CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Banks are creator of money. In fact they are the backbone of economic development. “It has widely been accepted that the economic activities of a country are greatly influenced by the development of a sound banking system. There is no step in business, where bank have no influence. Today so called developed countries also have fastened their economic development with the help of their banking system.”(Encyclopedia Americana, 1976:748P) The role of commercial bank in economic development is immense. The essence of commercial bank is the financial intermediation between the ultimate savers and borrower’s .It draws its profit mainly from the difference of interest on deposits and lending. Commercial banks have become the hearts of financial system as they hold the deposits of millions of people, government and business units and make funds available through their credit and investing activities to individual business firms and government.

Commercial bank Act 1974 defines a commercial bank. “A Commercial bank means bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions. Commercial banks are the large source of finance and its business institutions. Hence, the name is termed as commercial banks. Though the commercial banks were established with the concept of supplying short-term credit and working capital needs of the industrials, they started to provide long-term loan for up to 10 years by the provision made in commercial bank Act 1974. After the enforcement to lend in priority and deprived sector , these banks initiated to provide credit to small and cottage industries agriculture and services etc. (Fundamentals of Banking, 2006:6p)

The fate of a country is greatly determined by the active role of commercial bank. Main objective of commercial bank is to mobilize idle resources for productive use. Capital is most important to utilize those resources .The commercial banks are the most important institutions for capital formation .Commercial banks accumulate scattered saving in terms of deposits and grant long term loan to the industrial sector .As a result productive capacity of industry can be increased that reduces import of foreign goods and increase export abroad. Goods are available in cheaper price. Commercial bank provides facilities to their customers by other services also such as remittance of funds .Purchase and sale of bills supply of timely credit and other market information.

Nepal Bank Limited is first commercial bank of Nepal which was inaugurated by late king Tribhuvan in 30th Kartik 1994 B.S .It was established as semi government financial institution. Its authorized capital is 10million. It is joint venture of then HMG and now government of Nepal and private shareholding and management. Till now its authorized capital is 1 billion. At present the bank is operating through 106 branches in the 55 districts of the country with 2960 staffs. The head office of the bank is located at new road Kathmandu. (NBL Patrika)

Later some developed banks and financial institution were established to provide medium and long term credit facilities to the industry and agriculture. In this context, Nepal industrial development corporation was established in 2016 B.S to provide the financial and managerial assistance in the field of industry and to help the private sector in the field of industry. For mobilizing the saving and credit Nepal bank limited arranged sound banking system. It mobilizes at the small and scattered saving of the people and makes them available for investment in process productive enterprises.

Nepal bank Ltd restructured and healed process. Treatment on bad debt of credit and restructuring of new policy develop .NBL has initiated the financial sector reform project on July 21, 2002 under the World Bank administered by the NRB. Since then, the management of the bank is handed over to International Chamber of Commerce Management Team group of Scotland for 5years. The bank had shown the significant operating results under the foreign management team after the completion of the foreign management team. The bank is still being managed by NRB management team from July 22, 2007. (Bank website)

Nepal bank ltd has been playing a very significant for the economic development of the country which a part of role leading commercial bank had also worked as central bank for 20 yrs after it established. After collecting the small saving of the people, it makes a huge amount of capital and it diverts the unproductive money into productive uses by lending to another group of people one and only vision statement of NB Ltd “To remain the leading financial institution of the country” clearly explains the bank’s interest toward lending aspects. Banks function of saving activities improves and it's saving amount mobilization. Thus the foundation of resource mobilization is pillared on the bank’s function of lending and collected fund is the material of pillar. Saving focus on increasing fund for future but lending focuses on the primary issue of economic development, i.e. to increase the investment in productive sector that impacts positively in every sector of economy such as employment, productive ,income, government revenue international trade etc.

1.2 Focus of the Study

This study focuses mainly on Effectiveness of Saving and Credit mobilization after and before management contract of Nepal Bank Limited. Today Nepal have liberalized its financial policy .It can take legitimate pride in the remarkable growth and progress in the banking industry Nepal has opened its door to foreign commercial banks to operate in the kingdom almost two decade back .Currently, the economy of Nepal is witnessing historic changes in its structure, positively and negatively. Almost all sectors of the economy are facing new challenges of transformation by the introduction of market economy in the country .In the milieu of de-regulation liberalization, privatization and greater integration with global economy, the commercial banks have shown their dynamism and still further will have to play a pivotal role to enable the economy to achieve its full potential. As the economy has changed in short period and it's changing the performance requirements and prospects of banking industry have also undergone radical transformation. The negative balance in deposit and investment has mainly forced the government to handover management of the bank to foreign expert management group. A management team "ICCMT" consisting of International Bankers from Bank of Scotland (Ireland) has been appointed in NBL to restructure the bank .The study focuses on saving and credit mobilization pattern of after and before management contract. This group has taken over the management control and responsibilities.

1.3 Statement of the Problem

Almost all the government banks in Nepal are running in loss .Though almost all the private sector banks are showing earn profit, it is very difficult to call them sound. Some of the bank have very low capital adequacy ratio.

In the past, along with its wide range of services NBL's overall financial performance was quite remarkable and it has set itself an example for other commercial banks. With tough competition in financial sector Progressively by July, 2002. Saving and credit positing of NBL is not found satisfactory compared to its previous years as well as compared to upcoming new financial institution.

The financial position of this bank has become headline of almost all newspapers and it has become a topic of discussion from common people to parliament. The every report showed the management had not been able to speed up the reform of the bank .Further more loan management and Board of directors being very weak is the main reasons for the bank to be in the critical condition. This is happening day by day .The bank was running on negative balance so the Nepal Bank limited decided to give the management group to the foreign Hand. The various problem faced by NBL could be addressed in this study are as follows.

1. What is the trend in credit investment and deposit of NBL before and after management contract?
2. Has there been any change in the capital structure of NBL after contract?
3. What is the difference between yesterday’s and today’s liquidity position?
4. How far the foreign management team has helped to heal the weaknesses of NBL?

1.4 Objectives of the study

Presently, NBL is facing huge competition of excess liquidity or capital structure. The basic objectives of the study are to save and credit mobilization situation after and before management contract the other specific objectives include:

1. To study the trend in credit investment and deposit of NBL before and after mgmt contract.
2. To evaluate the change in capital structure of NBL after contract.
3. To study the liquidity position of NBL.
4. To analyze the bank’s profit after contract.
5. To study the significant of new management team

1.5 Significance of the study:

The result of this study would be proved important for the following groups.

1. Management of the Bank

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

2. Shareholders of the Bank

The shareholders will be able to now how their investment has been fluctuating .With the help of the study the shareholders will know their real position in the bank.

3. Potential Investors

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

4. Policy Formulators

The policy formulators of the bank may gain something with of the result of the study. The financial position which has been analyzed through this study is the result of their past policy and decision. The policy formulators they may bring the changes in their future policies if concluded financial position is not satisfactory.

5. General Public

Being the oldest bank of the country, which has contributed a lot for nation's economic development general public also may be interested about the financial position of this bank. The result of this study may provide important information about bank's condition.

6. Other commercial Banks

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

7. Other concerned parties:

The government, customers, depositors, borrowers and all other parties who want to know about the Nepal bank limited may obtain some useful information with the help of the report of this study.

1.6 Limitation of the Study

There are some limitation and constraints of the study.

1. Among various banks, the study has focused only on NBL. Hence, the result of the study will not be applicable for other banks.
2. The whole study is based on secondary data provided from the bank.
3. The study period is 10 years from the FY2053\54 to2063\64.
4. Among various banks the study has focused only with NBL with special respect to saving and credit policy

1.7 Organization of the Study

This study is organized in to five chapters Introduction, Review of Literature, Research methodology, Presentation and Analysis of data, Summary, conclusion and Recommendation.

Chapter-1 Introduction

This chapter deals with background of the study, focus of the study, Statement of problem, Objective of the study, Significance of the study, Limitation of the study and Organization of the study.

Chapter-2 Review of Literature

This chapter explains review of literature, which has been done in the related topic in previous day. This chapter has been divided in to two main aspects.

1) Conceptual framework 9Theoritical concept and 2) Research Review

Chapter -3 Research Methodology

Research Methodology it includes a research design, sources of data, population and sampling, Data collection procedures and data processing and tools used for analysis.

Chapter -4 Data Presentation and Analysis

Data presentation and analysis of data will be collected from various sources will be tabulated in their sequential order and data will describe analyze and projected with statistical tool as well as financial tools.

Chapter-5 Summary Conclusion and Recommendation

This chapter deals with summary conclusion, Recommendation of the study. Lastly, essential appendices and bibliography have been presented as the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

This chapter includes the review of two parts. Theoretical review and Review of related studies. Problem more studies and analysis are needed and only 1 study is not enough. Review of some related materials should be deals with to give the research a clear vision. Past study and knowledge provides foundation to the present study. This helps the researcher to explore what kind of research studies have already been conducted in his or her field of study and thus helps to reduce the probability of duplication.

2.1 Theoretical Review

This section attempts to review the theoretical aspects of study. That includes Brief History of the Evolution of Banking, Origin of Bank in Nepal, Function of Commercial Banks, Portfolio Management in Commercial Bank, Notes on Balance sheet and Income Statement of commercial banks and the role contribution of NRB to economic development of nation in brief.

2.1.1 Brief History of the Evolution of Banking

History shows those money lenders, goldsmith and the merchants as the pioneers of modern banking system. Customers used to deposit gold and silver with the goldsmiths for safekeeping and were given deposits receipts verifying their ownership of the gold deposits with the goldsmith. Those receipts could be used as money because they were backed by gold. But the goldsmiths soon discovered that they could take a chance and issue additional receipts against the gold to other people who needed to borrow money. This worked as long as the original depositors did not withdraw all their gold at one time. Hence, the amount of receipts or claims on the gold frequently exceeded the actual amount of the gold and the idea that bankers could create money was born.

The ancient Rome of 5th century B.C has practice of various banking function such as exchange of money, transfer of funds, issue of loan etc. which are similar to those of modern banking system. The first public banking institution ‘The Bank of Venice’ was established in 1157 A.D .Originally; it was not a bank in modern sense being simply an office for the transfer of the public debt. Then after Bank of Barcelona and Bank of Geneva were established in1402 and 1407 respectively, Bank of Barcelona in Spain was known as the first bank which offered most of the basic banking functions used today. This bank help deposits, exchanged currency and carried out lending operations. It also is believed to have introduced the bank cheque. The famous bank, ‘Bank of Amsterdam’ opened in 1609 AD has occupied a very important place in 17th century. This bank was the foundation for modern banks of deposits and transaction. The most of the European banks now in existence were found on the model of the Bank of the Amsterdam. A well organized commercial bank was developed in England on 27th July 1696 AD called, ‘The Bank of England’ as a private joint stock association with a capital of 1.2 million. The banking Act of 1833 provided freedom for the establishment of joint stock banks. Then the leading countries of the world developed the modern joint stock commercial banking system. The 20th century observed development of various banking institutions highly specialized and sophisticated particularly in advanced countries like the USA, UK and others.

2.1.2 Origin of Bank in Nepal

In Nepal, the origin of commercial banking activities can be traced to ancient Nepal. The first recovered borrowings were in 723AD .When king Guna Kam Dav borrowed money to rebuild Kathmandu. Then in 14th century, in the prosperous age of Malla King Jayasthiti Malla , people were classified into 64 categories according to their occupations .One of them was'Tanka Dhari' whose main occupation was the lending of money .The king used to borrow money for financing the wars, but the interest rate had not yet been fixed .Sveral kings and prime Ministers tried to solve that problem by trying to regulate commercial transaction and fixed property ,but all were in vain.However, the institional from of commercial banking activities has been performed at first instance by 'Tejarath Adda' during the reign of Rannodip Rana, prime Minister of Nepal.The Adda was initiated to provide credit to the public at low rather of its functioning were further extened to some urban areas of Terai region .Later with the growing necessity of commercial bank in the world , the Nepal Bank Limited , the first commercial bank of Nepal of Nepal was established in 1937 AD .To help government in the formulation of monetary policy and for the institutional development of banking sector ,Nepal Rastra Bank was established in 1956AD. Similarly Rastriya Banijya Bank was established in the year 1965 AD with 100% government ownership as the second commercial bank of a nation. Agriculture bank was established in the year 1967AD for the modernization of the agriculture sector of the country.

The subsequent tendency toward liberalization and need of revolutionary change in the financial sector allows the foreign banks to enter into the economy as 'joint venture'. This entry of foreign bank was expected to develop the banking with the pace of change and to attract the foreign investment and technology. The establishment of Nepal Arab limited (NABIL) in 1984 AD studies in the history of modern banking in Nepal. This was the first joint venture commercial established in collaboration with Emirates Bank International (Dubai). Following this many other joint ventures and private banks were established . Now there are 23 commercial banks performing their operations. Following are the list of licensed commercial banks.

Table-2.1
Listed of Licensed Commercial Banks in Nepal

S.N	Name of the Bank	Established date (B.S)	Operation date (B.S)	Head office
1.	Nepal Bank Limited	1994/07/30	1994/07/30	Kathmandu
2.	Rastriya Banijya Bank	2022/10/10	2022/10//10	Kathmandu
3.	NABIL Bank Ltd.	20 41/03/29	20 41/03/29	Kathmandu
4.	Nepal Investment Bank Ltd.	2042/11/16	2042/11/16	Kathmandu
5.	Standard Charted Bank Nepal Ltd.	2043/10/16	2043/10/16	Kathmandu
6.	Himalayan Bank Ltd.	2049/10/05	2049/10/05	Kathmandu
7.	Nepal SBI Bank Ltd.	2050/03/23	2050/03/23	Kathmandu
8.	Nepal Bangladesh Bank Ltd.	2051/02/23	2051/02/23	Kathmandu
9.	Everest Bank Ltd.	2051/07/01	2051/07/01	Kathmandu
10.	Bank of Kathmandu Ltd.	2051/11/28	2051/11/28	Kathmandu
11.	NCC Bank Ltd.	2053/06/28	2053/06/28	Siddharthnagar
12.	Lumbini Bank Ltd.	2055/04/01	2055/04/01	Narayangadh
13.	NIC Bank Ltd.	2055/04/05	2055/04/05	Biratnagar
14.	Macchapuchhre Bank Ltd.	2057/06/17	2057/06/17	Pokhara
15.	Kumari Bank Ltd.	2056/08/24	2057/17/21	Kathmandu
16.	Laxmi Bank Ltd.	2058/06/11	2058/12/21	Birgunj
17.	Siddhartha Bank Ltd.	2058/06/12	2059/09/09	Kathmandu
18.	Agriculture Development Bank*	2024/10/07	2062/12/03	Kathmandu
19.	Global Bank Ltd.	2063/09/18	2063/09/18	Birgunj
20.	Citizen Bank Ltd.	2064/01/07	2064/01/07	Kathmandu
21.	Prime Commercial Bank Ltd,	2064/06/07	2064/06/07	Kathmandu
22.	Bank of Asia Ltd.	2064/06/25	2064/06/25	Kathmandu
23.	Sunrise Bank Ltd.	2064/06/25	2064/06/25	Kathmandu

*It implies the date of ADB move into Commercial Bank

2.1.3 Function of Commercial Bank

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

1 Accepting Deposit

Commercial bank accepts the deposit of public under fixed current and saving account. Bank provides security to the amount of client under current account but does not provide interest. There is no provision of interest to be paid and limitation of amount to be withdrawn, they can withdraw any amount at any time .This account facilities to the traders and any organize institutions .It provides nominal rate of interest under saving deposits but there is limit to deposit and with draw amount. The interest rate is lower than on the fixed deposits .Bank accepts deposit for a certain period of time under fixed deposit account and provides high rate of interest in fixed deposit and interest depends upon the length of time .The money deposited in the fixed deposit can be withdrawn only after the expiry of the period for which the deposits was deposited.

2. Advancing Loans

Commercial bank provides short term and medium term loan to the needy business organization and individuals against security deposits. The business of lending is performed in the form of advances, overdrafts, cash credits and discounting of bill of exchange. It charges interest on loan which contributes to the profit of the bank. Discounting of bills is the most important form in which a banker advances money. Commercial bank accepts the bill of reputed organization or businessman which may be received from brokers or businessman. It discounts such bill and pays the cash immediately. Generally bank discounts such amounts which can cover the amount of interest. The investment in bills is considered quite safe, because a bill bears the security of two businessmen, the drawee as well as drawer, so that if one proves dishonest or fails, the bank can claim the money from the others. That is why it is said that a good bank manager knows the differences between a bill and a mortgage.

Customer of Standing is given the right to overdraw their accounts. In other words, they can get more than they have deposited but they have to pay interest on the extra amounts which has to be repaid with in a short period. The amount of permissible overdraft varies with the financial position of the borrower. Cash credit is another way of lending by the banks. When a person wants a loan from a bank he has to satisfy the manager about his honesty of purpose. In addition, the bank may require a tangible security, or it may be satisfied with the accepted as can be easily disposed of in the market, examples, government securities or shares of approved concerns. Then details about time and rate of interest are settled and the loan is advanced. Banks make most of their profits thus by giving loans.

3. Agency services under this fall these function:

- Foreign exchange
- Serving as an agent on behalf of its client

- Issuing L.C
- Circulating notes, bank drafts, traveler's cheque etc.
- Purchase and Sale of different types of securities and remittance of fund
- Underwriting of securities
- Collection of Payment of cheques, Bills, Promissory notes, Coupons dividend and other instruments
- Acting as executors
- Discounting of bills
- Providing safeguard to valuable of credits keeping in safe custody

4. Credit Creation

Creation of credit is one of the most outstanding functions of a modern bank. A bank has sometimes been called a factory of the manufacture of credit. Generally, money received by a bank is meant to be advanced to others. A depositor has to be content simply with the bank's promise or undertaking to pay him back whenever he makes a demand. This bank is able to do with a very small reserve, because all the depositors do not come to withdraw money simultaneously. Some withdraw, while others deposit at the same time. The bank is thus enabled of a small cash reserve. The bank is able to lend money and charge interest without parting with cash. The bank loan creates a deposit; it creates a credit for the borrower. Similarly, the bank buys securities and pays the seller with its own cheque which again is no cash; it is just a promise to pay cash. The cheque is deposited in same bank and a deposit is created or credit is created for the seller of the securities. (Pandey, 2004, P.21)

5. Facilities for the Financing of Foreign Trade

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

6. Safekeeping for Valuables

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

7. Making Venture Capital Loans

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

8. Financial Advising

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

9. **Offers Security Brokerage Services**

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

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

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

2.1.4 Overview of Nepal Bank Limited

Nepal Bank Limited was established in 15th November 1937 AD (30th kartik 1994 BS) under the Nepal Bank limited Act 1994 BS. This marked the beginning of an era of formal banking in Nepal. This bank was founded by far sighted financial pioneers who had as their dream the establishment of a strong institution capable of providing service and support to the entire country so that individuals companies and the nation as a whole successfully achieve their financial objectives. From the very conception and its creation, Nepal Bank Limited was as joint venture between the government and the private sectors. In the beginning, the authorized capital was only Rs. 1 crore and the paid up capital of Rs.8.42 lakhs out of which 51% of the shares were government and the remaining 49%of public. Till now, its authorized capital is 1 billion, issued capital 500 million and paid up capital has reached up to 380.3826 million. At present, the bank is opening with 2960 staffs. The head office of bank is located in Kathmandu.

It seeks to provide an environment with which the bank can bring unique financial value and service seeks receive prompt and attentive se service at responsible cost, employees are paid adequate, compensation with profession career growth opportunities and stockholders receive satisfactory return for their investment.

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

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

2.1.5 Objectives and Importance of Commercial Bank

Commercial banks brings into being the most important ingredient of the money supply. Demands deposit through the creation of credit in the form of loan and investment.

Commercial banks perform a variety of objectives and importance which can be divided as follows:

Freedom from Exploitation of Economy:- Before the starting of banking system in Nepal merchant trader, goldsmith and money lender used to provide loans to the money borrower by keeping gold, silver and land as mortgage and charged high interest rate on it. Due to this interest rate money borrower has to sell their assets in low price. This causes high distance between poor and rich people. Therefore, the objective of the commercial bank is to establish organization banking system to make free the public from the exploitation of economic.

Mobilize Saving:- Depositors are inspired to save their deposits in the bank because of interest provided by the bank. Depositors increase to deposits their saving in the bank it the interest rate provided by bank is higher and vice versa. Therefore, the objectives and important of the bank to mobilizing the saving in the productive sectors.

Capital Formation:- One of the most important objectives of commercial bank is to increase the rate of capital formation; bank collects the idle cash from public and distributes it to the needy trader, business house and government as loan. This activity increases the expected investment and increase the rate of capital formation.

Foreign Investment:- Commercial bank played an important role in attracting foreign investment by familiarizing the investors (i.e. multinational companies, organization, institution, and bank) with relevant Nepalese financial rules and regulation and practices through their publication.

Banking Techniques:- The commercial bank in Nepal begs the credit for the introduction of new banking techniques, such as hypothecation and syndicating under the guidance of NRB. Other area of experience are forward cover for foreign exchange transaction by import and exporters merchant banking, inter banks, market for money and securities, arranging foreign currency loan etc. These and other innovation techniques in the international banking system have been introduced to NRB by financial institutions, commercial bank and joint venture banks.

2.1.6 Concept of saving (Deposit)

Saving is the main source of funds by providing certain rate of interest. Commercial bank calls for the depositors or saving from the customer. There are different types of saving to accept by the bank but current fixed and saving are the mainly three types of deposits. These different types of saving are to use for lending the money to different sectors such as agriculture, productive work, trade, irrigation and industry. The deposits will be lent to increase the working capital of the bank. So, in a developing country like Nepal deposit have played a significant role for the development of the country.

Commercial bank Act 1974, defines save as the amount save in a current, saving or fixed amount of a bank of financial. (Bhandari Dilli R 2003.73p)

Saving function of the banks is important because it has to aggregate small sums of money lying scattered here and there twenties, fifties and hundreds. Singly these sums have no economic efficiency what so ever. But they can accomplish Herculean tasks when they are aggregated and employed by the bankers. (Allynand Baccon Boston, 1965)

We may think of a deposit as something that has been turned over to someone else for safe-keeping. The person receiving whatever to us hands over assumes a responsibility he gives something a promise. (Elementary Banking P.G 56-60)

The depositors of a bank are affected by various factors. They are as follows;

- Types of customers
- Physical facilities of bank
- Management accessibility of customers
- Types and ranges of services offered by the banks
- Interest rate paid to deposits
- Basically deposits are categorized in three headings for accounting and financial purpose:

Fixed Deposit:

Fixed deposit is also known as time deposits, bank offers fixed interest rates on this deposits and repayment principal together with interest at fixed maturing or pays interest on regular interval but principal only at the maturity.(Dahal Sarita and Bhuvan, 1999 p26)

Under this account, the deposit are receive fixed period which varies from 3 month, 6 month, 9 month, 1year, 3 year, 5 year etc. Many deposited into this account is repayable after the expiry of the fixed period. Rate of interest in this deposit is very high. Customer usually lodges their money as fixed deposits with bank with a view to earn interest as well as to withdraw the same on the expiry of the stimulated period in case they happen to require it either for meeting certain expenses or employee it in a more remunerative.

Current Deposit

A current deposit is a deposit that can be withdrawn as demand at any time and in any amount up to the full amount of the deposits. These types of account are generally opened by the businessman who stands in need of money regularly. Under this account the customer is allowed to make frequent use of his account i.e. to deposit or withdraw money as and when he likes. No, interest is allowed by bank on current account deposits. These deposits are also called current demand deposits.

Saving Deposits:

Bank accepts saving deposits from individual and non-profit making organization. Purpose of saving deposits is to encourage the habit of saving among the common people and institution. Saving deposit attract interest which is normally less than that of long term deposits but more than that of short term deposit (Dahal sarita, Bhuvan 1999 28p)

The commercial banks accept deposits from the public also under the saving accounts. These accounts are opened to promote the saving of middle class and lower class of people. Under this account the depositors can with draw money once on twice weeks only, the amount that can be withdraw by the customers at a time shall be limited. The ideas are to impose restriction or the frequently with draws any with draw of at beyond the prescribed limit requires a prior notice. The interest allowed on saving bank deposit is lower than that allowed on fixed deposits account but higher than that allowed to current account. It is calculated on the lowest balance kept during the months. The bank supplies pass book or bank statement which must be presented along with the draw from it a customer wants to withdraw money. Most of the banks now allow with drawl by means of cheques.

2.1.7 Concept of Credit (Investments)

‘Credit’ as a term is quite confusing and multifaceted. In the pure financial sense the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hands of other for their use in return for a proper instrument entitling the holders to fixed income pay or the participation in expected profits. But in manufacturing and trading firms the term investment will be those long-term expenditures that aim to increasing plant capacity of efficiency or at building up goodwill there by producing an increased return over a period. Whereas an economist view, investment as a productive process by means of which additions are made to capital equipments.

For our purpose, in the study of the financial institution’s the investment and investment (Credit) problem will revolve around the concept of managing the surplus financial assets in such a way which will lead to the wealth maximization and providing a significant future source of income. Thus, the investment for the insurers purpose in such a way as to make it work for providing benefits to the owners by increasing to total assets simultaneously providing benefits to the suppliers of the funds by letting third party to use such resource. However, the investment needs to do a procedural task. It must follow a define investment process which definitely begins from the formulation of proper credit policy. (Investment 1995 10p)

Credit in its simplest form means employing money to generate more money in future. It is the sacrifice of current rupees for future rupees, return is the primary motive of investment, but it always entails same degree of risk. (Fundamental of investment 2003 p2)

A credit may be defined, current commitment of funds for a period of time to derive future flow of fund that will compensate the investing unit for the time. The funds are committed for the expected rate of involved in the future flow of the funds.

From the above definition the financial investment is form of this general or extended sense of term. It means an exchanging of financial claims-stocks and bonds (Collectively termed securities) real estates mortgages etc. The term financial investment is often used by investors to differentiate between the pseudo investment concept of the consumers and the real investment of the business semantics a side three is still a different between an “Credit in a ticket on a horse and the construction of a new plant between pawning of a watch and the planning of a field of corn.” Some investment are simply transaction among people other involve nature, the latter are real investment, the former are financial investment.

2.1.8 Concept of Financial Performance

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. (Pandey, 1997, 109p)

The focus of the financial analysis is one key figures contained in the financial statement and the significant relationship that exist between them. It is key tool for financial decision. All other organizations are directly influenced by the financial policies in their growth & development. Rational evaluation of the financial performance of the organization is essential to set sound financial policies. (Khan and Jwin 1991, 79)

Financial performance is the main indicator of the success of failure of the enterprise. There are different persons or group who look for the financial performance of the enterprises such as shareholder, owner, managers, creditors, investors, employees, costumers, tax authorities etc. They have direct concerned to the financial position of the enterprise. Similarly, trade union, competitors etc, are also indirectly concerned to the financial position. Although, the type of analysis varies according to the specific interest of the party involved. Shareholders of the enterprise are concerned with the present and expected future earning and the stability of the earning as well as variation with the earning of the enterprise. In short, they concentrate their analysis on the profitability of the frame sound financial arrangement system and to bring internal control. Trade creditors are interested to evaluate and analysis the liquidity position of the enterprise to serve their short-term claim. Long-term creditors are eager to see the cash how ability if the firm to serve debt over a long period of time.

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

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

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

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

2.1.9 Management Team

Nepal Bank Limited was experiencing difficulty in terms on paid loan and profits. KPMG in its diagnostics review of the bank concluded that the bank is in need of complete restructuring His Majesty's Government of Nepal, in consultation and agreement with the World Bank has come forward to restructure the bank and reform it to profitability. The bank was put under control of NRB and hired the service of the Bank of Scotland (Ireland) Ltd. ICCMT consulting effective July 22, 2002 for the management of the bank for the bank of an initial period of 2 years. The contract was renewed subsequently for one more year and will be extended now though July 2007. The team of consultants comprises mix of both foreign and Nepal nationals. (www.nepalbank.np)

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

Overview of Loan Management: Loan is regarded as the most income generating assets especially in commercial bank. It is regarded as the heart of the commercial banks in the sense that; it is the main factor for creating profitability. Loan and advances dominate the assets side of the balance sheet of any bank.

Similarly, earning from such loans and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the banks in the world failure due to shrinkage in the value of loans and advances. So, loan is regarded as the risky assets. Risk of non-repayment of loan is known as credit risk. Management is the system which helps to manage loan effectively. In other words loan management refers management of loan exposures arising from loans, corporate bonds, and loan derivative. Loan exposures are the main source of investment in commercial banks and the return from such of income.

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

The loan/credit policy of a bank provides the framework to determine whether or not to extend loan and how much to extend. The credit policy decision of a bank has two dimensions, credit standard and credit analysis. The bank has to establish and use standards in making loan and method of credit analysis. The bank has to consider five criteria while lending loan such as,

- Character
- Capacity
- Capital
- Condition
- Collateral

2.1.10 Definition of Loan

Webster's Dictionary define loan as "something lent esp. sum money lent often for a specified period and repayable with interest." (Oxford Dictionary 1992:279) financial institution lend money out of deposits, they have received. They must increase money by advancing loans since they have to pay interest on deposits.

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

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

Loan is financial assets by a lender to a borrower in return for an obligation to repay on specified time on demand. Usually loan compromises;

Customer installment, overdraft and credit card loan

Residential mortgage

Non-personal such as commercial loan to business, financial institution, government and their agencies

- Direct finance leasing
- Other management that are substance loans.
- Whereas Nepal Bank Limited provides following types of loans;

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

Barely and Myers urge that banks loans with maturities exceeding 1 year are called term loans. The firm agrees to pay interest based on the banks prime rate and to repay principal in the regular installments. Special patterns of principal payments over time can be negotiated to meet the firm's special needs.

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

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

Working Capital Loan:- Working capital means the difference between current assets and current liabilities. It is granted to the customers to meet their working capital gap for supporting production process .A nature process develops where in funds moving through the cycle are generated to repay a working capital loan.

Hire Purchase Loan:- purchase loan are characterized by periodic repayment of principal or installment basic agrees to take the goods on hire at a stated rental including the repayment of principal as well as interest with an option to purchase.

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

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

“Maturities on loans range from 12 months to as loan as 4 to 5 years depends on the size of the project.” The basic guiding principal involve in disbursement policy is to advance funds corresponding to the completion stage of the project.
Hence, what percent of the loan will be disbursed at which stage of completion must be spelled in the disbursement policy? Term loan and working capital loan needed for project fall under it.
Priority of deprived sector loan:

Commercial banks are required to extend advances to the priority and deprived priority sector.12% of the total loan must be flown towards on for agriculture cum service sector and 2.5 million for single borrower and limit sanctioned to priority sector .Institution support to “Agriculture Development Bank” and “Rural

Development Bank" are also considered under this category. Deprived sector lending includes.

Advance to poor, downtrodden, deprived people up to Rs.30000 in generating income or employment Institutional loan to Rural Development Bank" Loans to NGOs those are permitted to carryout banking transaction lending up to Rs.30000.

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

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

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

Auto Loan:-Now day's banks provide auto loan to their customers. It is granted for the purchase of new vehicles or old vehicles. It is given to the customers having regular income, NBL policy says that auto loan will be provided to purchase new vehicle up to 80% and70% will be provided to purchase old vehicle and the minimum loan amount of this loan is 2million .The maturity period in this loan range from 4 years to 7 years.

Share Loan :-NBL also provides share loan to the, customers by keeping shares as security. It provides maximum 70%of the market price of the share of standard charted Bank and 60% of the companies listed in Nepal stock exchange and the minimum loan in this type is 5 million.

Off Balance Sheet Transaction: - In fact bank guarantee and letter of credit refers to off balance sheet transactions. It is also known as contingent liability, contingent liability pinpoints the liability, which may or may not a rises during the happening of certain event. It is non-funded until adequate collateral are taken .It is described below.

i) Bank Guarantee**:-** Is used for the sakes of the customers in favor of the other party up to the approved limit. Generally a certain percent amount is taken as margin from the customer and the customer's margin account is credited.

ii) Letter of credit

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

2.1.11 The Management for Providing Loan (Disbursement Management)

The following are inevitable for loan**:**

Proposal for Loan :

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

Deed of the loan

Loan department prepares it and included loan taken .Quality of loan, interest rate, loan recovery date and data of loan agreement

(deed) etc. Such deed has to be registered from related office.

Securities

It is dealt in loan policy. Any reliable securities such as moveable or immoveable should be kept as security to provide cushion for loan beside cash generated.

Granting Loan Based on Guarantee

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

Commitment Deed

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

Contract of Indemnity

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

Invoice

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

2.1.12Management for Loan Recovery (Recovery Management)

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

Audit of credit:

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

Verification of loan documents

Field of credit to be prepared

Forms of credit to be prepared

It may be of different forms such as: Internal credit, External credit audit and credit audit by central bank

2) Recovery of Interest on loan:

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

Loan Recovery process:

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

Handover of securities:

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

Process of Recovering Date:

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

Maintenance of Data:

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

2.1.13 Methods and Mechanism of Project Appraised:

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

1) Managerial competence

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

a) Competence

b) Qualification

c) Experience

d) Honesty

Technical Feasibility

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

a) Location

b) Incentives from building

c) Plant and fuel

d) Raw material, stores, package, material

e) Power and fuel

f) Labor

g) Technology

h) Legal

Economic Feasibility

Economic feasibility is done to find the pulse of the economy and market in terms of demand, supply , competitions, marketability, market intelligence, business environment etc. On the basis of which the investment is returned safety on time.

The entire study is to ensure that the products can be sold easily with desire surplus. It includes

Demand

Supply

Price

Economic policy

Market

Nature, style and quality of the product

Sales method

Distribution system

Financial Viability

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

Project cost

- Sources of finance
- Future cash generations

2.2 Research Review

The study on Effectiveness of Saving and Credit Mobilization have not conducted some studies which are related to commercial banks are consulted and other related subject and titles helped to analyze this research work. The objective of this study was to evaluate the lending policy and to find out the ways to encourage the banking performance. The main objectives of the research work will be to analyze the before and after change of NBL.

2.2.1 Review of Related Books

Bank are such types of institutions, which deal in money and substitute for money. They deal with credit and credit instruments. The most important think for the bank is good circulation of Saving and Credit .Fluctuate flow of credit and weak decision harms the whole economy and the bank as well. Thus, to collect fund effectively and it well utilization is very challenging task for the bank. The decision of an investment of fund may be the question of life and death for the bank.

Bhandari, define the word deposits, deposits is the source of capital for the commercial bank, it's divided fixed ,saving and current. Banks flow such amount as loan and invests in different sectors to earn a profit. (Bhandari, 2003,310p)

In the words of Garg, Saving may also out of loans granted by the bank or through the process of discounting customers bills .In the case, they are known as, 'created deposit' and in actual practice the amount of such deposit is much larger than from of right to receive cash. (Garg.1998,5p)

He added, deposit may right to receive cash. These may be in the form of cheques, bills, promising notes etc, Owning to them. What the bankers does in these cases is that he collects them and credits, the customer's account with the proceeds.

According to Sigh, Deposit provides most of the raw material for bank loans. It represents the ultimate source of bank profits and growth. Deposit generate cash reserve fund, maintaining receive cash reserve, the excess cash fund, a bank holds is lent to borrow. Thus deposits (saving) create loans. The management should be able to use the deposit efficiently. (sigh, 2005,6p)

For the above definition it is clear the deposit is the main source of bank. Which is the bank usually for the generation of profit .Therefore, the efficiency of the bank depends on its ability to attract deposits. The capacity of the bank to earn profits depends on the volume and the deposits mix the bank has.

Francies define generally; The investment refers employing of money to generate more money in future. It is the sacrifice of current rupees where the return is the primary motive of investment. Every investment entails some degree of risk. It requires at present certain sacrifice for a future certain benefits (Francies, 1998)

Sharpe and Garden define Credit (investment) in this way, Investment, in its broadest sense means the sacrifice of current dollar for further dollars. Two attributes are generally involved time and risk. The sacrifice takes in the present and it certain .The reward comes later, if at all and the magnitude is generally uncertain.

In some cases the element of time predominates (for example government bond). In other case risk is the dominant attribute (for example call option on common stock). In both time and risk are important. (Shape and Gorden, 1999)

“Of course one of the primary functions of development in banking is deposit mobilization. Without deposits (saving) coming as they do from the public and the saver, banks will not have the resources to lend .With adequate resources lending can have a wider average to meet the credit needs of all the sectors of the economic. Saving and Credit operation always go together and each is interconnected. Unless there are advances, deposits cannot rise.”(Robinson, 1962:7p)

“A bank is a government regulated, profit making business that operates in competition with other banks and financial institutions to serve the saving and credit needs of its customers. The primary business of banks is accepting deposit from customers who want the safety and convenience of deposit service and the opportunity to earn interest on their individuals to business and to federal, state and local government.”(Halter, 1992:2p)

The banks won this high place in public confidence by adopting their lending policies to the implications of their obligations to the depositors now depends, in an important sense, more on the attitude of the central bank than on the nature of their lending .But this is not the whole truth and the arritudes of central bankers have themselves been partly shaped by their regard for the historical rules of successful commercial banking. Therefore, in looking for the basis of modern ideas about how a commercial banks should run the lending side of its business, Weshall have to consider how earlier conditions, Somewhat different from those of today, shaped the ideas of the bankers. Our aim will be to show how these historical forces, modified by some reaction to changing circumstances have shaped the lending practices of commercial bankers.(Sayers, 1967:176-177p)

“Commercial banks still remain the heart of our financial system holding the deposits of millions of persons, governments and business units .They make funds available through their saving and lending activities to borrowers, individuals, business firms and governments. Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets.” (Edward and Richard, 1980:1P)

1 More commercial Banks have developed formal, written lending policies in recent years. They provide guidance for lending officers and there by established a greater degree of uniformity in crediting practices since. Saving and Credit are

important **of** bank and the community it serves. Loan policies must be worked out carefully after considering many factors like.

- Capital position
- Risk and profitability of various types of loans
- Stability of deposits
- Economic conditions
- Influence of monetary and fiscal policy
- Ability and experience of bank personal
- Credit needs of the area served

(Edward and Richard 1980: 242p)

Every commercial bank has its Investment policy whether it is recognized or not. Even through a written statement of investment policy is desirable few banks have them and few may not have them. The main objectives to a written investment policy are those who feel that the economic environment of banking changes to rapidly that a formal written statement would become dated with in a short time .The basic factors that will determine the objectives of a bank's investment policy are its income opportunities and vice versa, Which means accepting greater or lesser degrees of risk formulation of an investment policy must given cognizance to the entire risk exposure that bank management is willing to assume as well as the risk carried by the securities that comprise the investment account. (Edward and Richard, 1980:378-380p)

2.2.2 Review of Journals and Articles

In addition to saving and credit mobilization, various articles were published on financial aspects. This deals in the contexts of Nepalese commercial banks and financial sectors of Nepal.

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

Bhisma Raj Dhungana, In his article, “financial sector Reform(FSR) program in Nepal published in souvenir of RBB, 2061, has concluded that Nepalese financial reforms programs has succeeded to place the private sector rather than the government in change of determining who gets credit and at what price . The FSR has also been able to establish the system of prudential regulation and supervision design to restrain the private sectors so that we can be broadly in the general social interest. Many Acts are being promulgated to obtain and maintain a strong legal environment requires for the system. It is also equally important that the enforcement aspect in all respect play a vital role, which in continuously improving.

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

It has been widely recognized that less government involvement in the financial sector, a strong central bank a strong banking environment adequate banking services to the poor, adequate legal pillars for the development of the healthy financial architecture. The government has lunched this program to eliminate financial problems. Except some aspects, the progress made within FSR (Financial Sector Reform) program seems are satisfactory.

Bhesh Raj Panthi highlights on his article entitled," The importance of human resources management” published in souvenir of RBB 2061, that the human resources management always plays key role in a commercial bank like RBB where the banking services are only made by human skills. If the size of the employee is suitable and skillful, the optimum objectives of the bank will be nearer

to the achievement. The objectives of the profitability and the achievement .The objectives of the profitability and the liquidity of the bank may be fulfilled if and only if its human resources are perfect in and only if its human resources are perfect in and suitable in quality .So, the selecting process of human resources should go through the straightway of identifying workforce requirement
Recruiting-Selecting-Placing –Promoting-Appraising-Training and Retirement.

An article was publishes in New Business Age September 2004 entitles “All Bank in Profit”. It focused that in general all banks for the fiscal year 2003-04 are publishing in their performance. During the year all the banks were in profit but in the previous year two commercial banks, Nepal Bank Ltd and Rastriya Banijya Bank were in a loss of 252 million and 3246 million respectively. NBL, RBB, Siddhartha bank, Laxmi bank , Kumari bank and Machhapuchhra bank have increased their operation profit in substantial in amount. In addition, the old banks with huge losses in the previous year (NBL and RBB) have succeeded to improve their performance.

In the article, “Challenges of a non-performing loan management in Nepal” Uma karki has mentioned the course of increasing trend of non-performing loan. She identifies the major courses such as poor loan analysis guarantee oriented loan system, desire platoon of valued assets , misuse of loan, lack of regular supervision of loan. (Karki U. 2059, NRB samachar patra vol:47:87p)

In an article Ashwini Kumar Thakur, The main causes the issue of risk management in the banking sector .According to him, risk should be taken as one of the challenges of the banking industry but it is not sufficient to minimize the potential disasters. Banking risk should be managed as a separate part of the management. (Thakur A.K.2059, NRB samachar patra vol:47:49)

In an article, Mahesh Bhattarai is trying to indicate the problem of bank bad debt and NPA. According to him, if a bank cannot receiver, its loan- lending bank's cash flow will be badly affected. Similarly, it can affect the lease relationship between depositors. (Bhattarai M.2059,NRB samachar patra vol47:62)

2.2.3 Review of Previous Studies (Related Dissertations)

This section is concerned with the previous research work done by different scholars in the aspect of Nepal Bank Limited or other commercial banks. Such as investment policy, deposit structure, lending policy, resource mobilization and capital structure, financial performance etc. Some of them, as supported to relevant for the study are presented below.

Shrestha,(2007) lending policy of Nepal Bank Limited .Has made on attempt to examine and interpret the lending policy adopt of NBL. He has included the following objectives.

To analyze and interpret the lending policy dopted by NBL and its implementation on lending practice.
To measure the bank's lending strength.
To analyzed the portfolio behavior of lending made by the bank etc.
His major findings are following ways:

The liquidity position of NBL is not satisfactory. The mean of current ratio reveals that the bank is not maintaining good liquid assets. It is not capable enough to meet its current obligations. Cash and bank balance to total deposit of the bank is high liquidity also indicates the inability of the bank to mobilize its current assets. The both ratio of the bank are highly consistent.

- Loans and advances to total assets ratio shows that the bank is not able to mobilize its funds. Similarly the decreasing trend of CD ratio indicates NBL's less attention toward lending activities.
- Interest income to total income ratio makes known that the bank has given less priority to fund based income due to its increasing risk elements.

Poudyal R.in(1985) study on "A Case Study on Capital and Assets Structure of NBL" analyzed the composition, trend and interrelation between capital and assets. During his period of 10 years (From1972 to 1981), he found total assets and liabilities increased by 5.2 times total deposit during the period by 5.32 times and total investment (including loan and advances) increased by 5.42 times. He also concluded that the loan /deposit, net profit/ total assets, net worth/total deposit and liabilities decreases during the study period

He recommended that the net worth of the bank must be increased on order to reduce the fluctuation on net profit. HE has suggested that branch opening expenses must be minimized to level up the profit margin.

The main gap of this study is to concern before 25 years .This study contents two period of time of 5 years each. The secondary data only used for analysis. For the study the simple methods were used in the analysis of data such as ratio analysis percentage arithmetic mean and standard deviation but the correlation and regression method was not used.

His major finding, the deposit collection rate of local banks is very poor as compares to foreign joint venture banks. The annual average deposits collection rate of local banks is 17.9% between the year1985 to 1989 B.S, whereas the same of foreign joint venture bank is 79.7% between the year 1987 and 1989.

Shrestha R. in (2007), Non – performing Assets management of Nepal Bank Limited, she is analysis following objectives to examine the reasons of non-performing .To analyze the increase non –performing assets in government regulations effects . She use financial tools of non- performing assets ratio, simple and multiple regression model, etc

Her major finding , The assets composition of NBL has increasing with fluctuating trend over the study period .This indicates that there is no consistency with the increasing trend.

- The net loan and advances and bill purchased in fluctuating over the study period
- The performing assets of NBL has fluctuating over the study period and has decreased gradually from year 2055/56 to year 2059/60 with sight increase in 2060/61 to2062/63, this indicates that there is consistency over the study period.
- The non-performing assets to total assets ratio has fluctuating and has ranged from 18.57 to 7.4 % over the study period. This shows that NPL of NBL is quite satisfactory and better than early years.

Baral M. 2007, Deposit collection and investment pattern of Machhapuchree Bank Limited analyze the basic objective of research are ,

To analyze general deposit and investment policy

To determine the trend of deposit position of MBL

To analyze the trend of investment of MBL

He has evaluate the liquidity assets management efficiency, profitability and risk position of MBL

In this research study he has used major financial tools- liquidity ratio, current ratio, assets management ratio, profitability ratio and statistical tools- arithmetic mean, standard deviation, variance, co-efficiency variation and trend analysis.

His major finding

- Total deposit collection percentage of MBL is satisfactory.
- It has revealed that MBL has invested more funds in other investment.

- To study of profitability ratio, the the fluctuating trend (with negative 1st and 2nd year) of return on total asset and return on loan and advances ratio depicts that net income for each unit of the bank is depreciating.
- Though the trend analysis of deposit, loan and advances, investment and net profit of MBL, it can draw a conclusion that the trend values of those variables will be positive increment for next four year, if other things remain unchanged.

Sharma (Khanal).A. 2004 'Astudy on Comparative financial Analysis of Nepal Lube oil limited (Before and after privatization)'. It is study to find the impact of privatization of the financial position. Its objectives

- To analyze the change in liability, assets and profitability of NLO before and after the privatization.
- To examine the impact of privatization on the performance.
- Improvement and recommend of the financial position.

Major findings of before and after change are.

She finds outs:

- Observed current ratio1.11 before and 1.29 after
- Debt to equity ratio was 1.54 and 0.79
- TATR 0.95 and 0.88

We know above data ratio status of Nepal Lube Oil improve before .Then TATR ratio was fluctuating over the study period. The company could not maintain any particular trend. Then gross profit margin in each 28.98%to 32.3%. It is found that the company has paid off its employees to reduce administration cost after the privatization. It is effective impact after privatization, which effects on employment opportunity. Sales revenue of the company is increased after privatization with comparison to before privatization. It is due to increase in production. It is perhaps by increasing of price of goods.

Baral B,1999 'Comperative study on the financial performance of Nepal bank limited and Grindlays bank limited now (standard chartered). Its main objectives are To analysis the trend in deposit, credit investment and comparatively it study liquidity position, credit and investment and evaluate its capital adequacy position NBL. Then above objectives are studies, the researcher finding majors are

- Variance between credit to total deposit ratio of NBL and industry average ratio is negative i.e. performance measured in term of the mobilization of deposit is better than other bank
- Liquidity position of NGBL is comparatively better than that of the NBL.
- Performance in relation to deposits, investment and credit of NBL is comparatively better than that of NGBL.
- The capital adequacy position of NGBL is comparatively more satisfactory than that of NBL.

All above the studies were focused on the comparison of the financial position of the NBL with other commercial banks or financial position analysis of the NBL only or other aspects of the NBL. But, this study is quite different from other studies. It has taken a single bank, i.e. the NBL and for the purpose of study, it has been tried to comparatively analyze the financial position of the bank for three different periods separately by dividing a period on 10 years into equal two parts of three years each.

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

CHAPTER –THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by researcher in studying a problem with certain objectives in view. To perform this activity, the chapter includes research design, population and sample, sampling procedure, data gathering procedure etc.

Thus it is the process of arriving at the solution of problems through a planned and systematic method of finding out solution to a problem with certain objectives in view. Research methodology helps to find out accuracy, validity and stability of research.

The main objectives of this study is to examine the major component of the portfolios of the balance sheet and income statement of Nepal Bank Ltd as well as evaluate the financial position of the bank before and after the management change during the period of study. To achieve the objective, the study requires an appropriate research methodology.

3.2 Research design

Research design is the main part of any research work. The research design serves as a framework for the study, guiding the collection and analysis of the data. To achieve the predetermine objectives of the study. The comparisons are made and established relationship between two variable. So, the research design of this study is based on descriptive and analytical study. For the study, ten year data are collected and analyzed to achieve the prescribed result.

Most of the data and information of the study will be concerned with past phenomena of the saving and credit either they are numerical or opinions. So it can be regarded as historical research design too. After the collection of past data and experience this study will analyze and describe its own procedure.

3.3 Nature and source of data:

Mainly based on the secondary data, which have been taken from the annual reports of the bank, economic survey, published magazine, website of NBL, articles:(yearly, month, weekly) bulletins. Besides these the following sources of data are also considered.

NRB reports and directives

Various publications dealing in the subject matter of the study.

Various articles published in the newspaper

Annual reports of NBL (2053/054 to2063/064)

Unpublished dissertations of previous years.

3.4 Data Collection Procedure

Collection data is the connecting link to the world of reality. The data collection is the taking ordered information from reality and transferring it into some recording system so that it can later to be examined and analyzed for patterns the study is based on the facts and figures collected from profit and loss account and balance sheet of the Nepal Bank limited. Hence, most of the data is these works are secondary in nature profit and loss account and Balance sheet are main sources of data.

According to the needs and objectives of the study, collected data are tabulated into various forms and formats. These data are based on the information provided by the officers of concerned departments of Nepal Rastra bank and Nepal bank limited. The annual report of bank has been obtained from field visiting of the head office of NBL. NRB publication such quarterly economic bulletins, bank and financial statistic economic bulletins, banking and financial statistic economic report. The data on some of aspects of this bank have been obtained from the official website of NBL. (i.e. www.nepalbank.com.np)

3.5 Methods of Analysis

The collected data for various sources are analyzed and presents table and format. To analyze the data, financial and statistical tools are used. Available resources and nature of the study simple analytical statistical tools such as arithmetic mean (simple average), percentage, graph and standard deviation are adopted for analysis purpose. A part those, financial tool such as ratio analysis has been used for the analysis.

3.5.1 Financial tools

Financial analysis is the use for financial statement to analyze a bank's saving and credit mobilization before and after change in management. While adopting financial tools, a ratio analysis is used as benchmark for evaluating the financial position and performance of any firm. Those tools can be used to get the precise knowledge of a business, which in turn are fruitful to explore the strategies.

3.6.2.1 Ratio Analysis

A ratio is mathematical relationship between two related items expressed in qualitative from. It may be expressed in proportional, in rate or times, in percentage. Hence, an analysis of financial statement with the help of ratios may be termed as ratio analysis. It implies the process of computing determine and presenting the relationship of items of group of items of financial statement (i.e. Income statement and Balance sheet). The ratios analysis also involves the comparison of these ratios and use of them for future projection. Various types of ratios used for the analysis and the models used for calculation of them are briefly mentioned below.

A) Liquidity ratio

Liquidity refers to pay one of hand cash when it is needed without having to sell long term assets at loss in unfavorable market. (Principle of Bank Operation: 1972 :149p) Liquidity ratio measures the liquidating position of the firm and the speed with which a bank asset can be converted into cash to meet deposit with drawl and other current obligation. It represents the firm's ability to meet it is short term obligation or its current liabilities which is known as liquidity. Liquidity ratio reflects the short term financial strength of the business those ratios are used to know capacity of the concern and find out the ability of bank to meet and to repay its short term liability. There are various ratios under liquidity ratio, which are calculated as follows

.

i) Current Ratio:

Ability for payment to current debt from current assets is current ratio. It is shows the relationship between current assets and current liability. Current ratio is calculated by dividing current assets by current liabilities. This can present as:

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} \times 100\%$$

Current assets include cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other securities, interest receivable and miscellaneous current assets. Similarly current liabilities include deposit and other accounts, short term loan, bills payable, tax provision, staff bonus, divided payable and miscellaneous current liabilities.

The widely accepted standard of current ratio 2:1 but accurate standard depends on circumstances in case of seasonal business.

ii) Cash and bank balance to current assets ratio:

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

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Total cash and bank balance}}{\text{Total current assets}} \times 100\%$$

iii) Loan and advance to currents assets ratio:

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

$$\text{Loan and advance to current assets} = \frac{\text{Loan and advances}}{\text{Total current assets}} \times 100\%$$

The numerator consists of loan advances, cash credit, local and foreign bills purchased and discounted.

iv) Cash and bank balance to total deposit ratio:

Cash and bank balance to total deposit ratio are the most liquid current assets of a firm. This is calculated by using the following formula used.

$$\text{Cash and bank balance to total deposit Ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposit}} \times 100\%$$

Cash and bank balance includes cash on hand, foreign cash on hand, cheque and other cash items balance with domestic bank and balance held abroad the total deposit consists of current deposit saving deposits , fixed deposits and other types of deposits.

B) Turnover ratio

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

Loans and advances to total deposit ratio:

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

$$\text{Loans and advances to total deposit ratio} = \frac{\text{Total loan and advances}}{\text{Total deposit}} \times 100\%$$

C) Profitability Ratios

The management of the firm is naturally eager to measure the operation efficiency of the firm similarly; the owners invest their fund in the expectation of reasonable return. The operating efficiency of a firm and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by it. The crucial importance of profits for a firm cannot be under stressed. Hence, profitability ratios indicate profit –earning capacity of a firm for measuring profitability of a bank, following ratios of this type may be calculated and analyzed .(I. M. Panday, "Financial management 8th ed. 1994 . 407p)

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

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

$$\text{Interest earned to total assets} = \frac{\text{Interest earned}}{\text{Total working fund}} \times 100\%$$

b) Interest paid to total assets ratio:

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

$$\text{Interest paid to total assets ratio} = \frac{\text{Interest paid}}{\text{Total assets (working fund)}} \times 100\%$$

c) Net Profit to Total Assets Ratio:

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

$$\text{Net profit to total assets} = \frac{\text{Net profit}}{\text{Total assets}} \times 100\%$$

d) Net profit to total deposit ratio :

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

$$\text{Net profit to total deposit} = \frac{\text{Net profit}}{\text{Total deposit}} \times 100\%$$

D) Capital structure or leverage ratios:

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

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

1) Stability ratios
2) Structural ratios

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

a) Net worth to total assets ratio:

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

$$\text{Net worth to total deposit} = \frac{\text{Net worth}}{\text{Total assets}} \times 100\%$$

b) Total deposit to net worth ratios:

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

$$\text{Total deposit to net worth} = \frac{\text{Total deposit}}{\text{Net worth}} \times 100\%$$

1) Structural Ratios: These ratios show the proportion of various items of owners equity and liabilities. The ratios under this type are :

a) Total debtsto net worth ratio:

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

$$\text{Total debt to net worth} = \frac{\text{Total debt}}{\text{Net worth}} \times 100\%$$

3.6.3 Statistical tools

Some important statistical tools have been used to present and analyze the date for achieving the objective of this study mean (average) , standard deviation, Least square liner, trend analysis etc, have been used for the purpose the basic statistical analysis is related to this study are discussed below.

A) Average (mean)

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

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

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

Where,

$\bar{X}$ = Arithmetic Mean or Simple Average

X = Sum of Observations

n = Number of Observations

B) Standard deviation:

The standard deviations a measure of dispersion which implies that it helps to me a sure, by how much the observations, at an average, during a period, (or given) set of observation), are dispersed from one value to another. It is defined as the square of the deviation of the given observation from their arithmetic mean.

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

Where,

$\pm$ = Standard deviation

$\overline{X}$ = Arithmetic Mean or Simple Average

n = Number of observations

C) Trend Analysis

Least square trend analysis interprets the trend of deposit loan and advances investment and net profit. It is necessary to calculate the forecasting the next years. The following trend value analysis has been used in this study.

i) Trend analysis of total deposit

ii) Trend analysis of loan and advances

iii) Trend analysis of total investment

iv) Trend analysis of net profit

General equation used for trend analysis

Y =a+bx

Where, Y =dependent variable

x = Independent variable

a =Y intercept

b = slope of the trend line

The above equation solve

a = $\overline{y}\,\mathrm{Z}\,b\overline{X}$

b = $\dfrac{xy\,\mathrm{Z}\,n\overline{X}y}{Ex\overline{2}\,\mathrm{Z}\,nx^2}$

CHAPTER FOUR

DATA PREESNTATION AND ANALYSIS

In this chapter, we identified the financial strength and weakness of a firm by property establishing the relationship between the items of balance sheet and income statement. A study on Effectiveness of Saving and Credit analysis of different angles as follows.

4.1 Financial position analysis

Financial analysis is the use for financial statement to analyze bank's saving and credit patterns before and after change. Those different analyses can be used to get the precise knowledge of a business. While adopting financial tools, a ratio analysis is used as benchmark for evaluating its position and performance.

4.1.1 Analyzing the saving and credit term

To analysis the saving and credit pattern before and after change. We can study total deposit form different accounts for before and after change Investment condition improve and impact and loan and advances capacity are analyze.

i) Total deposit:

The deposit is the main source of bank's funds. So its volume in total liability plays a vital role in administering the lending and investing function of a bank. Total deposit consists of all types of deposits collected by the bank which shows by following table.

Table 4.1

Total deposit

Before Management Rs. In million

FY	Current a/c	Saving a/c	Fixed a/c	Other a/c	Total deposit	Mean(x)	S.D
2053/54	3409.94	9381.88	8350.17	428.5	21570.5		
2054/55	4342.42	11112.78	12272.49	410.62	28138027		
2055/56	4408.23	14281.04	14162.35	336.86	33188.48		
2056/57	5025.88	18066.25	12287.07	389.06	35768.27		
2057/58	5062.48	20058.24	10171.17	326.73	35618.59	30856.8	5401.06

After management Rs in million

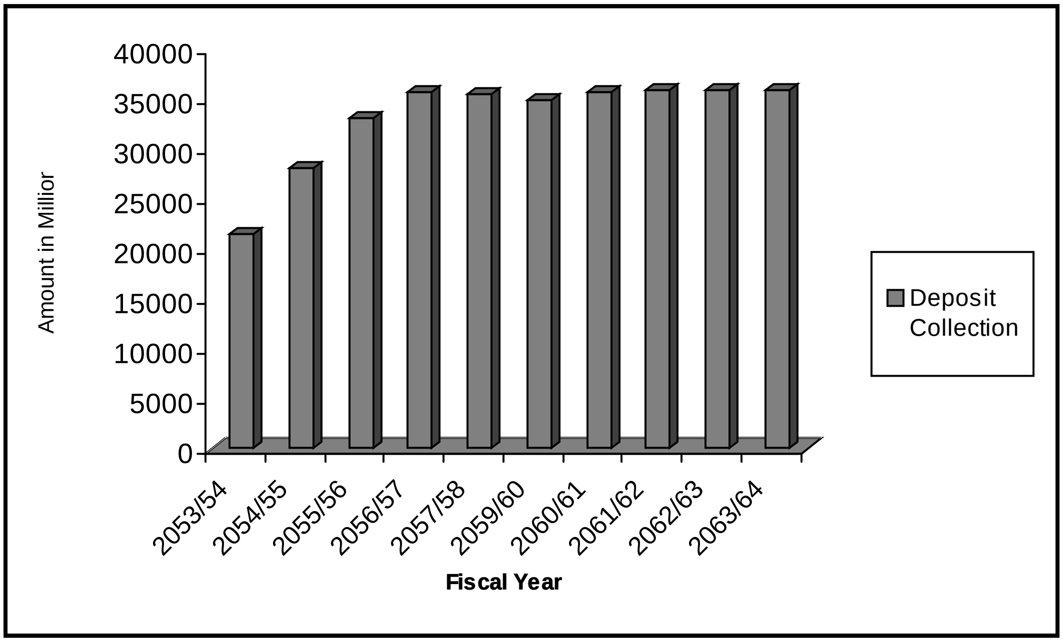
FY	Current a/c	Saving a/c	Fixed a/c	Other a/c	Total deposit	Mean	S.D
2059/60	4706.53	21628.04	8389.96	289.47	35014.001		
2060/61	5536.95	22204.4	7815.94	177.75	35735.04		
2061/62	58400.5	23489.13	6191.01	413.19	35934.16		
2062/63	57300.7	23932.6	5892.5	350.76	35905.93		
2063/64	5829.68	24360.7	5489.3	318.48	35998.16	35717.46	362.33

source:Annual reports of NBL

Total deposit of NBL is increase after management to comparing before and after average deposit of before is 30856.8 and after change its average deposit is 35717.46. Which is indicates that there is a fluctuation in the total deposit increasing position. The above volume of total deposit can be presented in figure.

4.1Chart

Total deposit



Above chart the trend of total deposit s of NBL hasn't been highly fluctuated. But the overall trend of total is increasing than before change.

ii) Loan and Advances

Commercial banks main function is to create credit from its borrowed fund. The high volume of loan & advances is the indicator of credit. The survival of banking business is dependent on good performance of its lending activities so comparatively its loan and advances as.

Table 4.2

Loan and Advances

Rs in millions

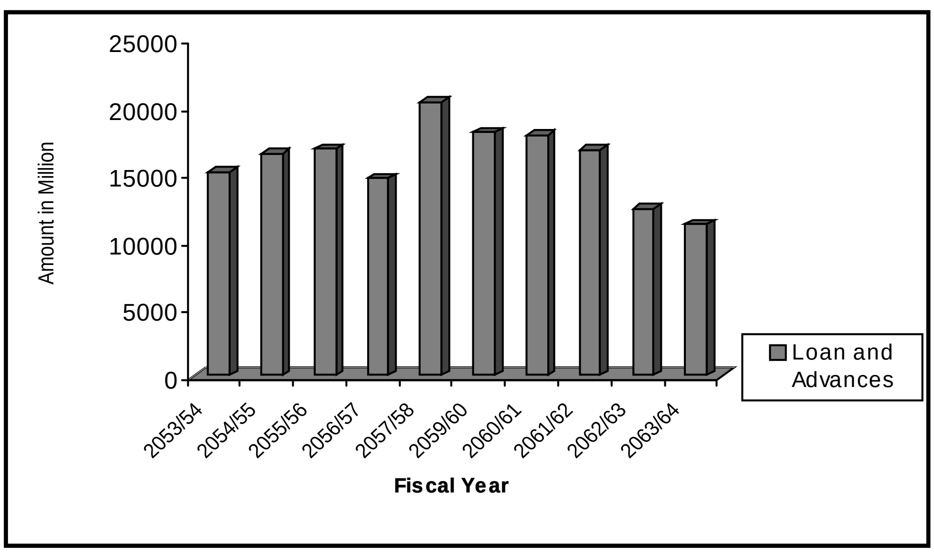
FY	Before management	FY	After management
2053/54	15220.46	2059/60	18132.33
2054/55	16580.329	2060/61	17937.66
2055/56	16903.63	2061/62	16866.56
2056/57	14702.3	2062/63	12441.55
2057/58	20418.94	2063/64	11267.44
Mean	16765.13	Mean	15327.91
S.D	2000.87	S.D	4542.2

Sources: Annual reports of NBL

This table can be presented clearly in the following figures

Chart 4.2

Loan and Advances



The above table and figure shows the total loans and advances of NBL are decreasing trend. The total loan and advances before management change more than after management. The average before change is 16765.13 and after change is 15327.91. The standard deviation of total loans and advances are 2000.87 and 4545.2 respectively. The loan amount is decreasing it shows that the bank reduce its doubtful debt or risk loan.

iii) Investment:

Investment is the employment of funds with the aim of achieving additional income or growth in value. It is concerned with management of an investor's wealth, which is the sum of current income and present value of all income. Since mobilization of fund in investment is depends upon the available market option to analyze the bank's investment situation before and after management change which is showing below table and figure.

Table 4.3

Investment

Rs in millions

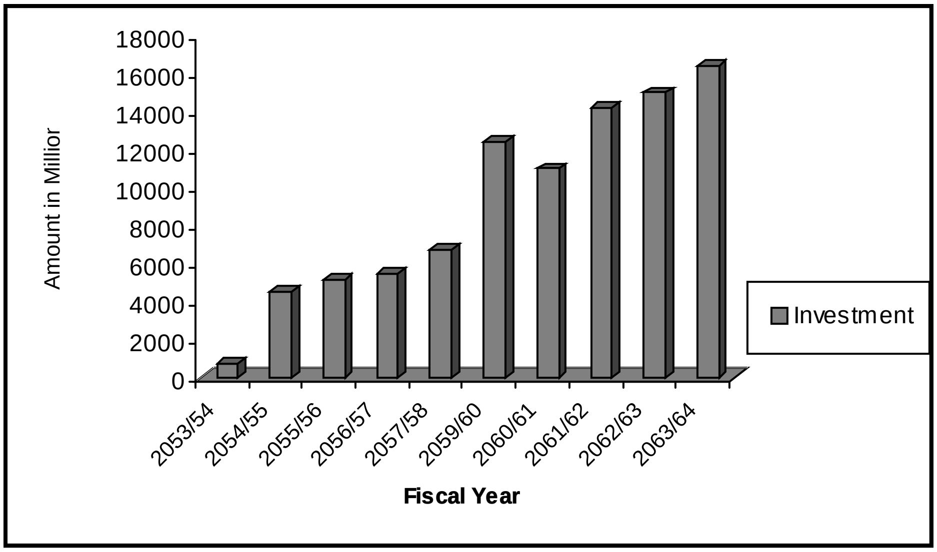
FY	Before Management	FY	After management
2053/54	781.11	2059/60	12447.7
5054/55	4495.07	2060/61	11004.82
2055/56	5124.56	2061/62	14199.22
2056/57	5462.07	2062/63	14990.25
2057/58	6776.33	2063/64	16421.07
Average (V)	4527.83	Mean	13812.6
S.D ($\pm$)	2016.12	S.D	1901.95

Sources: Annual reports of NBL

This table can be presented clearly in the following chart.

Chart 4.3

Investment



Above data table and chart shows that the investment position of NBL has increasing pattern. Before management is less investment 781.11 to 6776.33 when ICCMT take management contract its investment position increase year by year. IT management process can improve addition field investment. The average before has 4527.83 and after management 13812.6. We know these data shows its management activities grow up the banking transaction.

4.1.2 Ratio Analysis

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

A) Liquidity Ratios

Liquidity ratio measures the short-term creditors of the firm are interested in the short-term solvency or liquidity of a firm. However, liquidity implies, form the view of utilization of the funds of the firm that funds are idle or they earn very little. A proper balance between the two contradictory requirements, i.e. liquidity and profitability is required for efficient use of financial resources. The liquidity ratios measure the ability firm to meet its short-term obligation and reflect the short- term financial strength or solvency of a firm. According to the nature of the business of the firm, various ratios may be calculated to indicate their liquidity position of a bank have been to analyze the financial position of bank in terms.

i) Current Ratio

Term maturing obligations to be meet, as originally contemplated, within a year 2053/54 to 2057/58 before it is the ratio of total current assets to total current liabilities and calculated by dividing total current assets by total current liabilities. The current assets of a firm represent those assets that can in the ordinary course of business, be converted in to cash within a short period of time, normally one year. The current assets of a bank include cash and bank balance, money at call and short notice, bills discounted and purchased, Short- term investment and interest receivable etc.

Simultaneously, the current liabilities of a firm represent those liabilities that have short-management change and 2059/60 to 2063/64 after management change and their analysis by classifying into two groups.

Table 4.4

Current Ratio

Before management change after management change

FY	CA	CL	Ratio %	FY	CA	CL	Ratio %
2053/54	26153.74	25385.4	103.0267	2059/60	49868.22	39693.22	125.6341
2054/55	34403.7	33567.46	102.4912	2060/61	49598	39143.89	126.7069
2055/56	37334.62	35198.22	106.0696	2061/62	52780.74	43200.5	122.1762
2056/57	38691.56	33869.26	114.238	2062/63	55251.45	47252.23	116.9288
2057/58	49944.76	42977.89	116.2104	2063/64	56340.86	48483.56	116.2061
Mean ($\overline{X}$			108.4072				121.6
Standard Deviation			0.0563				0.045

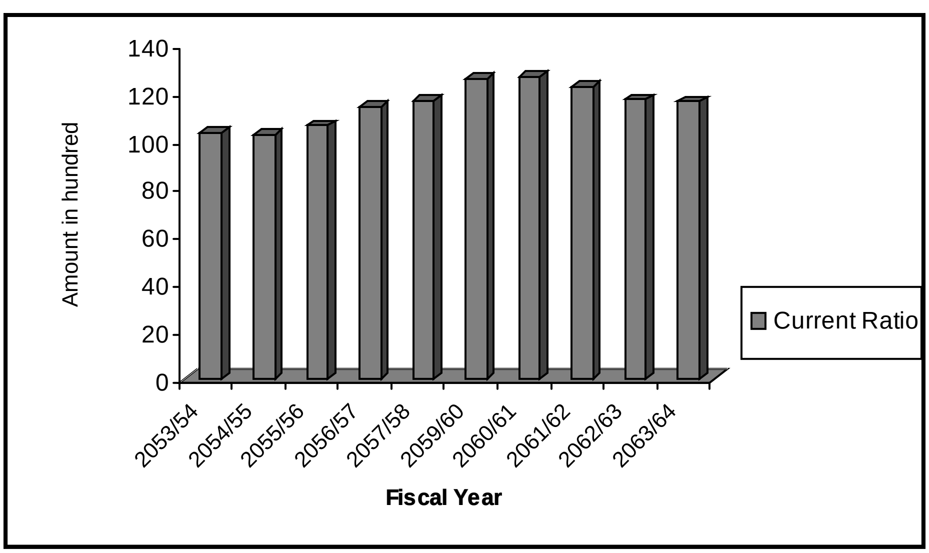
Source: Annual reports of Nepal Bank limited.

CA=Current Assets CL=Current Liabilities

This table can be presented clearly in the following Chart.

Chart 4.4

Current Ratio



Above table and diagram, reveals current ratios of the NBL, for the periods of the ten years 2053/54 to2057/58 before management change and 2059/60 to 2063/64 after management change. As per the objectives of the study, they have been classified into two groups of five years each.

The condition of current ratios for the first period (before management change) isn’t satisfied. The current ratio of 2:1 is considered as an ideal proportion therefore. The bank has 103,102.5, 106.1, 114&116 in FY 2053/54 to 2057/58 respectively which indicates that the bank has not been maintaining liquidity properly.

The average of current ratio is 108.3 and standard deviation for the first period is 5.63. Its S.D of the first period shows that the current ratios are more fluctuating.

Similarly, the second condition of current ratio is comparatively improved. The bank has 126,127,122,117&116 in FY 2059/60 to 2063/64 B.S respectively, which indicates that the bank is improving its liquidity position. The average current ratio is 121.6% which is more than that of the first period.

ii) Cash and Bank Balance to Current Assets Ratio:

This ratio shows the position of cash and bank balance to total current assets. These are ready cash which can be used any time and any where according to the need of the bank.

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

The following table shows the cash and bank balance to current assets ratio of NBL form fiscal year 2053/54 to 2057/58 before management change and 2059/60 to

2063/64 after management change and their analysis be classifying in to two groups. This table can be presented clearly in the following Chart.

Table 4.5

Cash and Bank Balance to Current Assets Ratio

In million Rs.

Before Management Change				**After Management Change**			
F.Y	C.B	C.A	Ratio (%)	F.Y	C.B	C.A	Ratio (%)
2053/54	4653.44	26153.74	17.76	2059/60	45.95	49868.22	9.21
2054/55	6495.5	34403.7	18.88	2060/61	5861.07	49598	11.8
2055/56	5415.77	37334.62	14.51	2061/62	6159.34	52780.74	11.67
2056/57	5471.9	38691.56	14.14	2062/63	6464.92	55.251.45	11.7
2057/58	6266.79	49944.76	12.54	2063/64	6279.08	56340.86	11.14
Average		15.56					11.10
Standard Deviation		2.36					0.975

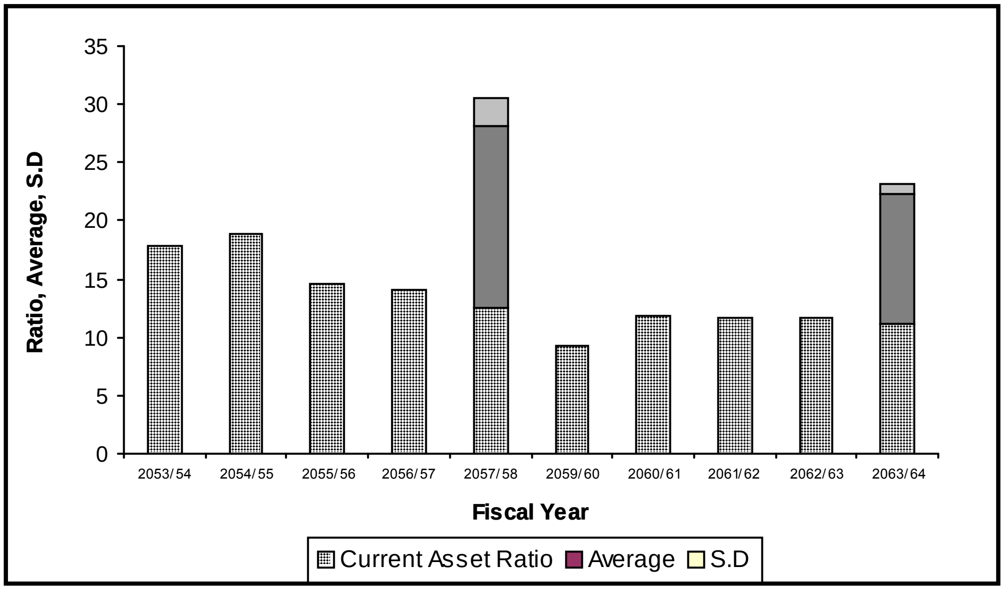
Source: Annual Reports of Nepal Bank Limited

CB=cash and bank balance CA= Current Assets

This table can be presented clearly in the following chart.

Chart 4.5

Cash and Bank Balance to Current Assets Ratio



The above table and diagram indicate that the average of cash and bank balance to current assets to be 15.56 for first period (Before management contract) and 11.10 for second period (After management contract).However the standard deviation of before management is 2.36 and after management 0.975.

Hence it can be summed up that cash and bank balance to current assets ratio. This ratio reveals the ability of the bank to make the quick payment on its customer's deposits. High ratio indicates that the bank's sound ability to meet their daily cash requirement of their customers deposit &vice versa. Therefore above data represents after management cash and bank balance to cash ratio less more hold of less remains idle cash. In this ratio both higher and lower ratios aren't desirable because high ratio indicates more idle more and low ratio shows less capacity to pay. It has maintained cash and bank balance at the required level.

iii) Loans and advances to current Assets ratio:

The ratio measures whether the bank is successfully mobilizing its loan and advances or not .Bank should be invested as loan and advances to the customers to make more profit for mobilizing its funds in the best way. Thus a bank should not allocate all funds in loan and advances because it must be maintain in appropriate cash balance to meet other requirements.

The following table shows the loan and advances to current assets of NBL form fiscal years 2053/54 to 2057/58 before management change and 2059/60 to2063/64 after management change and their analysis by classifying in to two groups.

Table 4.6

Loan & Advances to Current Assets Ratio

In million Rs.

Before Management Change				After Management Change			
FY	**L&A**	**CA**	**Ratio %**	**FY**	**L&A**	**CA**	**Ratio %**
2053/54	15220.46	26153.74	58.19611	2059/60	18132.33	49868.22	36.36
2054/55	16580.33	34403.7	48.19345	2060/61	17937.66	49598	36.16
2055/56	16903.63	37334.62	45.27602	2061/62	16866.55	52780.74	31.95
2056/57	14702.3	38691.56	37.99873	2062/63	14573.25	55251.45	26.37
2057/58	20418.94	49944.76	40.88305	2063/64	15879.67	56340.86	28.18
Average			46.11%				31.8%
Standard deviation			6.97%				1.82%

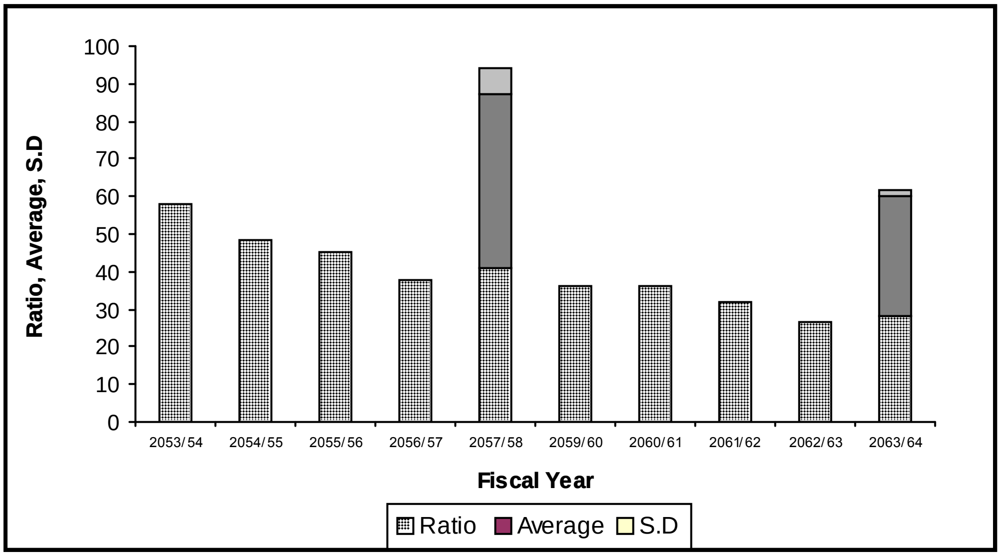
Source: Annual Reports of Nepal Bank Limited

L&A=Loan and advances CA=Current Asset

This table can be presented clearly in the following chart.

Chart 4.6

Loan & Advances to Current Assets Ratio



The above table and diagram, the total loans and advances of Nepal Bank Limited are decreasing trend before and after. Before management change in year 2053/54 its ratio 58.2 in year 2.56/57is37.99. We said that the data highest to lowest were fluctuating. Its average is 46.11% and its standard deviation 6.97.

Similarly second part, after management change loan and advance to current assets ratio is decreasing year by year its average ratio is 31.8% and standard deviation1.82%.

Comparing the ratio for two periods, the average of the first period is higher than loan and advances to current assets ratio over the second periods. The main cause of great decrease in total loan and advances is its weak lending policy that the bank is following even in today's competitive banking environment. The loan clients are ready to pay higher interest charged by private banks against their quick and easy service.

Hence, in the first period of investment on risky areas is at an average, more than in the second period.

iv) Cash and Bank Balance to Total Deposit Ratio:

The ratio shows the percentage of total deposit which can be immediately discharged by the bank from its ready cash. Total of the deposit is the most important sources of bank's fund. This fund should be utilized into various sectors in a profitable manner and cash and balances is that part of bank's fund which has not been invested any where with a view to generating income.

Table 4.7

Cash and Bank Balance to Total Deposit Ratio

In million Rs.

Before Management Change				**After Management Change**			
FY	**CB**	**TD**	**Ratio %**	**FY**	**CB**	**TD**	**Ratio %**
2053/54	4653.44	21570.5	21.57317	2059/60	4595.2	35014	13.12389
2054/55	6495.5	28138.27	23.08422	2060/61	5861.07	35735.04	16.40146
2055/56	5415.77	33188.48	16.31822	2061/62	6159.34	35934.16	17.14063
2056/57	5471.9	35768.26	15.2982	2062/63	6464.92	35829.7	18.04347
2057/58	6266.79	35618.59	17.59416	2063/64	6279.08	36250.9	17.32117
Average			18.77%				16.40%
Standard Deviation			3.03%				1.73%

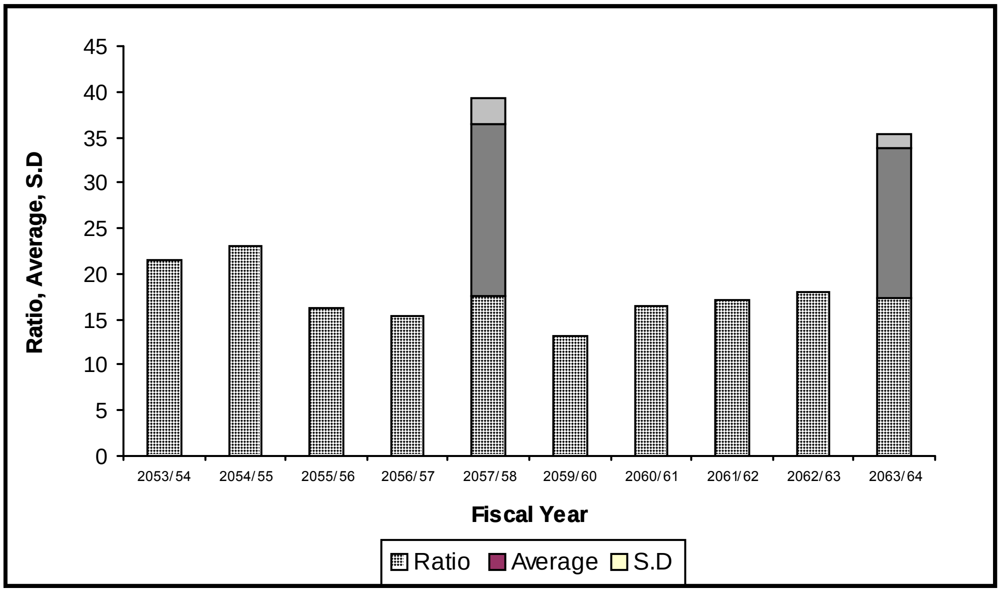
Source: Annual Reports of Nepal Bank Limited

CB= Cash and bank balance TD= Total deposit

This table can be presented clearly in the following figure

Chart 4.7

Cash and Bank Balance to Total Deposit Ratio



The above table and diagram shows cash and bank balance to total deposit ratio of the bank, before management average ratio is 18.77 and it has recorded the standard deviation for the period 3.03.

Similarly, the second part of the table shows the average ratio is 16.40% and it has recorded the standard deviation for the period is 1.723. Analyzing between two periods indicate bank's increasing efficiency in investing its collected fund. During the first period, the bank holding 18.77% of its total deposit in term of cash and bank balance and during the second period, it is little by more than 2.366 for i.e.16.404% for the period. The standard deviation of second period is less than that of first period, which indicates less fluctuation in the ratios during the second period

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

B) Turnover Ratio:

i) Loans and advances to total deposit ratio:

Loans and advances is the main item of utilization of bank's collected fund. This ratio measures how well the deposits have been mobilized. This ratio is also known as credit deposit ratio (CD) ratio. Loans and advances to total deposit ratio shows how much fund of deposit is provided as loan and advances. This ratio is used to find out how successfully the bank is utilizing its deposited fund on credit for profit generating purpose.

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

Table 4.8

Loans and Advances to Total Deposit Ratio

In million Rs.

Before Management Change				After Management Change			
FY	**L&A**	**TD**	**Ratio %**	**FY**	**L&A**	**TD**	**Ratio %**
2053/54	15220.46	21570.5	70.56146	2059/60	18132.33	35014	51.78594
2054/55	16580.33	28138.27	58.92448	2060/61	17937.66	35735.04	50.19628
2055/56	16903.63	33188.48	50.93222	2061/62	16866.56	35934.16	46.9374
2056/57	14702.3	35768.26	41.10432	2062/63	12441.55	35829.7	34.72413
2057/58	20418.94	35618.59	57.32664	2063/64	11267.44	36250.9	31.08182
Average			55.77%				42.97%
Standard Deviation			9.69%				8.38%

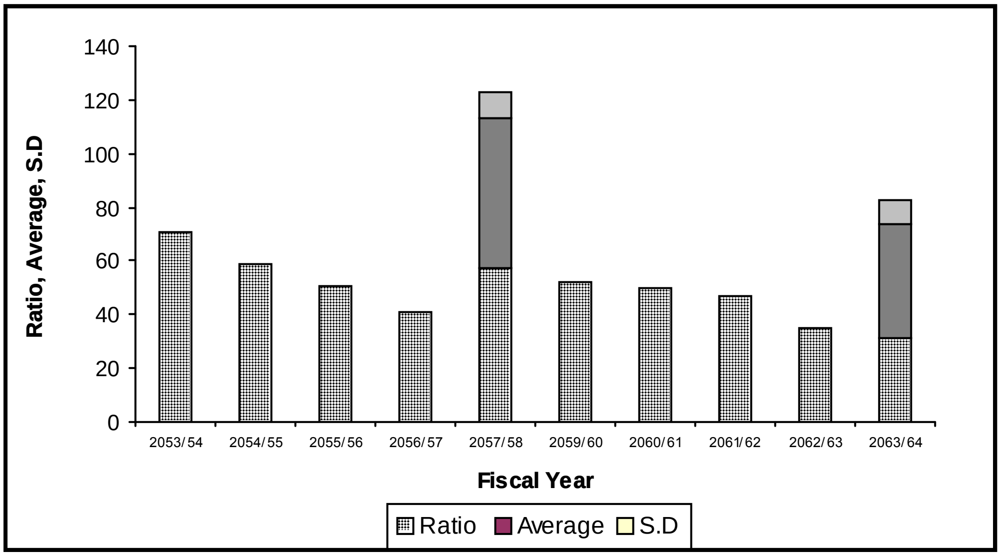
Source: Annual Reports of Nepal Bank Limited

LA= Loan and advances TD = Total deposit

This table can be presented clearly in the following chart.

Chart 4.8

Loans and Advances to Total Deposit Ratio



Above table and diagram show the loans and advances to total deposits ratio of NBL for last 10 year. Before and after management change, the ratio is continuously decreasing due to the bank's lending operations. In Nepalese sector, 70% to 80%CD ratio is considered as more appropriate, which is commonly believed to balance the profitability and liquidity of the banks. It means the ratios is decreasing or more fluctuating. The decreasing trend of the ratio shows that the bank is not able to complete with private banks. The bank shows after management position, the ratio shows that conclude that the bank is trying to identify itself as a risk averter bank. The mean of before is 55.77, after change 42.97. The S.D of the ratio is before 9.69 and after 8.38

The above calculation shows that the percentage of loan and advances of the first period higher than second periods. It implied that fund mobilization efficiency of the bank has decreased and succession of bank in recovering the mobilized fund has pushed up the bank toward, profit in recent some years. Hence, during the period bank's investment on risk less sector has increased.

C) Profitability Ratios:

Profit is paramount factor for firm's expansion and diversification. It is regarded as the engine of diversification. It is also regarded as the engine that drives the business and indicates economic progress. Profitability ratios are calculated to measure the economic efficiency of the business. Sufficient amount of profit is to be earned by every commercial bank for successful day to day profit is the difference between revenue and expenses over a period of time. To measure the profitability of the NBL a number of ratios have been calculated and analyzed under wealth.

i) Return on Total Asset Ratio:

Return on total assets ratio measure the profit earning capacity by utilizing available resource i.e. total assets, Return will be higher if the bank's fund is well managed and efficiently utilized. This ratio is called "profit to assets ratio". It is calculated as below.

Table 4.9
Return on Total Assets Ratio

Before Management Change				After Management Change			
FY	**NP**	**TA**	**Ratio %**	**FY**	**NP**	**Ta**	**Ratio %**
2053/54	128.95	26292.4	0.490446	2059/60	-251.73	50007.86	-0.50338
2054/55	15.9	34548.66	0.046022	2060/61	710.39	49735.79	1.428328
2055/56	-2535.39	37479.16	-6.7648	2061/62	1730.13	52975.79	3.265888
2056/57	-2669.5	38839.56	-6.87405	2062/63	1207.27	55438.54	2.177673
2057/58	-2177.9	50091.7	-4.34783	2063/64	1890.57	56539.94	3.343778
Average			-3.70%				1.94%
Standard deviation			3.21%				1.41%

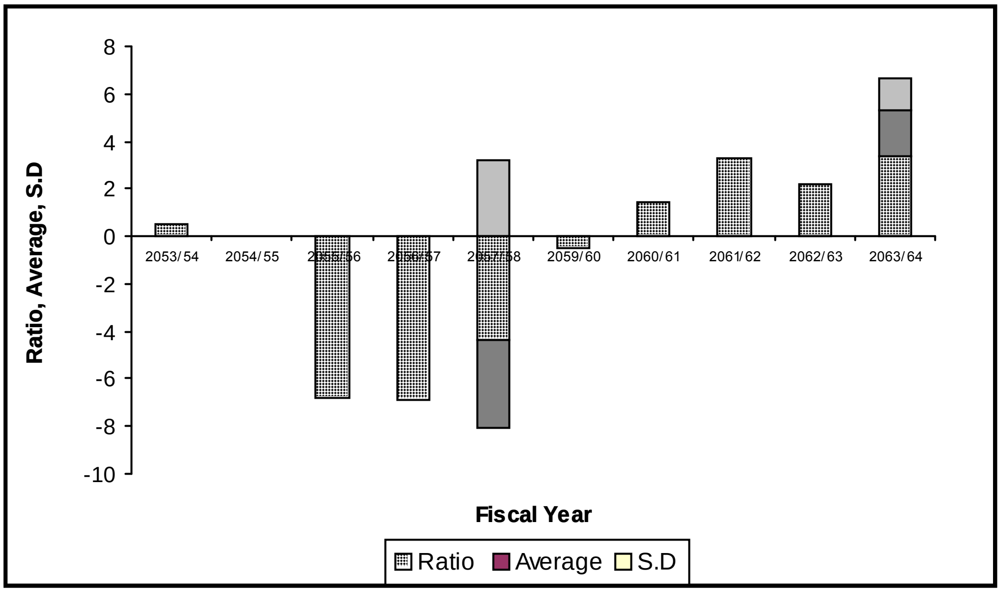
Source: annual reports of NBL

NP= Net profit TA= Total Assets

This table can be presented clearly in the following chart.

Chart 4.9

Return on Total Assets Ratio



Above table and diagram shows very poor profitability of the NBL, thought out the period of study. Bank's profit earning capacity is worst during the first period. The five years period has shown negative Return on assets ratio. i.e. 55/56 to 2059/60 has negative ratio. The average of the ratios for the first period is negative -3.70%. It shows that bank suffer loss.

Similarly, the second part of the table (after management change) shows the second period of stud. The bank's profit earning capacity is increasing during, its 4 years Return in assets ratio increase in positively. The FY2063/64 has ratio of 3.34 for the period which is highest of the study. The average of the ratios for the second period is 1.94 and the S.D of the period is 0.73. The assets have been utilized in such a way that their earning are sufficient even over meet all expenses and take profit.

Hence, the first period shows negative ratios and second period shows the positive ratio. In this ratios indicate bank's success to utilize its assets. Based on net to total assets ratio, the second period is better than first period.

ii) Interest Earned to Total Assets (working funds) Ratio:

Interest is the main source of income of a bank interest is earned on the loan advances and investment made by bank. Total asset refers to total working fund or total utilization of fund by the bank, which is collected from various sources. Interest earned and total assets have a deep relationship. The amount or ratio of interest earned it's efficiently and effectively the bank has utilized its assets.

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

Table 4.10

Interest Earned to Total Assets Ratio

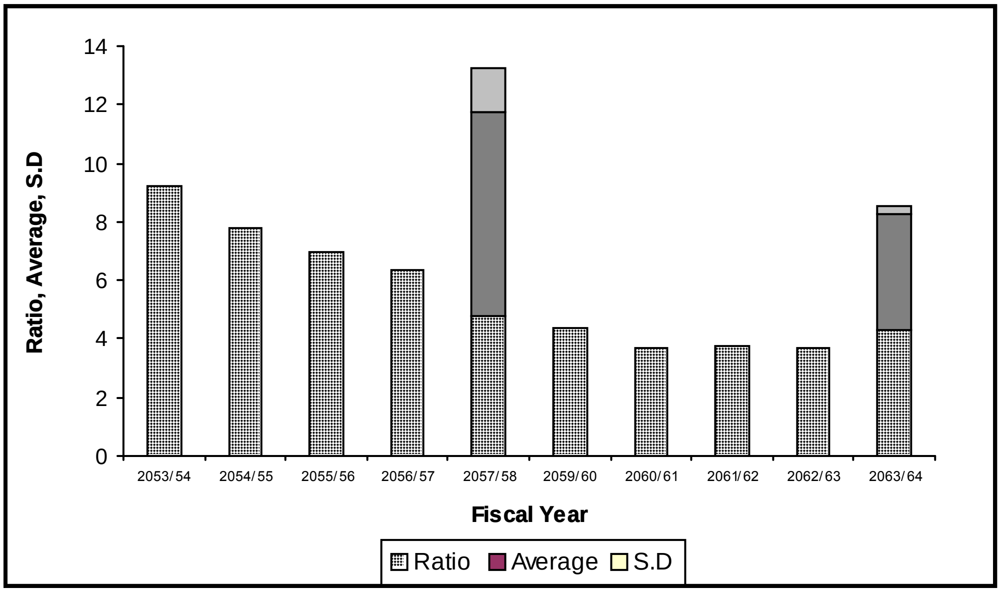
Before Management Change				**After Management Change**			
FY	**I.E**	**TA**	**Ratio %**	**FY**	**I.E**	**Ta**	**Ratio %**
2053/54	2426.12	26292.4	9.227457	2059/60	2200.31	50007.86	4.399928
2054/55	2693	34548.66	7.794803	2060/61	1825.04	49735.79	3.66947
2055/56	2602.54	37479.16	6.943966	2061/62	1987.12	52975.79	3.750996
2056/57	2477.57	38839.56	6.378986	2062/63	2048.03	55438.54	3.694235
2057/58	2383.2	50091.7	4.757674	2063/64	2419.74	56539.94	4.2797
average			7.02%				3.96%
standard deviation			1.48%				0.31%

Source: Annual reports of NBL

I.E= Interest earned TA= Total assets

Chart 4.10

Interest Earned to Total Assets Ratio



The above table and diagram shows the interest earned to total assets ratios of the bank for ten years divided into two equal parts of five years each.

The average of ratios for the before change is 7.02 percentage. The first period has recorded the highest and lowest ratio 9.23% and 4.73% in first and 5th year respectively. Then the S.D of this period is 1.48. Similarly the average of ratios for after change is 3.96% which is less than for the first period. It has recorded the highest ratio is 4.4% and lowest ratio is3.67%. The average ratios of two periods explain that bank's assets utilization efficiency has decreased during the second period. The standard deviation of this period is .314 which is less than that of first period.

As interest main source of income of a bank the profitability of the bank it largely depends on its interest earning capacity. To increase and profit margin, the bank should able to earn interest from loan, advances and investment increase in time. High interest earned to total assets shows bank's better position. Hence, based on ratio, the second period of the study should increase its interest ratio.

iii) Interest Paid to Working Fund Ratio:

The main activities of bank accepting deposit in different account. Large amount of banks earning is utilized in paying interest to the depositors. This is that type of cost of a bank, which can never be avoided.

After accepting deposits the bank must pay interest on deposit according to the existing rules and bank's commitment made at the time of accepting deposits. During the period of study, bank interest paid ratio calculated as:

Table 4.11

Interest Paid to Total Asset Ratio

Before Management Change				After Management Change			
FY	**I.P**	**TA**	**Ratio %**	**FY**	**I.P**	**Ta**	**Ratio %**
2053/54	1515.25	26292.4	5.763072	2059/60	1585.59	50007.86	3.170682
2054/55	1907.5	34548.66	5.521198	2060/61	1025.53	49735.79	2.061956
2055/56	2276.52	37479.16	6.074096	2061/62	748.95	52975.79	1.413759
2056/57	1957.23	38839.56	5.039269	2062/63	774.3	55438.54	1.396682
2057/58	1834.94	50091.7	3.663162	2063/64	1096.42	56539.94	1.939196
Average			5.20%				2.00%
Standard deviation			0.81%				0.65%

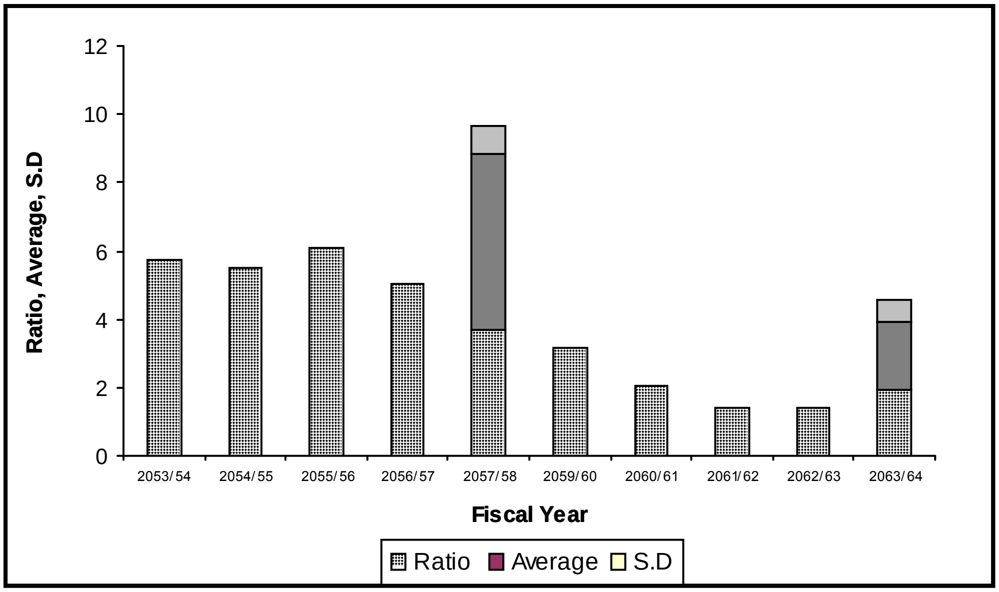
Source: Annual reports of NBL

I.P= Interest paid   TA = Total assets

This table can be presented clearly in the following chart

Chart 4.11

Interest Paid to Total Asset Ratio



The above table and diagram point out the average of the interest paid to total assets ratio. The average of the ratios for the first period (before management change) is 5.2% the lower interest paid to total assets ratio in the first period indicates proportionately lower cost of interest during the period. From view point of profit, to decrease the costs is to help maximize profit. During the first period upper most ratios is 6.07 and lowest ratio is 3.66%. The standard deviation is 0.807 for the period.

Similarly, the average ratio for the second period is 2% which lesser than the average of the first period. From view point of profit to decrease the cost is to help maximize profit or, lower interest paid to total assets ratio in the second period indicates proportionately lower cost of interest during the period. The standard deviation is 0.645. Hence the table and diagram shows at an average lower cost of interest in second period than the first period. Interest paid to total assets ratio the bank is in better position during second period.

ii) Net Profit to Total Deposit

The sum of deposit accepted by the bank under various accounts in termed as total deposit. In such terms and condition of the deposit the bank should pay interest on this deposit. The deposits so accepted are mobilized by the bank into various sectors in the form of investment (credit) loan & advances from which it generates earning in the form of interest or other. The difference between the interest received and paid by the bank it its profit.

Hence in other word, net profit is a reward to the bank for efficient mobilization of its total deposit. So it is important from every angle to show the relationship between the net profit & total deposit for which the net profit to total deposit has calculated as below with two groups of before & after management contract.

Table 4.12

Net Profit to Total Deposit Ratio

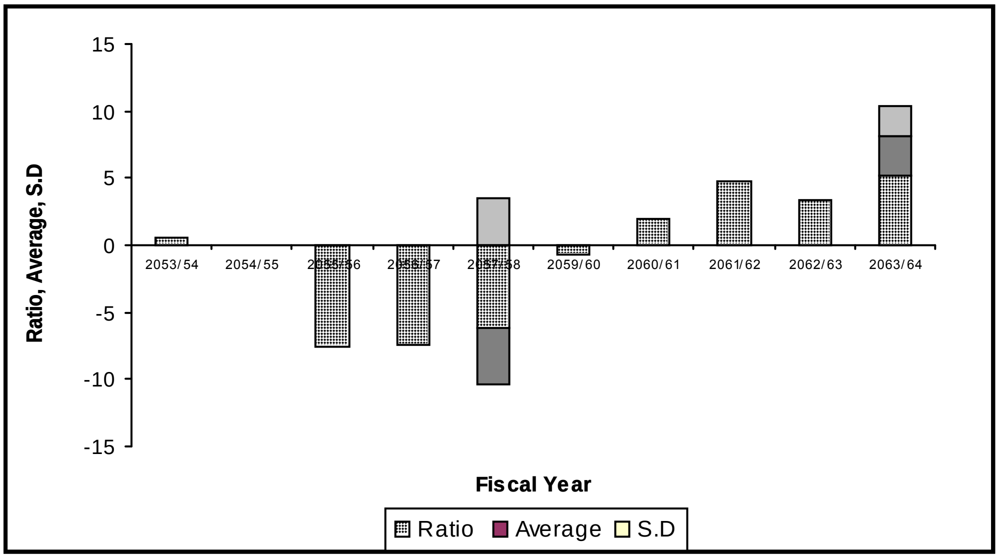
Before Management Change				After Management Change			
FY	**NP**	**TD**	**Ratio %**	**FY**	**NP**	**TD**	**Ratio %**
2053/54	128.95	21570.5	0.597807	2059/60	-251.73	35014	-0.71894
2054/55	15.9	28138.27	0.056507	2060/61	710.39	35735.04	1.987937
2055/56	-2535.39	33188.48	-7.63937	2061/62	1730.13	35934.16	4.814722
2056/57	-2669.85	35768.21	-7.46431	2062/63	1207.27	35905.93	3.362314
2057/58	-2177.9	35618.59	-6.1145	2063/64	1890.57	35998.16	5.251852
Average			-4.23%				2.94%
Standard deviation			3.52%				2.16%

Source: Annual Report of Nepal Bank Limited

NP = Net Profit T.D.: Total Deposit

Chart 4.12

Net Profit to Total Deposit Ratio



Above the table & diagram show net profit to total deposit ratio for the first period the ratios seem to be much reduces all ratios were in negative its average ratio is -4.23% highest loss ratios is -7.46 and lowest is 0.0056. The standard deviation for the period is 3.52

Similarly in the second period, the ratio seems, to be slightly improving. For the after management change its highest ratio of 5.25 and lowest ratio of 0.72. The average ratio is 2.94 and out of the standard deviation are 2.16.

It states that the bank has been facing many problems in mobilizing is deposits its deposit. Deposits are the main sources of the bank's fund & negative profit to total deposit ratio indicates bank failure or inefficiency to mobilize its deposit. The high positive ratio shows the banks ability to pay interest and mobilize fund generating income.

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

D) Capital Structure of Leverage Ratio

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

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

1) Stability Ratios
2) Structural Ratios

1) Stability Ratios: These ratio show the relationship between shareholders find and various items and the types of the ratios, which may be calculated different ratios.

a) Net Worth to Total Assets Ratios

Net Worth is the total book value of investments made by the shareholder in the firm. In other words, net worth, which is also known as shareholder's fund is the total claim of shareholder's in the firm. Thus the net worth to total assets ratio shows the total claim of shareholders or owners on the total assets of the firm. A higher net profit to total assets ratio shows healthier position of the firm.

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

Table 4.13

Net Worth to Total Asset Ratio

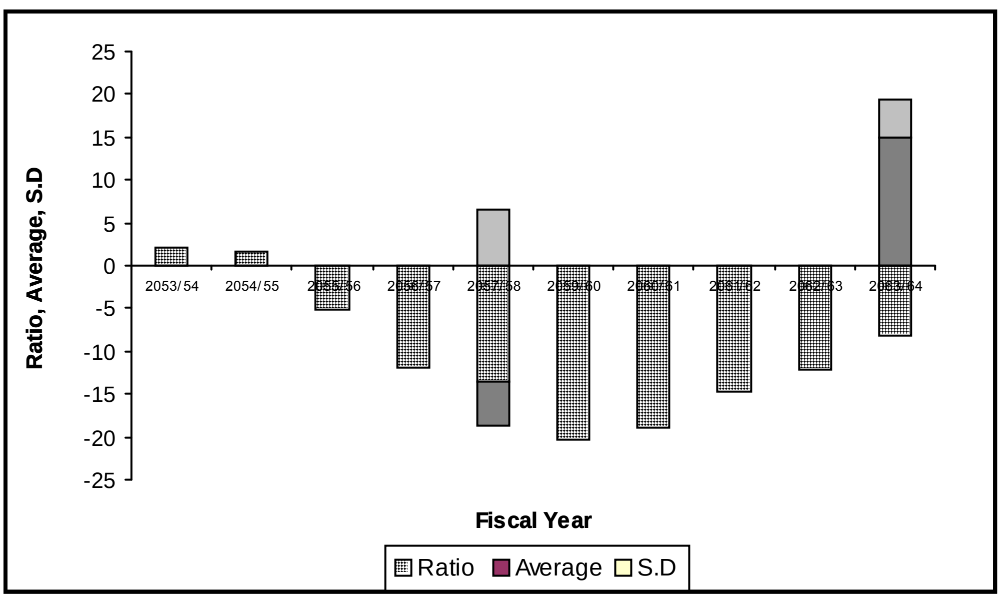
Before Management Change				After Management Change			
FY	**NW**	**TA**	**Ratio %**	**FY**	**NW**	**TA**	**Ratio %**
2053/54	529.44	26292.4	2.013662	2059/60	-10211.5	50007.86	-20.4198
2054/55	600.65	34548.66	1.738562	2060/61	-9394.91	49735.79	-18.8896
2055/56	-1918.55	37479.16	-5.11898	2061/62	-7805.93	52975.79	-14.7349
2056/57	-4589.9	38839.56	-11.8176	2062/63	-6681.83	55438.54	-12.0527
2057/58	-6734.89	50091.7	-13.4451	2063/64	-4598.76	56539.94	-8.13365
Average			-5.33%				14.92%
Standard Deviation			6.50%				4.43%

Source: Annual Reports of NBL

NW= Net Worth T.A = Total Assets

Chart 4.13

Net Worth to Total Asset Ratio



The first part of the table (before management change) shows the net worth to total assets ratio of the bank for the different years, their average and standard deviation for the period. According to the table average ratio is -5.3% the ratio 1.74 to -13.45 which was very worse condition of bank. The heavy fluctuation of the ratio indicates high standard deviation 6.5 in first period.

The second part of table shows first ratios of bank suffering negative. According to the table the ratio shows -20.42 to -814. Average ratio is 14.92. The standard deviation of the period 4.43 highly suffer negative ratio in certain percentage improve but the negative ratio in the second period indicate that bank performance is seriously worsening.

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

Hence, on the basis of the net worth to total asset ratios the position of the bank during the first period if for better than that during the second period

b) Total Deposit to Net Worth

Total deposit of a bank represents total of deposit accepted by the bank under various accounts and net worth this ratio indicate the proportion of total deposit and shareholder's fund in the total sources of fund of the bank. So, the said ratio shows the percentage of total deposit accepted by the bank on total of nets worth. The table below shows the total deposit to net worth ratios of the Nepal Bank limited for the whole period of the study presented a per the objectives of the study

Table 4. 14

Total Deposit to Net Worth

Before Management Change				After Management Change			
FY	**TD**	**NW**	**Ratio %**	**FY**	**TD**	**NW**	**Ratio %**
2053/54	21570.5	529.44	4074.21	2059/60	35014	-10211.5	
2054/55	28138.27	600.65	4684.637	2060/61	35735.04	-9394.91	
2055/56	33188.48	-1918.55		2061/62	35935.16	-7805.93	
2056/57	35768.27	-4589.9		2062/63	35905.93	-6681.83	
2057/58	35618.59	-6734.89		2063/64	35998.19	-4598.76	
Average							
Standard deviation							

Source: Annual Reports of Nepal Bank Limited

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

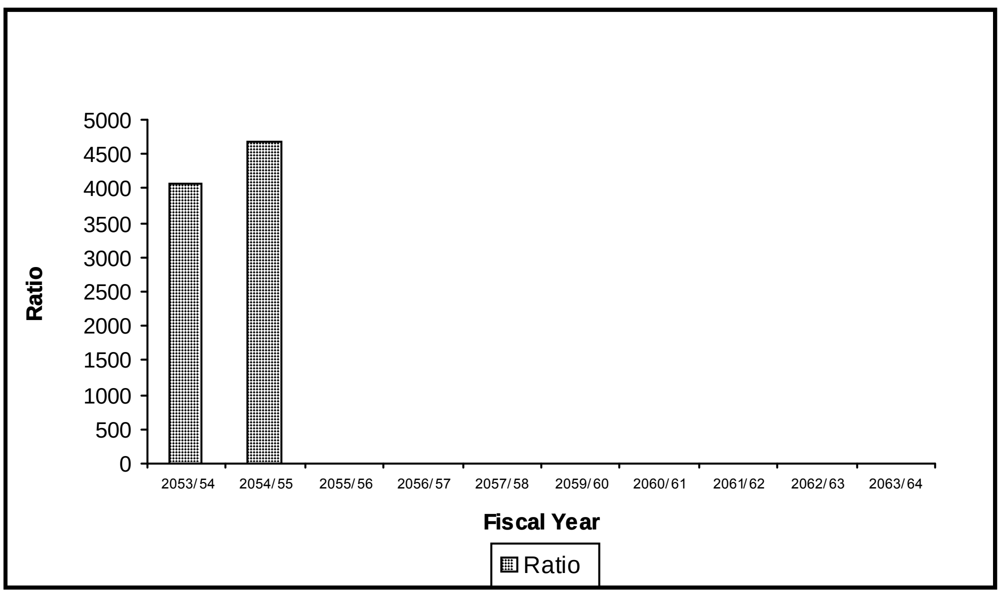


Chart 4.14

Total Deposit to Net Worth

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

The table shows the average of the ratios for the two years of the before change to be 4379.42. The last year of the period have negative net worth and therefore the ratio has not bee calculated for this year like first period, the second period has all negative net worth. The average of the ratios of the ratios of the first period is greater than that of the second. On the basis of the total deposit to net worth ratio would be in better position during the first period.

Remaining other things constant lower total deposit to net worth ratio can be said to be good one. The net worth of the bank for reduces in negative amount or loss amount.

2. Structural Ratios

These are other type of capital structure or leverage ratio, which show the proportion of shareholder fund and various types of liabilities. In another those ratios indicate the proportion of various sources of fund in the capital structure of a firm under this type of leverage ratios following ratios has been calculated and analyzed for the financial position of the bank.

a) Total Debt to Net Worth

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

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

Table 4.15

Total Debt to Net worth Ratio

Before Management Change				After Management Change			
FY	**T.debt**	**NW**	**Ratio %**	**FY**	**T.debt**	**NW**	**Ratio %**
2053/54	25385.4	529.44	4794.764	2059/60	39693.22	-10211.5	-
2054/55	33567.46	600.65	5588.522	2060/61	39143.89	-9394.91	-
2055/56	35198.22	-1918.55	-	2061/62	43200.5	-7805.93	-
2056/57	33869.26	-4589.9	-	2062/63	47252.23	-6681.83	-
2057/58	42977.89	-6734.89	-	2063/64	48483.59	-4598.76	-
Average							
Standard deviation							

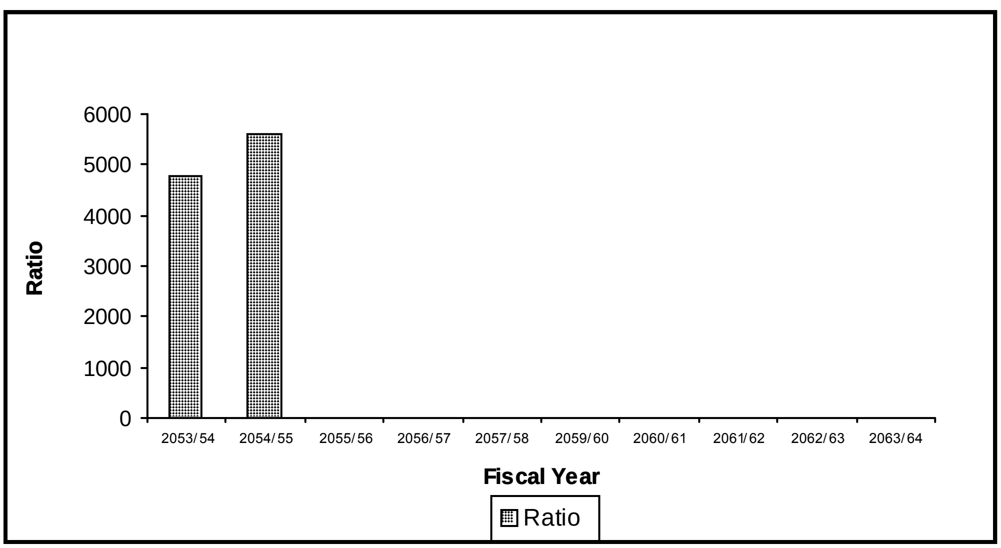
Source: Annual Reports of Nepal Bank Limited

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

This table can be presented clearly in the following chart

Chart 4.15

Total Debt to Net Worth Ratio



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

The first part of the table diagram shows the said ratios, their average standard deviation for the study, i.e. for the FY 2053/54 to FY 2058/59 B.S. According to the table average positive ratio is 5191.8% and its S.D for the first two years of before management change is 396.67%. Like other ratios related to net worth as denominator. This ratio also has not calculated for the last year of the first period. In the ratio also has not been calculated for the last three year of the first period. In the last years of before change the net worth of the bank is negative which is said to be worst condition. It does not count the last years of the calculation.

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

4.2 Statistical Tools

1 Trend Analysis

Analyze the bank different aspects with the help of trend line. Least square trend analysis interprets the trend to deposit loan and advance investment and net profit. It is necessary to calculate the forecasting the next year and know about bank condition. Then it’s suggested that the bank trend any variable and the slope of trend line. Thus, along with the analysis of trend line has as follows.

i) Trend Analysis of Total Deposit

Deposit is one of the very sensitive liabilities of commercial Banks. The following table shows the total deposit of NBL after and before change

Table 4.16

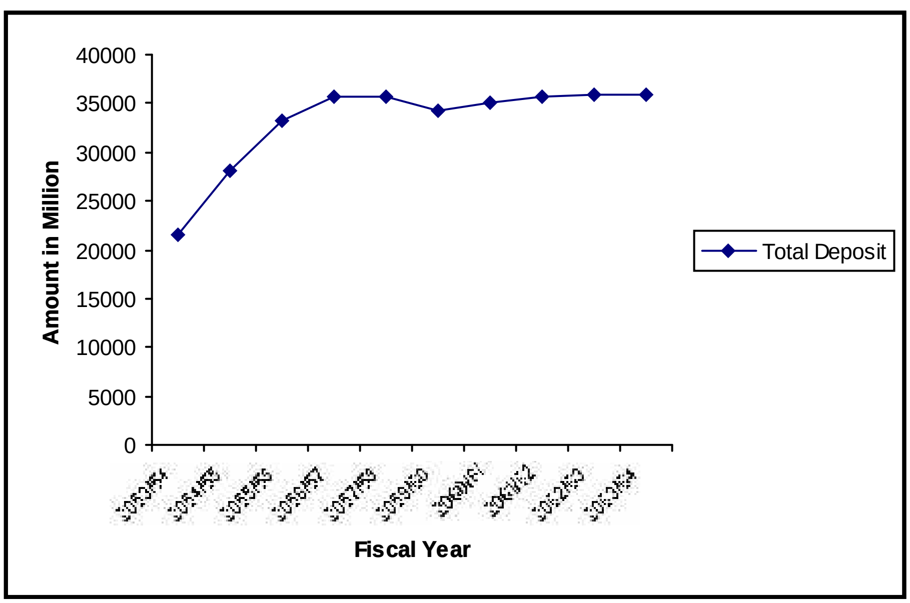
Trend Analysis of Total Deposit

FY	Total Deposit	FY	Total Deposit
2053/54	21570.5	2058/59	34264.8
2054/55	28138.27	2059/60	35014.0
2055/56	33188.48	2060/61	35735.04
2056/57	35768.27	2061/62	35934.16
2057/58	35618.59	2062/63	35905.93
		2063/64	35998.16

The above table shows that the deposit collection by the bank is in increasing trend. The trend values of total deposit of the bank are fitted in the trend lines given in diagram.

Chart 4.16

Trend of Total Deposit



The above chart shows past year after management more than deposit before management it show the total deposit collection trend increasing the reason of increasing the reason of increasing trend of total deposit is rise in remittances as well as the lack of alternative investment opportunities.

ii) Trend Analysis of Loans & Advances

The following table shows the total loans and advances of Nepal Bank Limited. The calculation of trend analysis of loans and advances are below. Its cal^{n} present in appendix.

Table 4.17

Trend Analysis of Loan & Advances

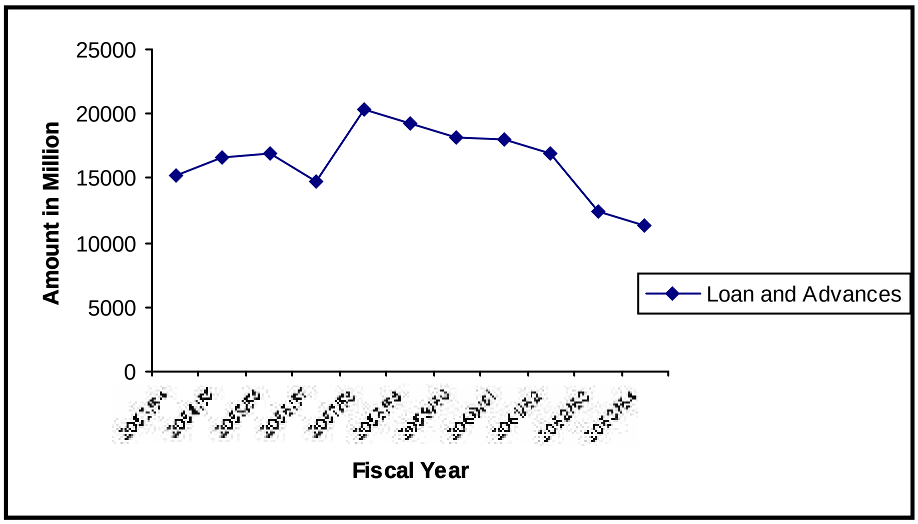
F.Y.	Loan and Advances
2053/54	15220.46
2054/55	16580.33
2055/56	16903.63
2056/57	14702.30
2057/58	20418.94
2058/59	19252.87
2059/60	18132.32
2060/61	17937.66
2061/62	16866.56
2062/63	12441.55
2063/64	11267.44

Sources: Nepal Bank Limited

The above table clearly shows that the loans and advances of Nepal Bank Limited are decreasing trend. The trend values of loans and advances of the bank are presented in the trend lines given in diagram.

Chart 4.17

Trend of Loan and Advances



The figure illustrates that the trend of loans and advances of Nepal Bank Limited for the part data: it is seemed from figure that loans and advances of the bank will drop of drastically in seven years. The main course of decreasing trend of loans and advances is NBL's new lending policy. After management bank provide loan or invest more secure area or profitable area. It males reduce non performing loan.

iii) Trend Analysis of Investment

Under this topic based on the trend value of investment before and after the year 2053/54 to the year 2053/64, an attempt has been made to forecast the protections for future year or coming years. The calculation of trend analysis has been presented in appendix.

Table 4.18

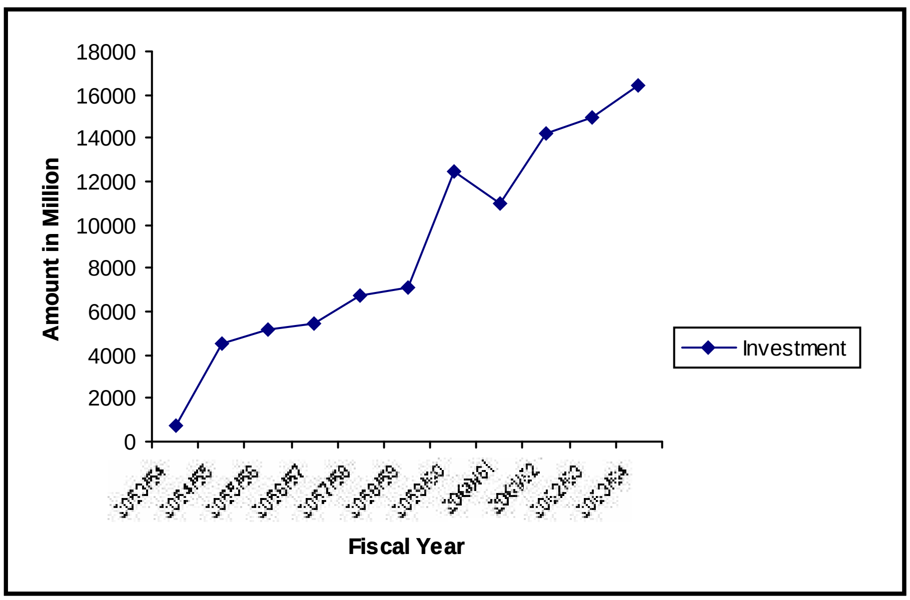
Trend Analysis of Investment

F.Y.	Investment
2053/54	781.11
2054/55	4495.07
2055/56	5124.56
2056/57	5462.07
2057/58	6776.33
2058/59	7151.38
2059/60	12447.7
2060/61	11004.82
2061/62	14199.22
2062/63	14990.25
2063/64	16421.07

Sources: Nepal Bank Limited

Chart 4.18

Trend of Investment



From the above table and chart or figure is the trend value of investment of NBL is in increasing trend. The figure of trend value of NBL has line increase every year. It can be said that the bank has followed the policy of maximizing its investment which contains the lower risk than loans and advances.

iv) Trend Analysis Net Profit

The following table shows the trend values of net profit of NBL has calculated offer and before management contract. It made future plan early forecast. The cal^{n} of trend forecast has presented in appendix.

Table 4.19

Trend Analysis of Net Profit

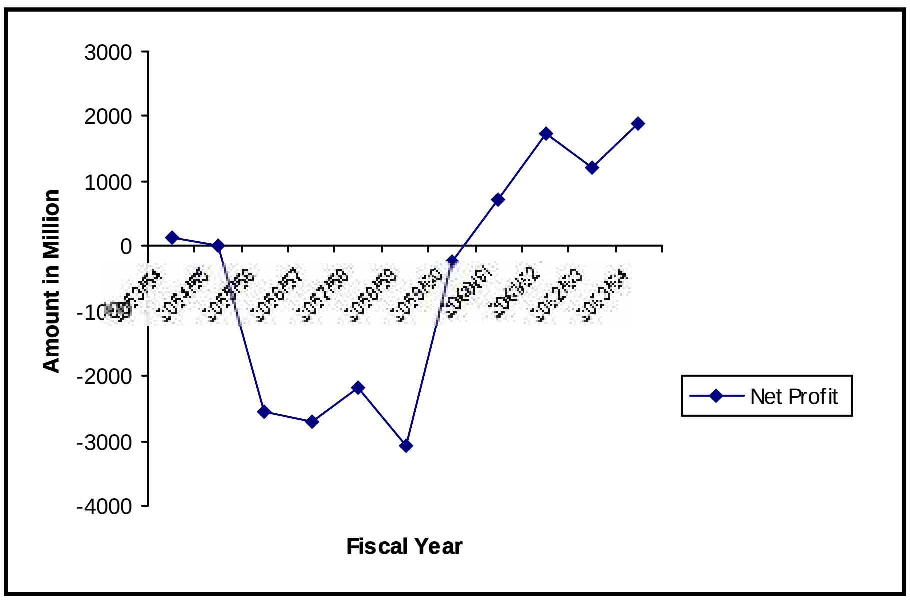
F.Y.	Net Profit
2053/54	128.95
2054/55	15.93
2055/56	(2535.39)
2056/57	(2697.85)
2057/58	(2177.85)
2058/59	(3071.29)
2059/60	(251.73)
2060/61	710.39
2061/62	1730.39
2062/63	1207.27
2063/64	1890.57

Sources: Nepal Bank Limited

Above table and figure shows that the net profit of Nepal Bank Limited, to study of the beginning year 2053/54 to 59160 bank suffer in losses. Now, recent 4 year or 2060/61 to 2063/61 to 2063/64 year increasing net profit trend. The main reason is that the bank has been successful collecting of huge amount from NPAS after the restructuring period. the trend line of net profit makes clear that the future of Nepal Bank Limited is excellent and it can be early cope with the existing competitive business environment of banking sector.

Chart 4.19

Trend Analysis of Net Profit



4.5 Major findings of the study:

The major findings of the study on Effectiveness on saving and credit mobilization Nepal Bank Limited are as follow

1. Total deposit is collected in different account combination. The total deposit of second period (just after management change) was higher than second period (before management change). The averages of the first period were

30856.8 and 35717.46 of the second respectively.

2. The total investment composition of NBL from FY 2053/54 to FY 2063/64 before and after management change has increased in investing activities at huge proportion. Its average is 4527.83 before and 13812.6 after. The standard deviation is 2016.12 and after 1901.95 respectively.
3. Total loan and advances shows the decreasing trend after management contract it shows that the bank reduced its doubtful debt or risky loan. The average is 16765.13before and 15327.19 after. Standard deviation before 2000.87 and after 4542.2 respectively.
4. To examine the short term solvency of the NBL, the help of liquidity ratios were taken while comparing the ratios of two periods at an average. The current ratios of first period were 108.3 and 121.6 of second respectively. The ratio is more than that of the first period. Through the proportion of the current assets is greater than the current liabilities, at average during the first period improved in second period than the first one.
5. Regarding the cash and bank balance to current assets ratio there were significant difference between two periods. The average ratio for the first and second period were15.56% and 11.10% respectively. Which means that in second period the idle money was less than first period so it has improved. This condition had taken after management change to maintain their requirements.
6. Loan and advances to current assets ratio showed 6.108% and 31.8% before and after. The observed ratio, in the first period of investment on risky areas is at an average, more than in second period.
7. Cash and bank balance to total deposit ratio has decreased before and after during the second period was 18.77% to 16.404% respectively. The ratio was highly fluctuated during the first period. It was stable in second period management whose policy decreased the idle resources during the period.
8. The average percentage of loan and advances on deposit was 55.77%

during first period was 42.97% during the second period. Investing the available resources in the bank for loan and advances at reduced the risk regarding the rate of return .On the basis of turnover ratio improved the rate of return. On the basis of turnover ratios as the bank's position was better during the second period or bank investment on risk less sector increased.9.

9. Return on total assets or Net profit to total assets ratios had fluctuated during first period .The average ratio -3.7 before and 1.94after contract shows the positive ratio after. It means that bank is successful to utilize its funds better than before management contract.

10. Interest earned to total assets ratio decreased after management because the bank reduced its loan and advances amount.

11. Accepting deposit in different sector or account, the average interest paid to total assets ratio was 5.2in 1st period and 2.0 in second period .The ratio was lesser in second period than in first period. It shows for that less amount paid for interest or less expenses is better for bank. Similarly net profit to total deposit of -4.23 in the first2.94 and second year respectively. Comparatively after management contract it ratio slightly improved.

12. The capital structure or leverage ratio shows that long term solvency of bank. During the study before and after it is negative ratio. If other things remain stable the ratio can improve slowly but it has been serious problem of the bank.

13. Trend Analysis of deposit, loan and advances, investment and net profit for ten year of NBL reveals that, the trend of deposit of NBL is increasing slightly in decreasing trend. There other things remaining same, the investment position is increasing. The economic condition is in improving trend similarly the profit of any commercial bank shows its capacity of financing. It is found the net profit was running loss after management net profit has been running in increasing trend.

CHAPTER- FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

As the last part of the thesis report, this chapter presents with the summary, conclusions and recommendations for corrective measures to be undertaken by the concerned institution.

The first part of the chapter briefly summarizes total study in respect to the general interdiction of the study, various theoretical and application associations of the present study. Study methodology and key finding of the study. The second part of the chapter deals with present researcher's conclusions drawn on the basis of this research before and after change. Finally, the recommendations have been presented in the third section of this chapter.

5.1 Summary

The commercial bank plays a vital role in accelerating the tempo of growth in developing country like Nepal. It mobilizes the saving of the people and diverts them in to productive channels through lending function. Scattered resources have no meaning and importance until and unless they are mobilized and unitized efficiently in some productive sectors of nation's economy. Commercial banks contribute a lot in the process of capital investment in order to aid industry trade commerce, agriculture and other sector of the economy for the economic and there by overall development of nation. It is obliviously a strong capital base and the commercial bank has a pivotal role in forming such base.

Nepal bank Ltd. is the pioneer banking institution of country established on Kartik 30, 1994 B.S. As the oldest commercial bank NBL. The main objectives of removing financial inconveniencies of the people and assisting in the trade and commerce of the country. Ever since its establishment NBL has been contributing to the Nepalese economy to great extent by collecting and mobilizing the scatters small saving of the people. In the early stage of economic development of Nepal, it was alone in the financial scenario of country. The bank has played an immense role from every angle and side to help the country to arrive at present situation.

The proper utilization of the mobilized resources has been becoming a relevant issue for the bank. Because of excessive (loss) new management from foreign country has been introduced, to make it competitive in the country. Within the financial sector reform program, a management team "ICCMT" consisting of international banker from bank of Scotland (Ireland) was appointed in NBL to restructure the bank. This ICCMT has taken over the management control and responsibilities of NBL of July 22, 2002 (Shrawan 6, 2059). Then the new management used the resources in productivity.

Therefore this study was undertaken with the objective of analysis and evaluating the saving and credit of NBL in order to trace out gaps and draw backs in its performance. So, the ten years of two fragment periods starting from F.Y. 2053/54 B.S. to F.Y. 2057/58 B.S. before management contract and from F.Y. 2059/60 B.S. to 2063/64 after management contract was selected for the study.

A comparative analysis of saving and credit mobilization of the bank for two periods was done along with yearly analysis to find out the gaps. Short coming deviation and differences in the financial positions of the bank in the meaningful base.

The basic study data is obtained from secondary sources. The main sources are annual reports and financial statement official records periodic publication of the NBL. Various published reports and articles on the NBL in different newspaper and periodicals and so on. Similarly all available reports published by NRB about the commercial banks and the NBL have also been used.

As for the procedure of analysis ratio, average and standard deviation of ratios for the periods, bar diagrams have been adopted to obtain a clear picture of the saving and credit mobilization of the bank most of the ratios have been calculated and expressed in percentage.

To examine the short-term solvency of the NBL, the help of liquidity ratio, turnover ratio, profitability capital structure ratio and statistical tools used are mean standard deviation and trend analysis.

To examine total deposits collection in different account combination. The total deposit of was higher than first period. Investment pattern has hugely increased we known that total loan and advances shows the decreasing trend because after the change in management the bank reduced its doubtful debt or risky loan different ratios showed that improvement after management. The profit of the bank was storing in loss but after management change slightly improved.

In examine capital structure or leverage ratio shows the long-term solvency of bank. It is running in negative but slowly improving.

Hence it can be summarized that all aspect of the NBL were poorer in first period than that of second the bank, therefore should focus on improving saving and credit position and improve further.

5.2 Conclusions

The overall saving and credit mobilization of NBL can be considered as improving day by day. On the basis of the key findings of the study the following conclusions have been derived from this study.

NBL has maintained a balance ratio among its deposit liabilities during the second period of the study. In comparing the second period with first period, the bank is seemed to be able to utilize its high cost resources in high yielding investment portfolio. During first period there were negative operating profits. Similarly first period enjoyed positive net profits due to the non-operating incomes.

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

But, due to the bank's failure in collecting earned interest and natured loan, if had suffered continuous loss the performance of new management is due to decreased in non-performing assets and by making profit to the bank. The last years of the bank performed well showing positive operating profit and net profit.

The net worth of the bank for all year is negative due to the heavy loss before management change. The net worth is improving trend after management change. Further more the liquidity position of bank all ratios are satisfactory in after management. Where as recovering capacity has increased fast.

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

5.3 Recommendation

On the basis of the present study it has been reiterated several times that the role of commercial banks is vital for the economic development of any country. Recommendations have been forwarded for necessary policy improvements in respect with saving and credit of NBL.

Unlike in the past, NBL has to face strong competition in the market. Therefore it has to be financially competent and professionally strong to survive and prosper in the competitive environment for this, it should transform it self by increasing cost effectiveness, enhancing service quality and improving efficiency. Till now, NBL has computerized its 44 branches. The bank cannot provide better facilities to their customer and staff now arrange for improved and modern technology such as fully computerized banking system, ABBS transaction, ATM, SMS banking and web remittance etc services and other modern banking situation.

In such a situation the contribution of commercial banks in the mobilization and utilization of resources the new management may have tried to take the opportunities from the financial market and build up the position of the bank slightly improved. The following aspects for the bank further improvement of the saving and credit of NBL.

1. The bank has to identify and assess competitive strength and weakness to get key success.

2. In the second period the idle money was less than first period so make it better to reduce idle money.
3. The bank has to find out the risk less sector to mobilize its loans and advance.
4. The condition of liquidity ratio is highly fluctuation so the bank had adopted specific policy regarding cash and bank balance.
5. The bank should provide different facilities for collection fund.
6. NBL has given more priority to invest its fund in government securities. Than other sector securities issued by government are risk free but such instruments yield lower interest income. To increase profit, the bank should identify the profitable lending areas and expand loan and advance on it rather than concentrating on low return securities only.
7. Due to NBL being a very large organization there may be irregularities in various aspects on the side of staff. Hence for effective performance there should be provision of punishment and reward system among them, which will certainly lead the bank towards better performance.
8. The bank should place independent experts of motivated professionals’ board of directors that also lead for effective management.
9. The bank's management should be totally out of political control and pressure.
10. Books of accounts should be made up to data. It helps the bank to reduce the manipulation of accounts, gain the trust of customers. For which, computerized accounting system be introduced in technically favored branch.
11. It should collect huge fund by giving high interest rates that creates better investment situation.
12. The bank has shown the significant improvement in operating result during period of foreign management's attempt toward strong recovery in NPA, tight control in overhead costs and a significant reduction in the cost of funds returns the bank in sustainable profitability. So, it is highly recommendable that the similar type of management team with professionals for some additional period to maintain good performance.

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