602**	**0.19**	**0.0424**	**22.32%**

Source: Appendix No. 10

It is also represented by diagram in below:

Figure 4.9

Investment to Total Deposit Ratio



The above table no. 4.23 and figure no. 4.9 shows that the ratios of the two study periods are in fluctuating trend. The ratio of first study period ranges between minimum ratio of 0.1102 in 2063 to the maximum ratio of 0.2045 in 2062. The ratio of second study period ranges between minimum ratios 0.1277 in 2064 to the maximum ratio of 0.2223 in 2065.

The mean ratio of first study period was 0.1716 and that of second study period was 0.19. the second study period of NBBL has higher mean ratio, which indicates that in second study period NBBL was more successful in utilization of deposits in investment sector in comparison to first study period.

As concern with consistency, second study period seems more consistency than first study period which is shown by lower C.V. 22.32%. first study period had 25.41% C.V.

d. Profitability Ratio

Profitability measures the success of the banks in terms of profit margin, return on assets, return on loan and advances and reflects the overall efficiency and effectiveness of management. The operating efficiency of the bank and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by the bank. Thus, profitability ratios are computed to measure the efficiency of the banks. So, an attempt has been made to analyze and interpret financial data of the subject matter in sequential order.

Return on Total Assets Ratio

This ratio measures the profitability of the total funds and investment of a firm, the ratio measure the relationship between net profit and all financial resources invested in the bank's assets. If bank's working fund (total assets) is well manages and utilized efficiently, return on such assets will be higher efficiently, return on such assets will be higher and vice-versa. Higher ratio indicates higher efficiency in the utilization of total assets and vice-versa. This ratio is computed dividing net profit by total assets.

Table 4.24

Return on Total Asset

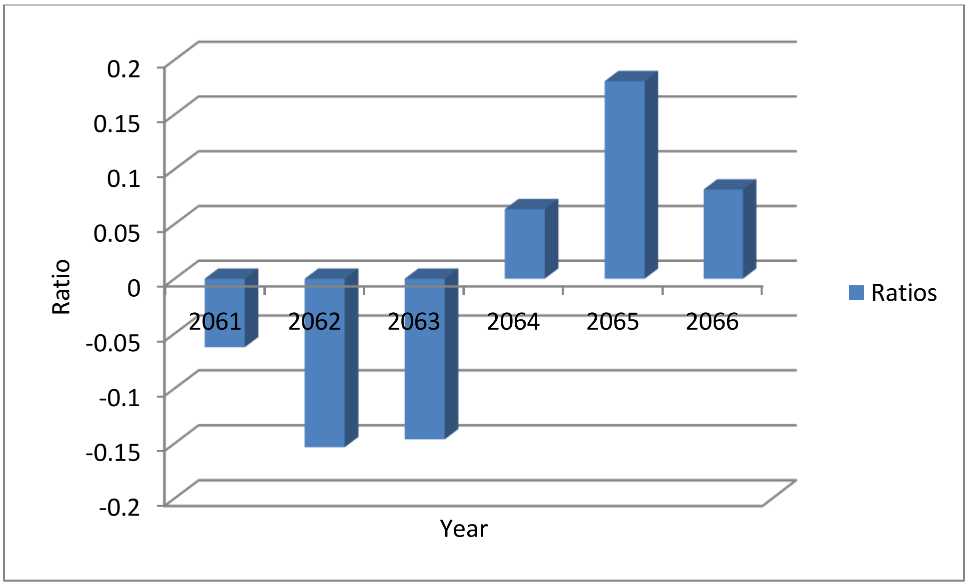
Years	Ratios	Mean of Ratio($\overline{X}$)	Standard Deviation(δ)	Coefficient of Variance(C.V)
2061	-0.0626	-0.1208	0.0416	-34.44%
2062	-0.1535			
2063	-0.1463			
Total	**-0.3624**	**-0.1208**	**0.0416**	**-34.44%**
2064	0.0635	0.1085	0.0513	47.28%
2065	0.1804			
2066	0.0815			
Total	**0.03254**	**0.1085**	**0.0513**	**47.28%**

Source: Appendix No. 11

It is also represented by the bar diagram figure in below

Figure 4.10

Return on Total Assets



The above table no. 4.24 and figure no. 4.10 shows that the return on total assets ratios of the two study period of NBBL were in fluctuating trend. The ratios of first study period range between minimum ratios of (0.1535) in 2062 to the 0.0635 in 2064 to maximum ratio of 0.1804 in 2065.

The mean ratio of first study period was (0.1208) and that of second study period was 0.1085. Second study period had higher mean, which indicates that NBBL was more successful in utilizing the total assets for earning the net profit in second study period as compare first study period. But as concern with consistency, NBBL was able to maintain the consistency in profit in first study period which is shown by lowest C.V. (34.44%).

Return on Total Deposit Ratio

Total deposit refers to all the deposits (i.e. fixed, saving, current deposits, etc) made by the customers. Deposits made by the customers are the major source that can be mobilized by investing in different profitable areas for making profit. This ratio shows the percentage profit earned on total deposits. This ratio indicates how efficiently the collected deposits are utilized in profit generating sector. This ratio is computed dividing net profit by total deposit.

Table 4.25

Return on Total Deposit

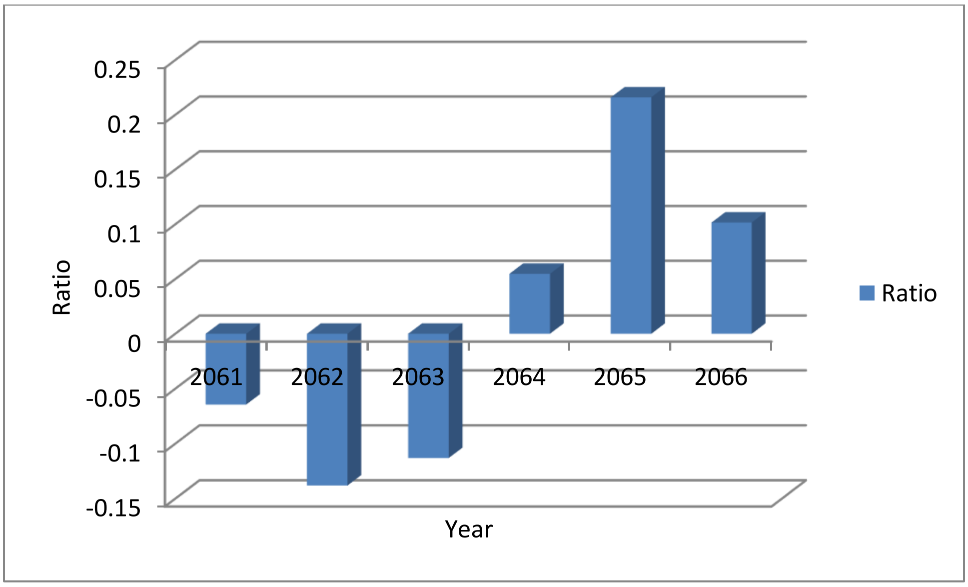
Years	Ratios	Mean of Ratio($\overline{X}$)	Standard Deviation(δ)	Coefficient of Variance (C.V)
2061	-0.0645	-0.1052	0.031	-29.47%
2062	-0.1381			
2063	-0.1131			
Total	**-0.3157**	**-0.1052**	**0.031**	**-29.47%**
2064	0.0548	0.1241	0.068	54.79%
2065	0.2159			
2066	0.1016			
Total	**0.3723**	**0.1241**	**0.068**	**54.79%**

Source: Appendix No. 12

It is also represented by diagram in below:

Figure 4.11

Return on Total Deposit



The above table no. 4.25 and figure no. 4.11 shows the return on total deposit ratio of two study period of NBBL was in fluctuating trend. In first study period, ranges from maximum ratio of (0.0645) in 2061 to the minimum ratio (0.1381) in 2062. The negative trend of the ratio reveals that the bank was not utilizing its deposits in order to earn profit. The ratio of second study period was also in fluctuating trend but in positive. The ratios range from minimum ratio of 0.0548 in 2064 to the maximum ratio of 0.2159 in 2064.

The mean ratio of first study period was (0.1052) and that of second study period was 0.1241. This statement indicates that in second study period NBBL had better performance in utilizing its total deposits to earn a higher profit than first study period.

As far as consistency level. NBBL was successful in first study period in maintaining consistency in mobilizing total deposit to earn the profit even though it had low success rate than second study period.This is shown by lowest C.V. (29.47) % of first study period and second study period had C.V. 54.79%.

Return on Investment (ROI)

This investment consist the whole amount of investment. The bank has invested their fund in different profitable sector to generate more profit if it can't get expected return or unable to recover invested amount, they suffer. ROI invests their fund on treasury bills, Nepal Government development bonds and other investment too. The investment directly returns to bank, however, the coast of arranging investment like interest payment and other additional expenses like income tax payment and bad debts provision reduce the gross return. Hence, the NPAT is taken to measure the return on investment. It informs the bank, its return is adequate to meet the obligations created by investment like interest payment, bad investment provision etc. It is represented in table 4.26.

Table 4.26

Return on Total Investment

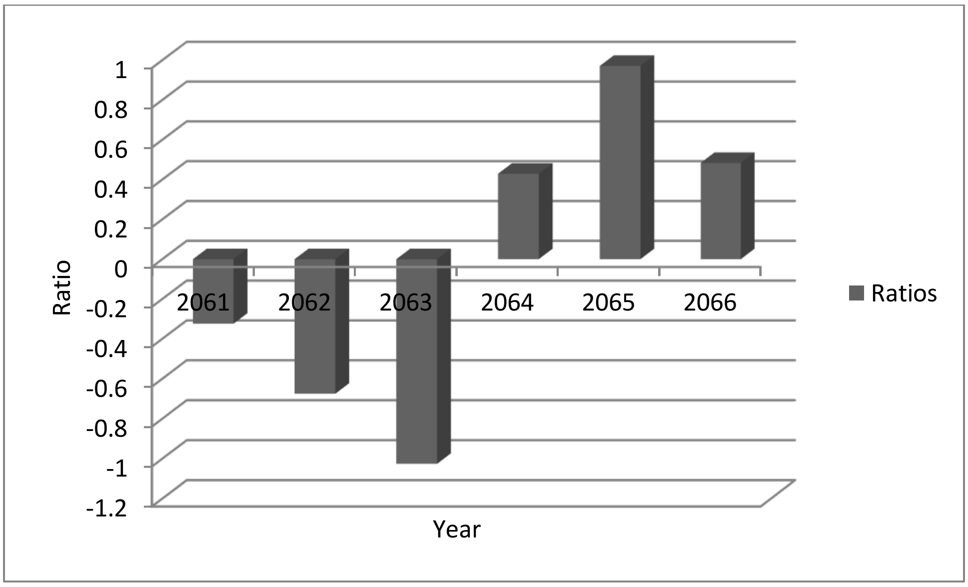
Years	Ratios	Mean of ratio($\bar{X}$)	Standard deviation(δ)	Coefficient of Variance(C.V)
2061	-0.3242	-0.6752	0.2866	-42.45%
2062	-0.6752			
2063	-1.0261			
Total	**-2.0255**	**-0.6752**	**0.2866**	**-42.45%**
2064	0.4292	0.6279	0.2437	38.81%
2065	0.9711			
2066	0.4834			
Total	**1.8837**	**0.6279**	**0.2437**	**38.81%**

Source: Appendix No. 13

It is also represented by diagram in below:

Figure 4.12

Return on Investment



The above table no. 4.26 and figure no. 4.12 shows the return on investment ratio of the two study period of NBBL were in fluctuating trends. The ratios of first study period range from minimum ratio of (1.0261) in 2063 to the maximum ratio (0.3242) in 2061. The ratios of second study period range between minimum ratios of 0.4292 in 2064 to the maximum ratio of 0.9711 in 2065.

The mean ratio of first study period and second study period were (0.6752) and 0.6279 respectively. The above statement indicates that NBBL had better performance in second study period in utilizing total deposit in investment to earn higher income comparison to first study period.

As far as consistency level, NBBL was successful in first study period in maintaining consistency in mobilizing total deposits in investment even though it had low success rate than second study period. This is shown by lowest C.V. (42.42)%. Second study period had C.V. 38.81%.

Interest Earned to Total Assets Ratio

Interest is the major sources of incomes for any commercial banks. It includes interest earned form loan, advances and overdraft, government securities, investment or debenture, inter bank loan, etc. This ratio is computed to find out the percentage of interest earned with respect to total assets. This ratio exhibits the extents on which banks are successful in mobilizing their working funds (total assets) to generate income as much as possible. Higher the ratio, higher will be the efficiency in mobilization of resources and vice-versa. This ratio is computed dividing interest earned by total assets.

Table 4.27

Interest Earned to Total Asset Ratio

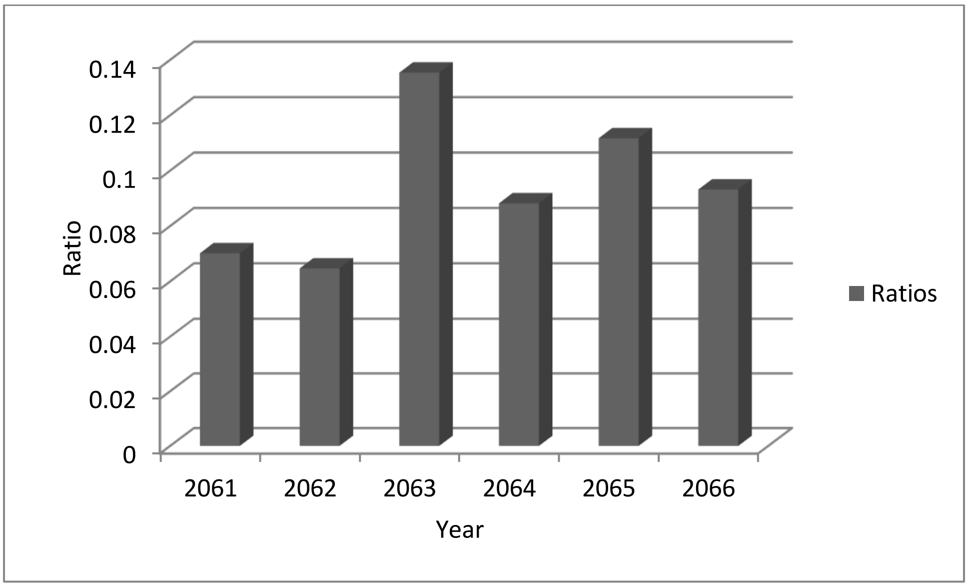
Years	Ratios	Mean of Ratio ($\overline{X}$)	Standard Deviation(δ)	Coefficient of Variance (C.V)
2061	0.0702	0.0901	0.0321	35.63%
2062	0.0647			
2063	0.1354			
Total	**0.2703**	**0.091**	**0.0321**	**35.63%**
2064	0.0882	0.0995	0.0105	10.55%
2065	0.1117			
2066	0.0932			
Total	**0.2982**	**0.0995**	**0.0105**	**10.55%**

Source: Appendix No. 14

It is also represented by the bar diagram figure in below:

Figure 4.13

Interest Earned to Total Assets Ratio



The above table no. 4.27 and figure no. 4.13 shows the interest earned to total assets ratio of the two study period of NBBL were in fluctuating trends. The ratios of first study period range from minimum ratio of 0.0647 in 2062 to the maximum ratio of 0.1354 in 2063. The ratios of second study period range between minimum ratio of 0.0882 in 2064 to the maximum ratio of 0.1117 in 2065.

The mean ratio of first study period and second study period were 0.0901 and 0.0995 respectively. The above statement indicates that NBBL had better performance in second study period in utilizing total assets to earn higher interest comparison to first study period.

As far as consistency level, NBBL was successful in second study period in maintaining consistency in mobilizing total assets to earn interest even though it had low success rate than first study period. This is shown by lowest C.V. 10.55%. First study period had C.V. 35.63%.

Return on Loan and Advance

This ratio shows percentage of net profit on loan and advance. Net profit is generated mainly from interest income deducting expenses on it. If loan and advances are utilized properly, the interest income will be increased and net profit will also increase. High ratio indicates high efficiency of lending policy and vice-versa. It has been calculated by NPAT to loan and advance. It is shown in following table 4.28.

Table 4.28

Return on Loan and Advance

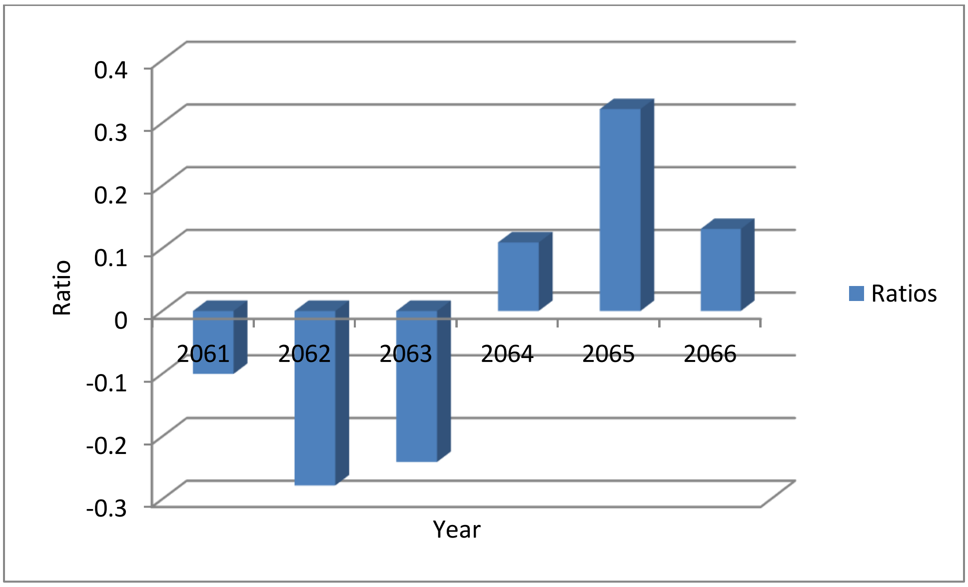
Years	Ratios	Mean of Ratio ($\overline{X}$)	Standard Deviation(δ)	Coefficient of Variance (C.V)
2061	-0.1004	-0.2064	0.077	-37.31%
2062	-0.2782			
2063	-0.2407			
Total	**-0.6193**	**-0.2064**	**0.077**	**-37.31%**
2064	0.1093	0.1873	0.096	51.25%
2065	0.3219			
2066	0.1308			
Total	**0.562**	**0.1873**	**0.096**	**51.25%**

Source: Appendix No. 15

It is also represented by the bar diagram figure in below:

Figure 4.14

Returns on Loan and Advance



The above table no. 4.28 and figure no. 4.14 shows the return on loan and advances ratios of two study period of NBBL. In first study period ratios were in negative and in fluctuating trend ranges from maximum ratio of (0.1004) in 2061 to minimum ratio of (0.2782) in 2062. The fluctuating and negative trend of the ratio reveals that the bank was not utilizing its loan and advances in order to earn profit. The ratios in second study period were in fluctuating trends ranges from minimum ratio of 0.1093 in 2064 to the maximum ratio of 0.3219 in 2065.

The mean ratio of first study period was (0.2064) and that of second study period was 0.1873. The above analysis helps to conclude that return on loan and advances of second study period was better than that first study period of NBBL.

As far as consistency level. NBBL was successful in maintaining consistency in first study period which is indicated by lowest C.V. (37.31) %. Second study period had C.V. 51.25%.

Interest Income to Interest Expenses Ratio

The ratio of interest income to interest expenses measures the gap between interest rate offered and interest rate charged. Since NRB has restricted the gap between the interest offered and interest charged, in average, should not be more than 5%, the difference in this ratio is mainly caused the ratio of fund mobilized and fund collected. The credit creation power of commercial banks has high impact on this ratio. This ratio can be computed dividing interest income by interest expenses.

Table 4.29

Interest Income to Interest Expenses Ratio

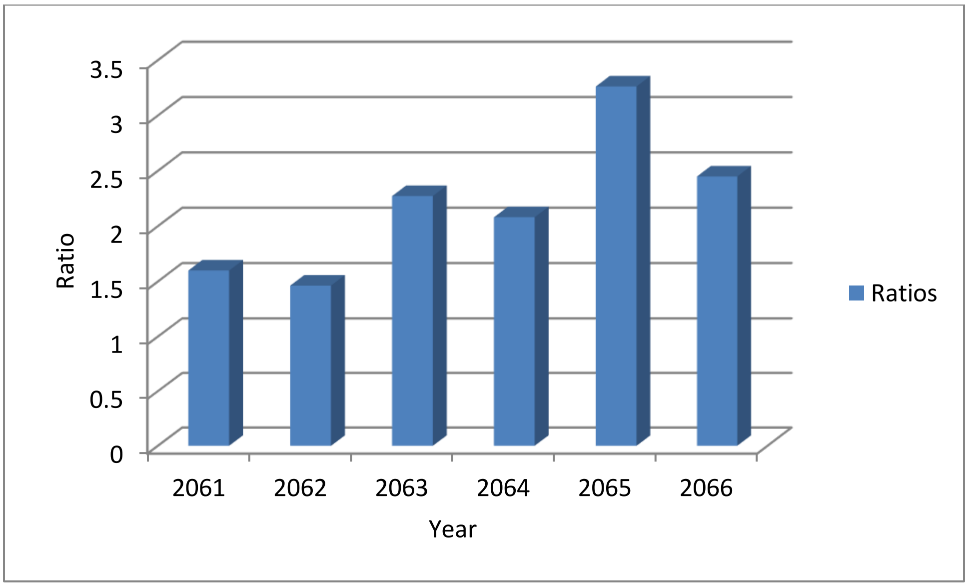
Years	Ratios	Mean of Ratio ($\overline{X}$)	Standard Deviation(δ)	Coefficient of Variance (C.V)
2061	1.5996	1.7784	0.3537	19.9%
2062	1.4633			
2063	2.2724			
Total	**5.3353**	**1.7784**	**0.3537**	**19.9%**
2064	2.0811	2.5977	0.494	19.07%
2065	3.2631			
2066	2.4489			
Total	**7.7931**	**2.5977**	**0.494**	**19.07%**

Source: Appendix No. 16

It is also represented by the bar diagram figure in below:

Figure 4.15

Interest Incomes to Interest Expenses



The above table no. 4.29 and figure no. 4.15 shows the interest income to interest expenses ratio of NBBL in both study period were in fluctuating trend. In first study period the range from minimum ratio of 1.4633 in 2062 to maximum ratio of 2.2724 in 2063. In the second study period the ratio was range from minimum ratio of 2.0811 in 2064 to maximum ratio of 3.2631 in 2065.

The mean ratio of first study period was 1.7784 and that of second study period was 2.5977. The above analysis helps to conclude that the interest income to interest expense ratio of NBBL in second study period was better than that of first study period. This implies that either in second study period NBBL was using the outsiders fund properly on the income generating activities or the fund of the bank was using relatively less costly than that of in first study period. Higher mean ratio also indicates that second study period had high degree of gap between interest offered and interest charged.

As far as consistency level. NBBL was successful in maintaining consistency with interest income and interest expenses in second study period even though it had low success rate than first study period. This is shown by lowest C.V 19.07%.

e. Earning Performance Ratio

Earning Per Share

Earning per share measures the amount profit that a unit of share receives. The amount of earning per share shows the performance of an organization and plays key role in the fluctuation of market price of share. This ratio is computed dividing total profit by total number of outstanding shares.

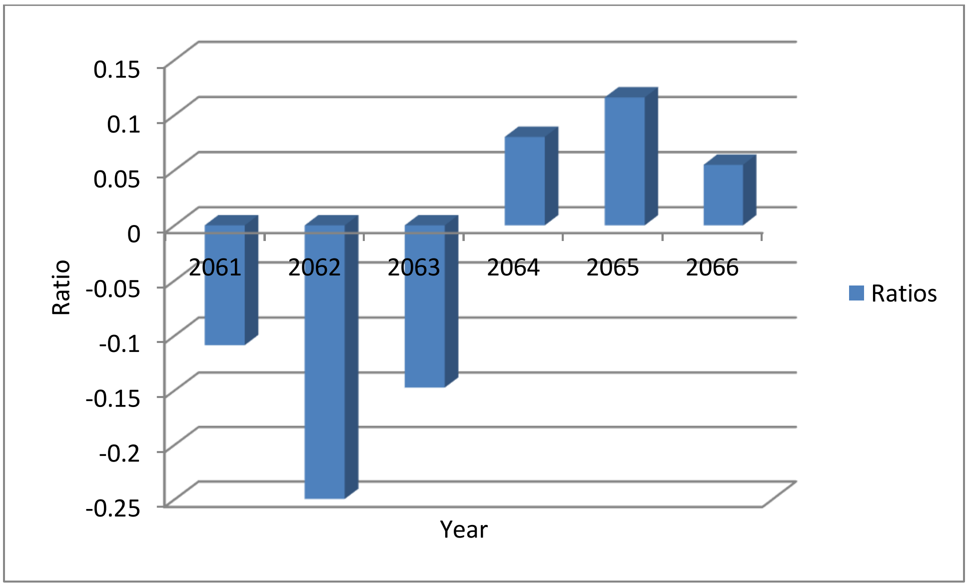
Table 4.30
Earning Per Share

Years	Ratios	Mean of Ratio ($\overline{X}$)	Standard Deviation (δ)	Coefficient of Variance (C.V)
2061	-0.1086	-0.1685	0.0597	-35.43%
2062	-0.2496			
2063	-0.1474			
Total	**-0.5056**	**-0.1685**	**0.0597**	**-35.43%**
2064	0.0802	0.0837	0.0246	29.39%
2065	0.116			
2066	0.0549			
Total	**0.2511**	**0.0837**	**0.0246**	**29.39%**

Source: Appendix No. 17

It is also represented by the bar diagram figure in below

Figure 4.16
Earning Per Share



The above table no. 4.30 and figure no. 4.16 shows that the earning per share of two study period of NBBL was in fluctuating trend ranges. In first study period, ratios are ranges from maximum ratio of (0.1086) in 2061 to the minimum ratio of (0.2496) in 2062. In second study period the ratios are ranges from maximum ratio of 0.116 in 2065 to minimum ratio of 0.0802 in 2065. Net profit after tax of the NBBL in first study period was in negative. Thus earning per share (EPS) was also in negative but in second study period it was in positive and in fluctuating trend so the EPS was in fluctuating trend. It shows that that the NBBL increased its performance in second study period as better as it generating income.

The mean ratio of NBBL was (0.1685) and 0.0837 in first and second study period respectively. It shows that NBBL was poor in earn more profit on per share basis. It also indicates that the profitability available to each shareholder out of total earning was negative in first study period but it improve its activity in second study period.

On the basis of C.V. it seems that NBBL was more consistent in first study period which was indicated by lower C.V. (35.43) %.

Analysis of Non Performing Assets (NPA)

NBBL was suffered from the high level of NPA problems few years ago. In order to strengthen the credit operations and enhance risk skills, the bank is controlled by the skilled management team, credit functions have been strengthen now-a days. The management has been given targets to lower down the level of NPA and recover/ restructure the problem loans. Due to these efforts made by these management teams, the level of NPA in NBB Lis decreasing and it will be zero now. The following table reflects the NPA position of the NBBL.

Table 4.31

Non Performing Assets

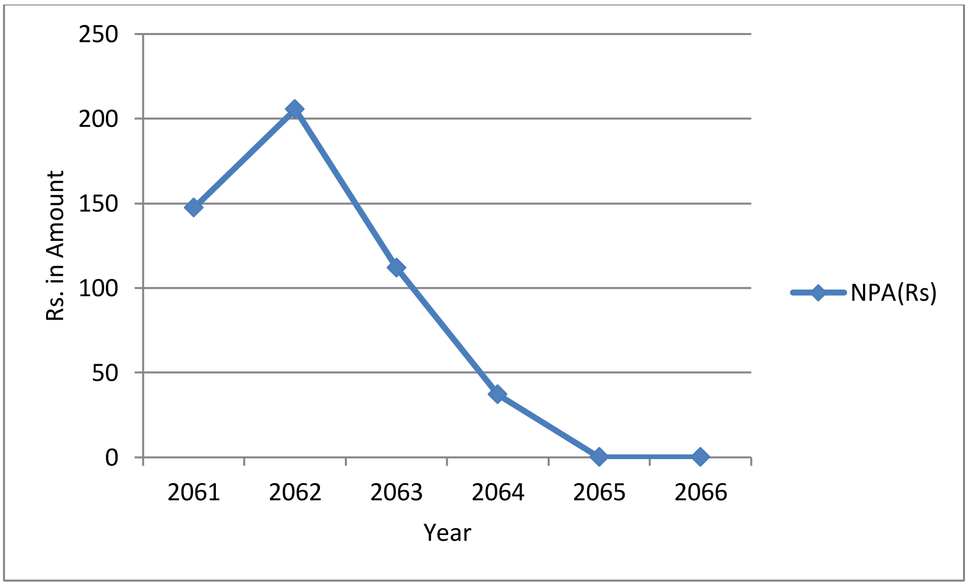
Year	Total Loan and Advances	NPA(Rs)	NPA%
2061	7787.69	147.355	1.89%
2062	6460.25	205.465	3.18%
2063	4409.01	111.92	2.54%
2064	5457.81	37.086	0.68%
2065	6704.94	0	0%
2066	7809.544	0	0%

Source: Financial Report of NBBL

It is also represented by the bar diagram figure in below:

Figure 4.17

Analysis of NPA



Above table 4.31 and figure no. 4.17 shows the NPA status of the NBB. It shows that in first study period it was fluctuating, because it was increase in second year and decrease in second year. But in second study period it was downward and reached to zero. However, there are various constraints in the recovery and other problems associated with the economic and non-economic factors, but the management team has been able to recover the 205.465 million during the 4 years. It has been observed that the recovery made by the management team has come from high level of 205.465 m to zero size NPA.

4.2.2 Growth Ratio

Growth ratio represents how well the banks are maintaining their economic and financial position. This ratio can be computed subtracting previous year's figure from the current year figure and than dividing that by previous year's figure.

4.2.2.1 Growth Ratio of Total Deposit

Table 4.32

Growth Ratio of Total Deposit

Year	Total Deposit	Ratios
2061	12125.57	-
2062	13015.14	7.34%
2023	9385.95	(27.88%)
2064	10883.65	15.96%
2065	9997.7	(8.14)%
2066	10052.18	0.55%

Source: Financial Report of NBBL

The above table no. 4.32 shows the growth ratios of NBBL were 7.34%, (27.88)%, 15.96%, (8.14)%,0.55% in the respective study period from second to the sixth. The growth ratios analysis of total deposits of NBBL bank was in fluctuating trend. The growth ratio of NBBL has decreased in third and fifth study period i.e. (27.88 % and 8.14%) and maximum increment in 2064 which was 15.96%.

4.2.2.2 Growth Ratio of Loan & Advances

Table 4.33

Growth Ratio of Loan & Advances (L&D)

Year	Loan & Advances	Ratios
2061	7787.69	-
2062	6460.25	(17.04%)
2023	4409.01	(31.75%)
2064	5457.81	23.79%
2065	6704.94	22.85%
2066	7809.54	16.47%

Source: Financial Report of NBBL

The above table no. 4.33 shows the growth ratio loan and advance of NBBL were (17.04)%, (31.75)%, 23.79%, 22.85% and 16.47% in the respective study period from second to the sixth. The growth ratio of loan and advances of NBBL were in decreasing trend in second and third study period. In fourth to sixth year of study period it was increased but loan and advance was increased was less in fifth year and sixth year (i.e 22.85% and 16.47%) as compare with fourth year(i.e 23.79%). The maximum incremental of loan and advance was in 2064 which was 23.79%.

4.2.2.3 Growth Ratio of Investment

Table 4.34

Growth Ratio of Investment

Year	Total Investment	Ratios
2061	2411.72	-
2062	2661.83	10.37%
2063	1034.56	(61.13%)
2064	1389.9	34.35%
2065	2222.43	60%
2066	2112.75	(4.94%)

Source: Financial Report of NBBL

The above table no. 4.34 shows the growth ratios of NBBL were 10.37%, (61.13)%, 34.35%, 60%, and (4.94%) in the second to sixth study period respectively. Increment of investment was highly decreased in year 2063 by 61.13%. But from year 2064 it starts to increase. The NBBL had highest increment in investment in fifth year of study period which was 60%. It shows that the NBBL was changed its investment policy and increase in investment to make high profit and get the goal of the organization. But in 2066 growth ratio of investment was slightly decrease (i.e. 4.94%).

4.2.2.4 Growth Ratio of Net Profit

Table 4.35

Growth Ratio of Net Profit

Year	Total Net Profit	Ratios
2061	(781.93)	-
2062	(1797.16)	(129.83%)
2023	(1061.58)	40.93%
2064	596.48	156.19%
2065	2158.1	261.81%
2066	1021.38	(52.67%)

Source: Financial Report of NBBL

The above table no. 4.35 shows the growth ratio of NBBL were (129.83)%, 40.93%, 156.19%, 261.81% and (52.67%) in the respective study period from second to sixth. The net profits of NBBL were negative in second year and sixth year of the study period and positive in third to fifth year. Total net profit was negative in second year of the study period but it was start to be positive and increase from third year. Net profit growth rate was high in 2065(i.e. 261.81%).

4.2.3 Income and Expenditure Analysis

Income and expenditure are the main indicators of the financial performance of any business organization. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. Using income and expenditure analysis major sources of income and expenses are evaluated. This helps the analyst to conduct the areas to be focused for the investment and the possibilities for effective control over expenses.

4.2.3.1 Income Analysis

Table 4.36

Income Analysis

Particular / Year	Interest Income	Commission & Discount	Exchange Income	Other Income
2061	80.92%	8.59%	3.66%	6.83%
2065	79.37%	8.93%	6.7%	5%
2063	80.11%	6.95%	3.34%	9.6%
2064	68.2%	8.67%	7.42%	15.71%
2065	80.30%	7.35%	4.84%	7.51%
2066	82.58%	10.3%	3.52%	3.6%

Source: Financial Report of NBBL

Interest Income

Interest income is the main source of commercial banks. These banks charge interest on loans and advance provided by them. Interest income also includes interest earned from investment in government securities, interest on balance with others banks, money at call and inter bank lending.

The above table no. 4.36 shows that interest income of NBBL were 80.92%, 79.37%, 80.11%, 68.2%, 80.30% and 82.58% in the respective year of the study period. It seems that interest income of NBBL was in fluctuating trend. It also shows that in NBBL interest income occupied the large portion in the total income of the bank. The highest rate of income from interest received indicates the better operating efficiency of bank.

Commission and Discount

Banks provide remittance facility, purchase and discount of bills exchange, letter of credit, guarantees, standing instructions, agency functions for which they charge in form of commission and discount. So if bank get more income on commission and discount it means that the bank was become success in providing effective service in competitive market.

The above table no. 4.36 shows that the commission and discount earned by NBBL in the respective year of the study remained 8.59%, 8.93%, 6.95%, 8.67%, 7.35% and 10.3% respectively. It shows that bank serve its service effectively that's why it became able to earn from commission and discount.

Exchange Income

Transaction of foreign currency is one of the major functions of commercial bank. Commercial banks can purchase and sell foreign currencies under the NRB direction. It includes trading gain due to fluctuating in the exchange rate. The above table no. 4.36 shows that exchange incomes of NBBL were 3.66%, 6.70%, 3.34%, 7.42%, 4.84% and 3.52% of total income in the respective year of the period study. NBBL had highest income from exchange of 7.420% in 2064 and lowest exchange of 3.34% in 2063.

Other Income

Income other than above comes under other incomes. Other income of banks includes safe deposit vault rental income, Telex/ T.T charges and other services. The above table no. 4.36 shows that other income of NBBL were 6.83%, 5% ,9.6%, 15.7%, 7.51% and 3.6% of total income in the respective year of the study period. NBBL had highest percentage of other income in 2064and lowest in 2066.

4.2.3.2 Expenditure Analysis

Various expenses are borne by banks in course of granting services to its customers. Banks need to pay interest for the deposits and borrowings. It has to pay salaries and provide other facilities to its staffs. It also has to spend significant amount for day to day operation.

Table 4.37

Expenditure Analysis

Particular / Year	Interest Expenses	Staff Expenses	Overhead Expenses	Bonus Expenses
2061	68.05%	11.91%	20.04%	0
2065	66.54%	18.06%	15.4%	0
2063	65.58%	17.08%	17.34%	0
2064	54%	19.11%	16.54%	10.35%
2065	45.03%	15.2%	13.55%	26.21%
2066	54.63%	16.8%	14.75%	13.81%

Source: Financial Report of NBBL

Interest Expenses

Commercial banks pay interest on various types of deposits and loan taken from other banks and financial institution. It is the major part of the bank's expenses.

The above table no. 4.37 shows that the interest expenses of NBBL were 68.05%, 66.54%, 65.58%, 54%, 45.03% and 54.63% of total expenses in respective study period. The high rate of expense in interest indicates that the bank has collected more deposits. Thus, interest expenses were in decreasing trend up to forth year of the study period and increase in fifth year of the study period as well as their percentage with respect to total expenses was in decreasing trend. So it indicates that the collection of deposit of bank was decreasing every year but it was increase in sixth year.

Staff Expenses

In return of the services provided by the staff they need to be paid remuneration. Staff expenses include salary, allowances, PF contributions, training expenses, uniform, medical allowances, insurance, gratuity, dashain allowances and leave encashment.

The above table no. 4.37 shows that the staff expenses of NBBL were 11.91%, 18.07%, 17.08%, 19.11%, 15.21%, and16.8% of total expenses in respective study period. The staff expenses of NBBL were in fluctuating trend as well as their percentage in total expenses. NBBL had highest staff expenses with respect to total expenses in 2064 with 18.07% and lowest in 2061 with 11.91%.

Overhead Expenses

Considerable amount is spent in routine work of bank. Operating expenses includes expenses such as rent, water and electricity, repair and maintenance, insurance premium, postage, telephone, telex, office equipment, traveling expenses, painting and stationary, newspaper, advertisement, meeting expenses, deprecation, amortization, security, etc.

The above table no. 4.37 shows that the overhead expenses of NBBL were 20.04%, 15.40%, 17.34%, 16.54%, 13.55% and 14.75% of total expenses in respective study period. The overhead expenses of NBBL were in fluctuating trend at study period as well as their percentage with respect to total expenses.
NBBL had highest overhead expenses with respect to total expense in 2061 with 20.04% and lowest in 2065 with 13.55%.

Bonus Facility

Banks par a portion of profit to the staff as bonus which is reward for their services. It motivates the staff but it also increases the expenses of the bank.

The above table no. 37 shows that bonus facilities of NBBL were 10.35%, 26.21% and 13.81% of total expenses in the last three respective years. In the first three years of the study period NBBL did not provide bonus facilities, it is because the banks provide the bonus facility only when bank will be able to get profit. NBBL had highest bonus facilities with respect to total expenses in 2065 with 26.21%.

4.2.4 Statistical Analysis

4.2.4.1 Trend Analysis

In this portion of study trend of total deposit, loan and advance, investment and net profit are found out and forecast for next six years.

Trend Analysis of Total Deposit

Deposits are the main source of fund which is mobilized on loan and advance and investment. Deposits are collected from general public and provided loans to the general public as well. If deposits are utilized properly it will increase the profit of the bank. This analysis helps to find out trend of deposit. Its trend is determined by various factors. Under this chapter an effort has been made to calculate the trend values of deposit of NBBL from 2061 to 2066 and forecast for the next six years till 2072.

Deposit = Y

Time (year) = x

Using least square equation,

Yc=10910.03+ (-512.046)X

According to this equation trend of deposit indicated that deposits (y) are decreasing every year by Rs. 512.046 million in average. Any change on time in year (x) period will change or decrease the deposit by Rs. 512.046 million. The trend of deposit of NBBL was presented on the table below:

Table 4.38

Trend Analysis of Total Deposit

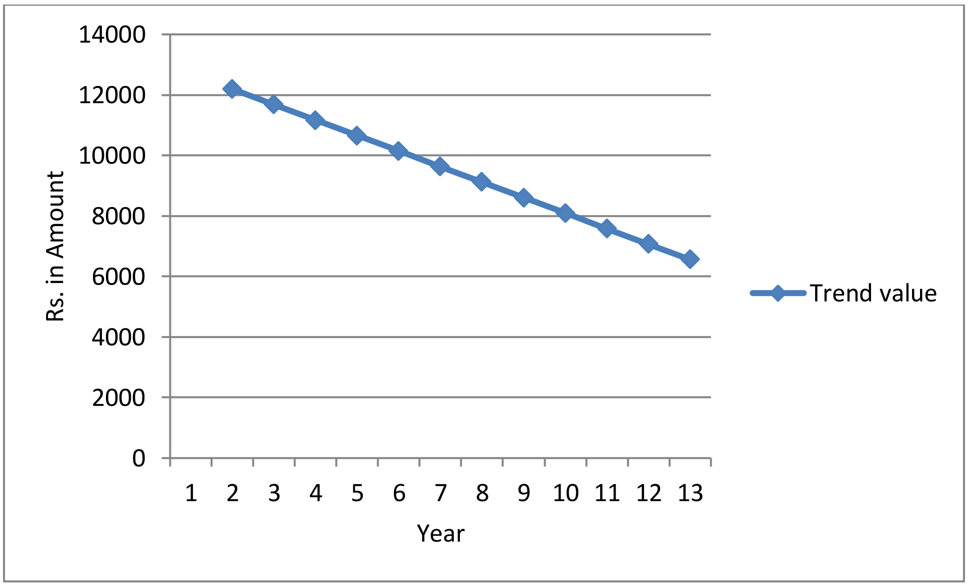
Year	Trend value(Yc= a+bX) Yc=10910.03+(-512.046)X
2061	12190.1443
2062	11678.0986
2063	11166.0529
2064	10654.0071
2065	10141.9614
2066	9629.91571
2067	9117.87
2068	8605.82429
2069	8093.77857
2070	7581.73286
2071	7069.68714
2072	6557.64143

Source: Appendix No. 18

This table was shown as figure below:

Figure 4.18

Trend of Total Deposit



The above table no. 4.38 and figure no. 4.18 shows that the total deposits of sample bank were in a decreasing trend. Other things remaining the same total deposits of NBBL will be Rs. 12190.1443 million, which is the highest under the study period. This trend shows that the total deposit amount of the NBBL was decreasing every year by Rs. 512.046 million. This trend shows that deposit trend of the NBBL was not in good condition because the most of facilities that bank give to customer was depend on the deposit. Thus bank has to increase its activity for the increase the deposit amount.

Trend Analysis of Total Investment

Investments are also the sector of utilizing the collected fund. This analysis shows the trend of investment and the relationship between time period and total investment.

Total Investment = Y

Time (year) =X

By using least square method,

Yc= 1972.2+(-70.22)X

According to this analysis, investments are decreasing every year by Rs.(70.22) million in average. Any change on time period (x) will change or decreases the total investment (y) by Rs.(70.22) million. This ratio shows that investment (y) will be decrease if time period (x year) increase. The trend of total investment of the NBBL was presented as table below

Table 4.39

Trend Analysis of Total Investment

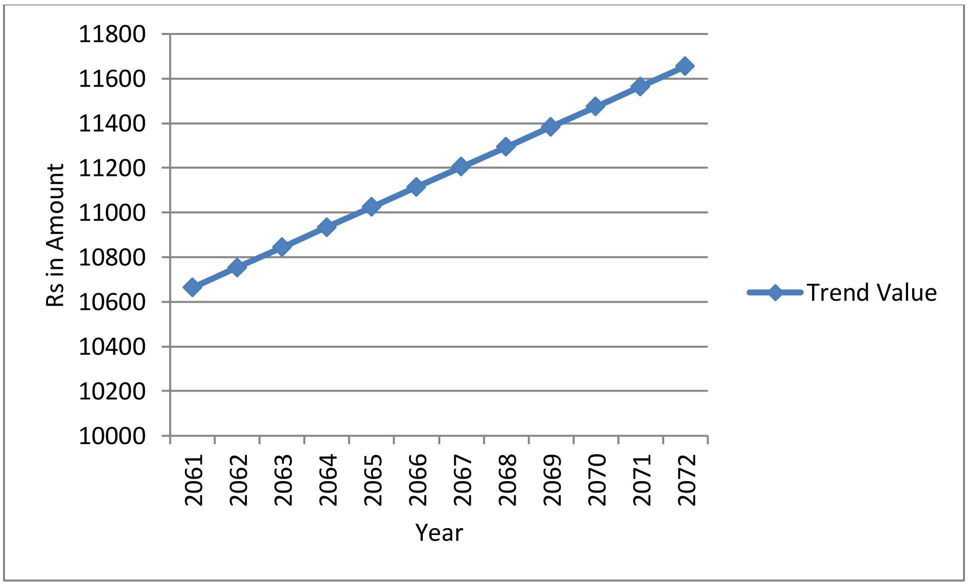
Year	Trend value(Yc= a+bX) Yc= 1972.2+(-70.22)X
2061	2147.74905
2062	2077.52876
2063	2007.30848
2064	1937.08819
2065	1866.8679
2066	1796.64762
2067	1726.42733
2068	1656.20705
2069	1585.98676
2070	1515.76648
2071	1445.54619
2072	1375.3259

Source: Appendix No.19

This table was shown as figure below:

Figure 4.19

Trend of Total Investment



The above table no. 4.39 and figure no. 4.19 shows that the total investment of sample bank were in an increasing trend. Other things remaining the same total investment of NBBL will be Rs. 2174.75 million, which is the highest investment fund and Rs. 1375.33 million was the lowest investment fund under the study period. This trend shows that the total investment fund of the NBBL was decreasing every year by Rs. 70.22 million. If bank increase in investment it will be able to get more interest from that, which increases the profit amount of the bank. The trend of the investment of NBBL was in decreasing trend which that, if we compare with other bank in the market NBBL was a weakest bank.

Trend Analysis of Loan and Advance

Loan and advance are the main sector of mobilizing collected deposit. Increase in loan and advance may increase on return from them. This analysis helps to find out trend of loan and advances.

Loan and Advanced =Y

Time in year =X

By using least square method,

Yc= 6438.21+54.06X

Trend analysis shows that loan and advances (y) are increasing every year by Rs. 54.06 million in average. Any change is year or time (x) will change loan and advance (y) by Rs. 54.06 million. The trend of loan and advance of NBBL was presented as table below.

Table 4.40

Trend Analysis of Loan and Advance

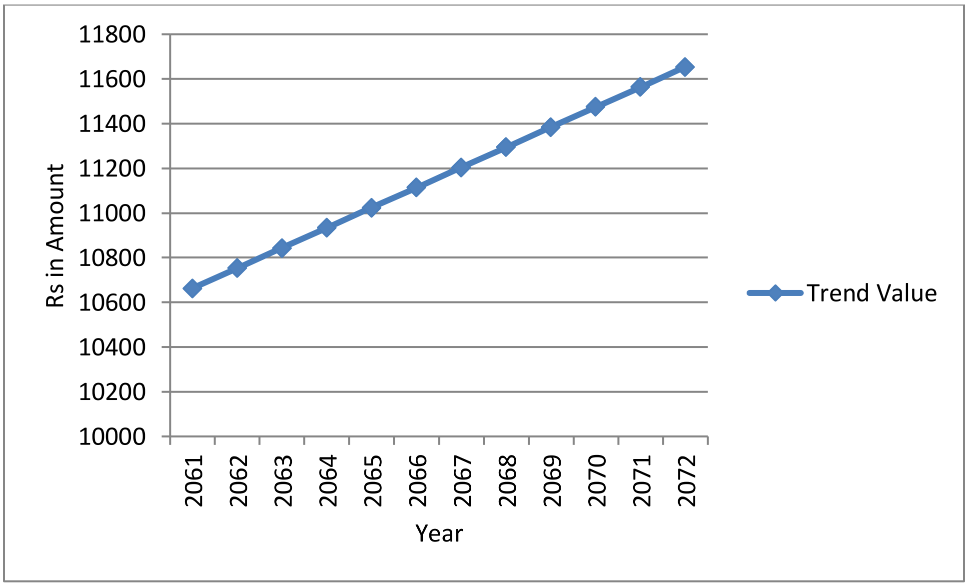
Year	Trend value(Yc= a+bX) Yc= 6438.21+54.06X
2061	6303.05524
2062	6357.11581
2063	6411.17638
2064	6465.23695
2065	6519.29752
2066	6573.3581
2067	6627.41867
2068	6681.47924
2069	6735.53981
2070	6789.60038
2071	6843.66095
2072	6897.72152

Source: Appendix No. 20

This table of trend of loan and advance was shown as a figure below.

Figure 4.20

Trend of Loan and Advance



The above table no. 4.40 and figure no. 4.20 shows that the total loan and advance of sample bank were in a decreasing trend. Other things remaining the same total loan and advance of NBBL will be Rs. 6897.72 million, which is the highest loan and advance amount and Rs. 6303.06 million was the lowest loan and advance amount under the study period. This trend shows that the total loan and advance amount of the NBBL was increasing every year by Rs. 54.06 million. Interest income of the bank was the main source of the bank but the loan and advance of the bank was increasing every year. Thus, it was good for the bank.

Trend Analysis of Total Assets

Trend analysis of total assets shows the trend of increase or decrease in these assets with the changes in time (year). It also shows the relationship between these total assets and year. Total assets include all types of assets.

Total assets =Y

Time in year = X

By using least square method,

$Y_c = 10888.65 + 90.11X$

According to this analysis, total assets (y) are increasing every year by Rs. 90.11 million. Any change in time (x) or year will change total assets at that rate of Rs. 90.11 million. The trend of total assets of the NBBL was presented as a table below.

Table 4.41

Trend Analysis of Total Assets

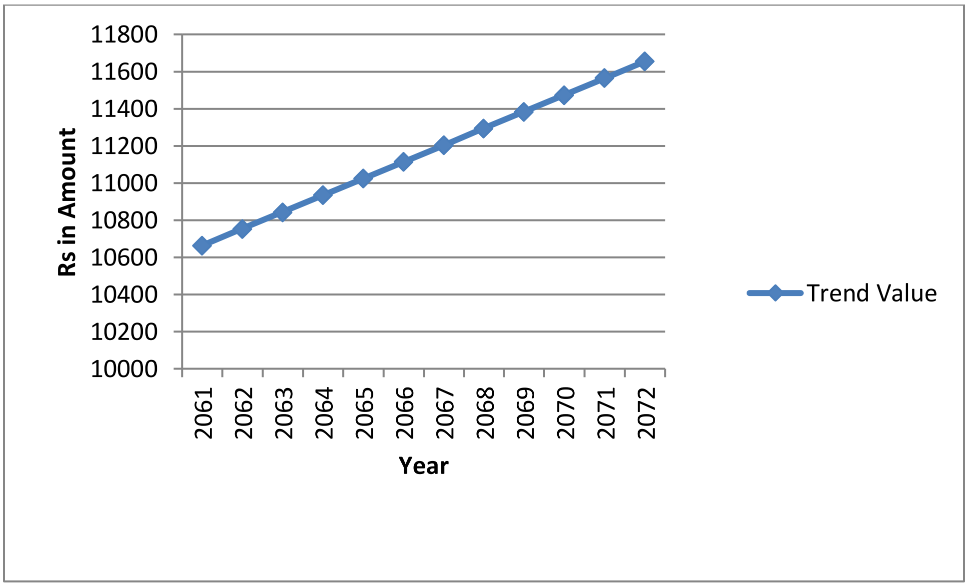
Year	Trend value(Yc= a+bX) Yc= 10888.56+90.11X
2061	10663.3757
2062	10753.4854
2063	10843.5951
2064	10933.7049
2065	11023.8146
2066	11113.9243
2067	11204.034
2068	11294.1437
2069	11384.2534
2070	11474.3631
2071	11564.4729
2072	11654.5826

Source: Appendix No. 21

The table of trend of total assets was presented as figure below.

Figure 4.21

Trend of Total Assets



The above table no. 4.41 and figure no. 4.21 shows that the total asset of sample bank were in an decreasing trend. Other things remaining the same total asset of NBBL will be Rs. 11654.58 million, which is the highest total asset amount and Rs. 10663.38 million was the lowest total assets amount under the study period. This trend shows that the total assets amount of the NBBL was increasing every year by Rs. 90.11 million.

Trend Analysis of Total Income

Total income includes interest income and non interest income. Trend analysis is done to analysis the increasing or decreasing trend of income with change in time period.

Total Income = Y

Time in year = X

By using least square equation method,

Yc= 1259.63+107.75X

According to the above equation total income (y) increase each year with increase in year by Rs. 107.75 million in average. Change in time (x) or year will change total income (y) by Rs. 107.75 million. The trend of total income of NBBL was presented as table below.

Table 4.42

Trend Analysis of Total Income

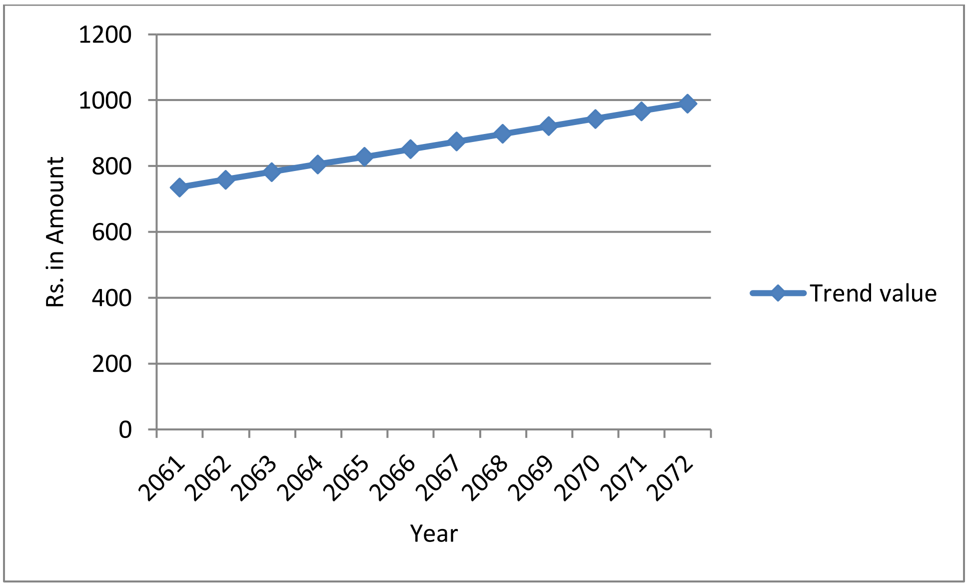
Year	Trend value(Yc= a+bX) Yc= 1259.63+107.75X
2061	990.256667
2062	1098.00467
2063	1205.75267
2064	1313.50067
2065	1421.24867
2066	1528.99667
2067	1636.74467
2068	1744.49267
2069	1852.24067
2070	1959.98867
2071	2067.73667
2072	2175.48467

Source: Appendix No. 22

This table of trend of total income of NBBL was presented as a figure under.

Figure 4.22

Trend of Total Income



The above table no. 4.42 and figure no. 4.22 shows that the total income of sample bank were in an increasing trend. Other things remaining the same total asset of NBBL will be Rs. 2175.48 million, which is the highest total income amount and Rs. 990.26 million was the lowest total income amount under the study period. This trend shows that the total income amount of the NBBL was increasing every year by Rs. 107.72 million.

Trend Analysis of Net Profit after Tax

NPAT plays the vital role in every organization because it is a measuring tool, which measures the efficient utilization of all sources of inputs and effective management. It should be increased each year. Without profit any organization can not run for a long period. This analysis helps to know the relationship profit and change in year and trend of profit.

NPAT =Y

Time in Year =X

Using least square method,

$Y_c = 22.54 + 644.01\ X$

According to this analysis, profit is increasing each year by Rs. 644.01 million in average. Any change in year will change profit by Rs. 644.01million profit has increase trend. The trend of net profit after tax of NBBL was presenter as a table below.

Table 4.43

Trend Analysis of Net Profit after Tax

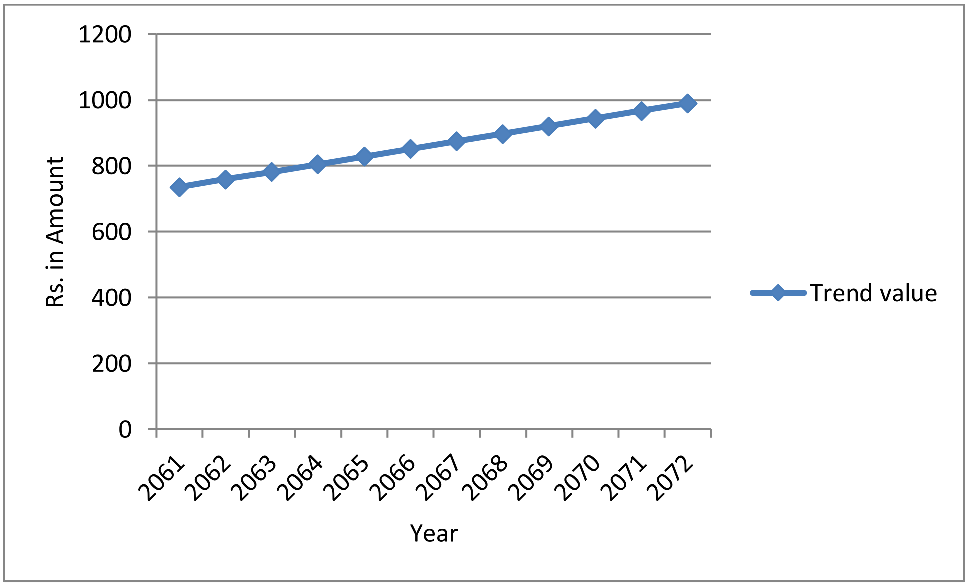
Year	Trend value(Yc= a+bX) Yc= 22.54+644.01X
2061	-1587.4795
2062	-943.46838
2063	-299.45724
2064	344.553905
2065	988.565048
2066	1632.57619
2067	2276.58733
2068	2920.59848
2069	3564.60962
2070	4208.62076
2071	4852.6319
2072	5496.64305

Source: Appendix No. 23

This table of trend of net profit after tax of NBBL was presented as a figure below.

Figure 4.23

Trend of NPAT



The above table no.4. 43 and figure no. 4.23 shows that the net profit after tax of sample bank was in an increasing trend. Other things remaining the same net profit after tax of NBBL will be Rs.5496.64, which is the highest net profit after tax amount and Rs1587.48 million was the lowest net profit after tax amount under the study period. This trend shows that the net profit after tax amount of the NBBL was increasing every year by Rs.644.01 million. This trend shows that the bank has improved its banking activities but it has improve its activity more and introduce new banking products for stay in the competitive market.

Trend Analysis of Total Expenses

Trend analysis of interest expenses shows the increasing or decreasing trend of interest expenses. It also analyses the relationship between changes in year with interest expenses.

Interest expenses = Y

Time in Year = X

Using least square method,

Y=793.77+23.14X

According to the equation, interest expenses increasing each year by Rs.23.14million in average. Any change in year (x) may change y by only Rs.23.14 million. The trend of total expenses of NBBL was presented as table below.

Table 4.44

Trend Analysis of Total Expenses

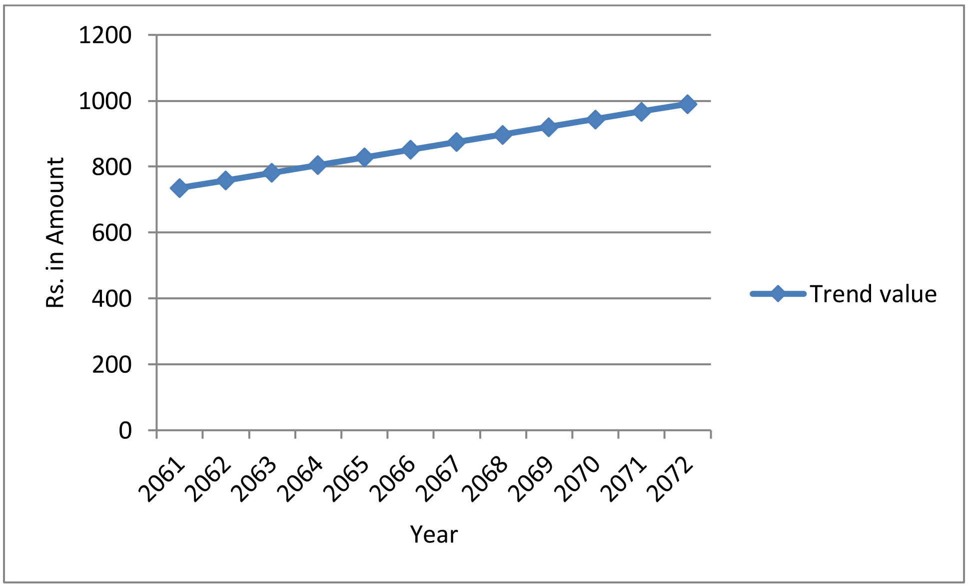
Year	Trend value(Y= a+bX) Y=793.77+23.14X
2061	735.909048
2062	759.052762
2063	782.196476
2064	805.34019
2065	828.483905
2066	851.627619
2067	874.771333
2068	897.915048
2069	921.058762
2070	944.202476
2071	967.34619
2072	990.489905

Source: Appendix No. 24

This table of trend of total expenses of NBBL was presented as figure below.

Figure 4.24

Trend of Total Expenses



The above table no. 4.44 and figure no. 4.24 shows that the total expenses of sample bank were in an increasing trend. Other things remaining the same interest income of NBBL will be Rs.990.5 million, which is the highest interest income amount and Rs735.91 million was the lowest interest income amount under the study period. This trend shows that the interest income amount of the NBBL was increasing every year by Rs.23.14 million.

4.2.4.2 Measuring Correlation Coefficient Between Different Variables

Correlation is the relationship between two or more variables in which one variable is dependent and another variable is independent. It is the statistical tool that uses to describe the degree to which one variable is linearly to other variables. The most widely used in practice for calculating correlation coefficient between two variables is “Karl Pearsons Correlation Co-efficient”. It is denoted by “r”.

Correlation Coefficient between Total Deposit and Investment

Investment is also a major part of banks to mobilize the collected deposits. By investing in different profitable areas like shares and debentures, government securities banks maximize the profit. Therefore it is important to study the relation between the deposit and investment. For this analysis deposit is taken as independent variable (x) and investment (y) is taken as dependent variable. This analysis measures the degree of relationship between these two variables. Besides this, it will justify whether the deposit are significantly used in proper way or not and whether there is any relationship between these two components. The following table exhibits the coefficient of correlation (r) between deposit and total investment.

Table 4.45

Correlation Coefficient between Total Deposit and Investment

Particular	r	r^2	P.Er.	6*P.Er.	Remarks
First study period	0.99	0.9801	0.0078	0.0468	r>6P.Er
Second study period	-0.0997	0.009	0.3855	2.313	r<6P.Er

Source: Appendix No. 25

The correlation of coefficient of all the first study period found to be almost '1' which indicates there was proportion relationship between the deposit and investment for all the study period. While testing 6P.Er. for first study period found to be significant as the 'r'value for first study period of bank were greater than 6P.Er. which implies that there found to be perfect correlation between the deposit and investment. This shows that the in first study period the banks was successful in investing with respect to deposit.. But in second study period it was in negative it show that the relationship between deposit and investment are negative. It shows that the NBBL was change its strategy according to the banking activities. Thus, the relationship between these two variable comes in negative.

Correlation Coefficient between Total Deposit and Loan & Advances

Deposit is the main tool for developing the banking performance of the banks. Like wise loan and advances is the key part to mobilize the collected deposits. The correlation coefficient between deposits and loan and advances measures the degree of relationship between these two variables. For this study, deposit is taken as independent variable (x) and Loan and Advances are dependent variables (y).

Table 4.46

Correlation Coefficient between Total Deposit and Loan & Advances

Particular	r	r^2	P.Er.	6*P.Er.	Remarks
First study period	0.8033	0.6453	0.1381	0.8286	r<6P.Er
Second study period	-0.86	0.7396	0.1014	0.6084	r<6P.Er

Source: Appendix No. 26

The coefficient of correlation for the two study period were 0.8033 and (0.86) of NBBL respectively. Since the values were in positive sign in first study period, it shows the positive relationship between two variables. First study period had coefficient of correlation near to '1' which indicates there was proportion relationship between deposit and loan and advances. While testing 6P.Er. for period found,first study period of NBBL to be insignificant as the 'r' value for the bank was less than 6P.Er. Second study period were in negative sign, it was near to '-1', which indicates that there was no relation between deposit and loan and advance in second study period of the NBBL. While 6P.Er., r is lower than 6P.E.r. Which implies there are negative correlation between the deposits and loan and advance. Thus, study of this two period shows that the loan and advances does not depends upon the deposits and the bank was not successful in mobilizing the deposits to loan and advances efficiently.

Since value of r = 0.8033 in first study period, which is lower than 6PEr 0.8286 the co-efficient of correlation between Total Deposit and Loan and Advance is positive and insignificant. So it is move in same direction. In second study period value of r = (0.86), which is in negative and lower than 6.P.E.r 0.6084 the co-efficient of correlation between Total Deposit and Loan Advance is negative and insignificant. So it move in opposite direction.

Correlation Coefficient between Total Income and Interest Income

Total income shows the income of the bank which it got from the services provided to the customer and bank investment and interest income is the income got from giving loan and advance. Correlation coefficient between Total Income and Interest Income shows the relationship between these two variables. For this study, Total income is taken as independent variable (x) and Interest Income are dependent variables (y).

Table 4.47

Correlation Coefficient between Total Income and Interest Income

Particular	r	r^2	P.Er.	6*P.Er.	Remarks
First study period	0.99	0.9801	0.0078	0.0468	r>6P.Er
Second study period	0.98	0.9604	0.0154	0.0924	r>6P.Er

Source: Appendix No.27

The coefficient of correlation for the two study period were 0.99 and 0.98 of NBBL respectively. Since the values were in positive sign in both study period, it shows the positive relationship between two variables. Both study period had coefficient of correlation near to ‘1’ which indicates there was proportion relationship between Total Income and Interest Income. While testing 6P.Er. for period found, both period of NBBL to be significant as the ‘r’ value for the bank was greater than 6P.Er. Which implies there are positive correlation between the Total Income and Interest Income. Thus, study of this two period shows that the most of the total income was positively corelated with the interest income.

Since value of r was 0.99 and 0.98 in first and second study period respectively. It shows that the value of r was less in second study period by 0.01, which means that total income of NBBL was more depended in interest income in first study period as compare to the second study period.

Correlation Coefficient NPAT and Loan and Advance

Correlation coefficient NPAT and Loan and Advance shows the relationship between these two variables. For this study, Total income is taken as independent variable (x) and Interest Expenses are dependent variables (y).

Table 4.48

Correlation Coefficient between NPAT and Loan and Advance

Particular	r	r^2	P.Er.	6*P.Er.	Remarks
First study period	0.1455	0.0212	0.3812	2.2872	r<6P.Er
Second study period	0.2967	0.088	0.3551	2.1306	r<6P.Er

Source: Appendix No. 28

Since value of r was 0.1455 and 0.2967 in first and second study period respectively. Which is lower than 6.P.E.r in both study period. Thus, co-efficient of correlation between NPAT and Loan and Advance is positive but insignificant. So it is move in same direction.

Since Co-efficient of determinates (r^2) was 0.0212 and 0.088 in first and second study period respectively. Which seems that Loan and Advance explain only 2.12% and 8.8% of variation of NPAT. From this analysis, if NPAT is increase than Loan and Advance will increase and vice versa (Appendix 28).

4.3 Major Findings from the Secondary Analysis

The main findings of the study are carried out on the basis of the analysis of financial data of banks which are as follows:

Findings from the Liquidity Ratio

- During the two study period of NBBL , the current ratio of first study period found to be in decreasing trend and second study period found to increasing trend respectively. Among study period of NBBL, the current ratios of second study period dominate the respective current liabilities, which indicates that NBBL was capable in paying the current obligation in second study period as compare to first study period.

- The cash and bank balance of total deposit of two study period NBBL were in a fluctuating trend in both. But mean value of ratio of second study period was hieher than first study period, which shows NBBL was in better position to maintain the cash and bank balance ratio in second study period.
- The cash and bank balance to current assets ratio of NBBL in first study period were in increasing trend and that of second study period were in fluctuating trend, first study period had a lowest mean ratio which mean it may have invested more fund in the productive sector. The ratios of two study period of NBBL banks were more variable and less consistent.

Findings from the Leverage Ratio

- Debt- assets ratios first study period of NBBL were in increasing trend and that of second study period were in decreasing trend. Debt-assets ratio of first study period was highest among the two study period. Where as in second study period NBBL had more consistences in maintaining the ratio.
- Debt-equity ratios of both study period of NBBL were in fluctuating trend. NBBL was able to maintain the debt-equity ratio in first study period than second study period.
- Interest coverage ratios of NBBL in both study period were in fluctuating trend. NBBL have negative ratios in first study period and lower ratios in second study period, which indicates that there was excessive use of debt for which interest was to be paid.

Findings from the Activity Ratio

- The loan and advance to total deposit ratios of NBBL in first study period were in decreasing trend and that of second study period were in increasing trend. The analysis indicated that the bank had satisfactorily invested on loan and advances in second study period.

- The loan and advances to total working funds ratios of NBBL in both study period were in fluctuating trend. The analysis indicated that both study period of banks had taken optimum risk towards risky assets. Both study period of banks were successful to mobilize their funds as loan and advances with respect to total assets.
- The investment to total deposits ratios of NBBL in both study period were in fluctuating trend. The ratios were less consistent and more variable. The analysis indicated that banks had unsatisfactory level of investmentsin different sector.

Findings from Profitability Ratios

- Return on total assets ratios of NBB in first study period were in negative and fluctuating trend. Among two study period of NBBL, second study period found to be best since it had higher mean. The analysis indicat that the fund mobilization of the both study periods were unsatisfactory as well as unstable.
- Return on total deposits ratios of NBBL in first study period were in negative and decreasing trend and that of second study period were in positive and fluctuating trend. Among them, second study period found to be best since it had higher mean ratio. The analysis indicated that the bank was unable to invest their total deposits in profitable sector.
- Return on total investment ratios of NBBL in first study period were in negative and decreasing trend and that of second study period were in positive and fluctuating trend. Among them, second study period found to be best since it had higher mean ratio. The analysis indicated that the bank was unable to invest their total deposits in profitable sector.
- The interest earned to total assets ratios of NBBL in both study period were in fluctuating trend. The analysis indicated that the NBBL had not utilized their assets effectively for generating income.

- The returns on loan and advances ratios of NBBL in first study period were in negative and fluctuating trend and that of second study period were in positive and fluctuating trend. The analysis indicated that the earning capacity of loan and advances of NBBL in second study period were higher as compare with first study period but it was unsatisfactory in an average.
- The interest income to interest expenses ratios of NBBL in both study period were in fluctuating trend. But mean ratios of second study period were highest than first study period.

Findings from the Earning Performance Ratio

- The EPS of NBBL in first study period were in negative and insecond study period were in positive and fluctuating trend . Positive in second study period indicates that in second study period NBBL done better performance in generating income.

Findings from the Growth Ratios

- The growth ratio of the total deposits of NBBL was in fluctuating trend. Maximum increment in deposit was in 2064 which was 15.96%.
- The growth ratios of loan & advances of NBBL were in negative in year 2062 and 2063 and in positive in year 2064,2065 and 2066.
- The growth ratios of investment of NBBL were in fluctuating trend. NBBL had maximum increment in 2065 which was 60%. It shows that the NBBL was increased its investment activities in second study period.
- The growth ratios of net profit after tax of NBBL was in negative in 2062 but it starts to be positive from 2063. NBBL had highest increment in 2065, which is 261.81%.

Findings from the NPA

- From the analysis of NPA of NBBL, it was found that level of NPA was highest in the first study period of the NBBL. Which becomes very bad for the bank. But in second study period it decreased the NPA level up to zero. Which indicates that bank will be carefull in banking activities in second study period.

Findings from the Income and Expenses Analysis

- Income analysis showed that interest income remained dominant in both study period of NBBL. More than three fourth of the income was occupied by interest income through out the study period.
- Expenditure analysis showed that interest expenses occupied major portion of expenses of all study period.

Findings from the Trend Analysis

- The trend analysis of total deposits of NBBL showed that the total deposits of NBBL were in a decreasing trend. If other things remain same, the total deposits of NBBL was decreasing every by Rs. 512.046 million by increase in year.
- The trend analysis of investment of NBBL showed that the investments of NBBL were in an decreasing trend. If other things remain same, the investment of NBBL would be decrease by Rs. 70.22 million, by increase in year.
- The trend analysis of loan & advances of NBBL showed that the loan & advances of NBBL was in increasing trend. It was increasing every year by Rs 54.06 million in average.
- The trend analysis of total assets of NBBL showed that the total assets of the NBBL were in increasing trend. It was increasing every year by Rs. 90.11 million in average.
- The trend analysis of total income of NBBL showed that the total income of NBBL was in increasing trend. It was increasing every year by Rs. 107.75 million in average.
- The trend analysis of net profit after tax of NBBL showed that the net profit after tax of NBBL was in increasing trend. It was increasing every year by Rs.644.01 million in average.

- The trend analysis of total expenses of NBBL showed that the total expenses of NBBL were in increasing trend. It was increasing every year by Rs 23.14 million in average. This analysis shows that the trend of increase in income of NBBL was greater than increase in expenses every year in average.

Findings from the Coefficient of Correlation Analysis

- In the analysis of coefficient of correlation between total deposit and investment, positive relationship between these two variables was found in first study period but it was negative in second study period. Thus, when compare the value of r with 6P.E.r value, the correlation between total deposit and investment was significant only on first study period.
- In the analysis of coefficient of correlation between total deposit and loan and advance, positive relationship between these two variables was found in first study period but it was imperfect and that of negative in second study period. Thus, when compare the value of r with 6P.E.r value, the correlation between total deposit and investment both study period was insignificant. It means that there are no relationship between these two variables.
- In the analysis of coefficient of correlation between total income and interest income, positive relationship between these two variables was found in both study period but it . Thus, when compare the value of r with 6P.E.r value, the correlation between total deposit and investment both study period was significant.
- In the analysis of coefficient of correlation between loan and advance and NPAT, positive relationship between these two variables was found in both study period but it was insignificant. Because value of r in both study period was less than 6Per.

CHAPTER -V

SUMMARY CONCLUSION & RECOMMENDATION

5.1 Summary

Nepal is a developing country with agricultural base. Banks are the most important institutions for acceleration of economic growth in the country. Bank accept deposits from public and in turn advance and loan by creating credit and it is financial intermediaries similar to credit incomes, saving and loan associations and other institutions selling financial services. In fact, bank acts as a monetary intermediation between two types of its customers, depositors and creditor. Commercial banks in Nepal have come across a long way to reach at the present status they hold in the national economy. Since from the beginning of the establishment of Rastrya Banijya Bank to the present scenario with the emergence of new and growing banks like Everest Bank Ltd., Kumari Bank Ltd, Laxmi Bank Ltd., Machhapuchhre Bank Ltd. Commercial banks have brought tremendous changes in terms of services, capacity development and the way they serve customers. Modern banking practices have been introduced by almost all the commercial banks in Nepal. Commercial banks that were initially involve in lending and deposit sector have now modified their traditional business concept and introduced new and new products to the Nepalese customers like credit cards, ATM cards, SMS banking, E-Banking, etc. Banking sector has made significant improvements after the government of Nepal adopted liberal economic policy. Commercial banks, at the present scenario are mainly focusing their business in foreign trade, remittance transactions and retail loans, etc. They have diversified their lending portfolios in new products like retail banking and are trying to contain people from all the classes. Commercial banks have also kept eyes over agriculture and service industry.

Financial analysis is the process of determining the significant operation and financial characteristic of a firm accounting data. It shows the relationship between the various components which can be found in balance sheet and profit and loss statement. The analyzed statements contain that information which is useful for management, shareholders, creditors, investors, depositors, etc. As in other industries banking industries also need financial analysis, as it is curial for evaluating and analyzing the performance of the particular company as compare to the other and also from the previous performance of the same company. So, this study almost concentrated in problems of the NBBL.

Both, primary and secondary data have been used in this study. Primary data's have been collected by distributing questionnaire. While secondary data are obtained from annual reports of the bank. The data collected from various sources are recorded systematically and presented in appropriate forms of tables and charts. Profitability Position is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the Balance Sheet and the Profit and Loss account. Moreover financial tools like liquidity ratio, leverage ratio, activity ratio, profitability ratio, earning performance ratio, growth ratio, income and expenditure analysis, and statistical tools like correlation coefficient and trend analysis have been applied to analyze the data. The data of six years i.e. from 2061 to 2066 have been divided in two study period (ie first study period and second study period) and analyzed them to meet the objective of the study.

5.2 Conclusion

In the total number of 50 respondents, 94% respondents had an account. This showed that Nepalese people have faith towards banking and financial sector. Moreover it also showed that banking and financial sector have been successful to collect the scattered savings of the people which is their primary functions. Improper credit appraisal system, economic recession, political pressure, lack of productive area and borrower's misconduct are the major factors that lead to increase of non-performing loan and 80% respondents said that banking industry are severely affected by non-performing loan. In the question of weakness of NBBL 80% of respondent chose none and on question of can NBBL able to run in competitive market most of them choose yes.

The liquidity positions of NBBL in second study period were in satisfactory level to meet the short-term obligation as compare to first study period. NBBL had maintained a good percentage of cash and bank balance to total deposits but the ratios were inconsistence. The inconsistency of the ratios showed the lack of specific policy of NBBL about the maintenance of liquidity. The analysis of the leverage ratios of both study period showed that NBBL had used higher proportion of debt in their capital structure financing assets form. Capital structure of NBBL appeared to be levered. NBBL had excessive use of debt for which interest was to be paid. The assets management efficiency of NBBL showed that in both study period bank had successfully utilized their deposits into income generating assets and most of them in the form of loan & advances. This showed that NBBL had given priority to risky assets i.e. loan & advances as compared to risk free assets.

The analysis of activity ratio of both study period showed that NBBL was satisfactorily invested on loan and advances and it was efficiently utilized the high interest bearing fixed deposits and saving deposit. But it shows that NBBL was not successful in investment because from the analysis it was concluded that it had unsatisfactory investment. NBBL profitability ratios were in unfavorable condition. Earning per shares of NBBL was in negative in first study period. And earning per share was in positive and in fluctating trend in second study period. It shows that bank increase its activities to the betterment of the bank but it was very low if we compare with the other organization in the market. Thus, earning per share of the NBBL was unsatisfactory.

The analysis of growth ratios showed that NBBL's growth ratios were not better. The growth ratios in investment and deposit of NBBL were fluctuated which effect badly in generating income in both study period. The growth ratio of net profit after tax was in increasing trend which shows that bank improve its activities to utilities its fund. Its increment in net profit after tax was 261.81% in 2065 which is good sine of bank increase its capacity. Income and expenses analysis showed fluctuating trend of income and expenditure in both study period of NBBL, interest income and interest expenses seems to occupy major part of both income and expenses. Apart from this other incomes of banks was very minimal.

Analysis of non performing assets shows that the NBBL has high level of NPA in first study period, which effect NBBL badly. It shows the negative impact in the market. Thus it loss customer and goodwill. But in second study period it decrease it NPA level up to zero, which help it to get back its goodwill and customer.

The trend analysis of NBBL showed that the trend of total deposit, investment was in decreasing trend. It shows that the bank has to improved its activity to increase deposit, investment. The trend of loan and advance, total asset, total income, net profit after tax, total expenses were in increasing trend. The increasing trend indicates that estimated amount of the above variables for coming six years will be higher. The decreasing trend indicates that estimated amount of the above variables for coming six years will be lower if other things remain same.

The correlation coefficient between the total deposit and investment were found positive but significant in first study period and negative and insignificant in second study period of NBBL. The correlation coefficient between the total deposit and loan and advance were found positive but insignificant in first study period and negative and insignificant in second study period of NBBL. The correlation between net profit after tax and total deposit were found positive but insignificant while testing 6P.E.r in both study period of NBBL. The correlation between the total income and interest income were found positive and significant in both study period of NBBL.

Some valuable and timely suggestions and recommendations can be place forward, on the basis of findings and conclusion or literally their financial pictures, to overcome weaknesses and inefficiency and to improve present financial performance of the same.

5.3 Recommendation

On the basis of analysis and findings of the study some valuable recommendations are made as suggestion to overcome weakness and inefficiency and to improve financial performance, lending and investing activities of NBBL.

- During the two study period cash and bank balance to total deposit ratios were inconsistent in NBBL. Thus, NBBL should make specific policy regarding cash and bank balance. Since cash and bank balance are the most liquid assets, banks should have moderate level of cash and bank balance.
- The total deposit amount collected by NBBL was decreasing every year. It is recommended to increase total deposits because it is the main source of resources. Moreover the banks should collect a large variety of deposits by introducing new schemes such as prize/gift scheme, child deposits schemes, house wife schemes, etc. Further the banks should introduce new and new schemes to exist in the competitive banking industry.
- The trend of investment was also decreasing. Thus, it was necessary for NBBL to find out new area to investment, which helps to increase its net profit after tax. The overall investments of the bank should be concentrated on productive sector such as business and industrial loan rather than consumer product such as hire purchase and housing loan. Because industrial and business sector will create the employment

opportunities which is necessary for capital formation and economic growth.

- Considering the present economic condition of the country, the bank should play vital roles for the economic development of the country. They should promote balanced regional development by financing funds in remote areas and other priority sectors. It has 18 branches in all over the Nepal, which is less if we compare with other bank of market. In that case, NBBL should give much priority in expanding its branches in the rural areas so that the people in the rural areas will also be able to have the facilities provided by the bank. It should open branches in order to income its transition and to provide financial services to more customers and for expansion of economic activities of NBBL, it should try to extend its commercial activities in near future. So, the bank should grab more opportunities as soon as possible by adopting efficient and latest marketing strategies.
- NBBL had more creditors fund to acquire an assets and investment. This means they all had more debt financing in assets. Since, debt financing needs to pay an interest regularly, higher debt are burden to bank. Therefore they should decrease a debt financing and increase an equity financing, which may help in increasing profit to some extent.
- NBBL's contribution in loan & advances is the lowest. Since, the entire economy is largely dependent on the proper execution of lending activities of commercial banks. The low tendency towards lending affects the performance of NBBL in the long run due to its paradox. Low level of lending constitutes the low level of investment, resulting in low level of productive and employment generation and this cause slack in economy. This slackness in economy adversely effects the funding as well as non-funding activities of banking business.
- NBBL had utilized only a low sum in investment as compared to loan & advances. This showed NBBL was interested in more risky assets. Thus it is recommended to mobilize satisfactory level of funds in investments

because government securities are also most liquid assets. Further the banks should not forget to invest on shares and debentures because it accelerates financial and economic development of the country.

- NBBL was not successful to earn a net profit by utilizing its assets and deposits. So, it is recommended to NBBL to invest its deposits and utilize its assets in different productive sectors on the basis of portfolio management.
- The bank was weak in facilities provide to the costumer. Thus, bank has to introduce new banking product to satisfy the customer.
- It is recommended to invest in human resources also. Without capable human resource the bank cannot innovated new marketing approach and at present new approach is needed every now and then. Thus it is recommended to invest in human resources and search new areas for lending and investing which is must important at present time.
- NBBL should use the SWOT analysis effectively to find out the strengths, weakness, opportunities and threat and should try to eliminate all its weakness and take the opportunities for the future growth and development of the organization. The bank should follow the discipline and adopt direction of NRB. This helps to maintain harmonious relationship between other joint venture banks as well. The bank should persude various kinds of welfare program for its staff and the society, excellent staff should be promoted in order to inspire, society welfare programs like sponsorship, giving funds etc. Should be organized.

BIBLIOGRAPHY

Books

Bajracharya, B.C. (2055). *Business Statistics & Mathematics*. Kathmandu: Nepal: M.K.Publisher & Distributors.

Bhattacharya, S.K. & Deardon, J. (1980). *Accounting for Management: Text & Cases*. New Delhi: Vikas Publishing House Pvt. Ltd.

Bhattari, R.(2006). *Investment Theory& Practice*: Kathmandu: Buddha Academic Publishers & Distributors Pvt. Ltd.

Brown. J.L. & Howard, L.R., (1982). *Management Accounting & Finance.* London: Mac Donald & Evans Ltd.

Chaudhary, A.K *(2005). Statistical Method*. Kathmandu: Khanal Books & Stationery.

Dangol, R. M. (2007). *Accounting for Financial Analysis & Planning.* Kathmandu: Teleju Prakashan.

Foster, G. (2002). *Financial Statement Analysis. Singapore*: Pearson Education

Hampton, J.J (2006). *Financial Decision Making*. New Delhi: Prentice Hall of Private.

Joshi, P.R. (2004). *Fundamental of Financial Management.* Kathmandu: Asmita Books

Joshi, P.R. (2059). *Research Methodology*. Kathmandu: Buddha Academic Publishers & Distributors Pvt. Ltd.

Lewin, R.I., & Rubin, D.S. (1999). *Statistics for Management*. New Delhi: Prentice Hall of India Pvt. Ltd.

Munamkarmi, S.P. (2003). *Management Accounting.* Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Ojha, M.R., Shrestha, R.M., & Shrestha, S.K. (2006). *Business Statistic & Mathematics.* Kathmandu: Manichood Prakasan .

Pandey, I.M. (1995). *Financial Management*. New Delhi: Vikas Publishing House Pvt. Ltd.

Paudel. B.R., Baral, J.K., Gautam. R.R Rana, B.S. (2009) *Managerial Finance*. Kathmandu: Asmita Books Publisher & Distributors (P) Ltd.

Shrestha, S.M. (2006). *Fundamentals of Banking*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Singh, H.B. (2005). *Banking & Insurance*. Nepal: Asia Publication.

Sthapit, A.B. (2004). *Statistical Methods.* Nepal: Buddha Academic Enterprises Pvt. Ltd.

Thapa, K. (2009). *Financial Institutions & Markets.* Kathmandu: Asmita Books Publisher & Distributors (P) Ltd

Van Horne, J.C. & Watchowiez, J.M, (1988). *Fundamentals of Financial Management*. New Delhi: Prentice Hall of India. Pvt. Ltd.

Journals & Report

Chopra, S. (1990). *Role of Foreigh Banks in Nepal*. NRB Samachar

Dhungana, R.B (2007). *NPL in the Nepalese Financial System & Role of NRB & Judiciary in Resolving the Problem*. Souvenir, RBB

Gillies, S. (1990). *The Role of Commercial Banks in Nepalese Context*. Rajat Jayanyi Samarika, RBB

Nepal Bangladesh Bank Limited. (2060/061) *Tenth Annual Report.* Kathmandu.

Nepal Bangladesh Bank Limited. (2061/062). *Eleventh Annual Report.* Kathmandu.

Nepal Bangladesh Bank Limited. (2062/063). *Twelfth Annual Report. Kathmandu.*

Nepal Bangladesh Bank Limited. **(**2063/064).*Thirteenth Annual Repost.* Kathmandu.

Nepal Bangladesh Bank Limited. (2064/065).*Fourteenth Annual Report.* Kathmandu.

Nepal Bangladesh Bank Limited**.** (2065/066).*Fifteenth Annual Report.* Kathmandu.

Shrestha, M.R. (2009). *Productivity in Banking Industr.y* Souvenir,RBB

Thapa, B.G. (2009) *Nepal Financial Sector & Its Reforms.* Souvenir, RBB

Thesis

Sharma, P.S. (2005). *A Study of Financial Performance of Commercial Banks.* An Unpublished Master Degree Thesis, Shanker Dev Campus T.U.

Joshi, S. (2006). *Financial Performance of Everest Bank Limited*. An Unpublished Master Degree Thesis, Shanker Dev Campus T.U.

Maharjan, M. (2006). *A Study on Financial Performance of Nabil Bank Limited*. An Unpublished Master Degree Thesis, Shanker Dev Campus T.U.

Bhandari, R.E. (2006). *Financial Performance of Selected Commercial Banks in Nepal.* An Unpublished Master Degree Thesis, Shanker Dev Campus T.U.

Shrestha, K.A. (2007). *Financial Performance of Commercial Banks with Reference to Nepal Bangaladesh Bank Limited & Machhapuchhre Bank.* An Unpublished Master Degree Thesis, Shanker Dev Campus T.U.

Shrestha, O. (2010). *Financial Performance Evaluation of ADBNL.* An Unpublished Master Degree Thesis, Shanker Dev Campus T.U.

Websites

www.nepalstock.com

www.nepalbangladeshbank.com

www.nrb.org.np

www.worldbank.org