CHAPTER- I

INTRODUCTION

1.1. General Background

The role of money in an economy is very important. Proper and well planned management of money directs, determines and enhances the health and productivity of total financial sector and the performance of the financial sector affect the growth of the economy. Hence, money is the subject to manage and banks are the manager thereof. Bank as a manager collects, disperses and controls the flow of money. Banks collect the fund from public who has savings and disperse the fund to the person who is in need of it. These ways, whole infrastructure of national development, direction of economy, rate of progress and even the habit of people are being the function of banking systems. Therefore, the existence of a bank is for the change in every aspect of human beings and its presence is for the upliftment of people.

Banks are a resource mobilization institution which accepts deposits from various sources and invest such accumulated resources in the fields of agriculture, trade, commerce, industry, tourism etc. The commercial bank has its own role and contribution and it is a means of economic development. It maintains economic confidence of various segments of the society and extends credit to people. The banking sector in one of the oldest and most significant service industries, it plays a vital role in the economic and financial health of any country. An efficient banking system leads to the effective mobilization of resources like savings and investments, which in turn leads to the sound economic health of the country.

1.2. Statement of the Problem

Nepal as an economically back pushed country; most of the resources of the country are remained unused due to the lack of financing. This inadequacy of financing can be removed by Commercial Banks to some extent. After the adoption of liberal and market oriented economic policy of the government mushroom growth of the different type of financial intermediateries including Banks have been observed, 23 commercial Banks, 58 development Banks, 5 rural developments, 79 financial companies with many other financial institutions performing limited banking and micro finance activities have been established up to mid April 2008.

Banks and Financial institutions have been established in the economy with Tailor made modern facilities. On the other there are many financial innovations and products in markets. Tendencies of Off Balance sheet transaction has increased. Advance and sophisticated technology like Automated Machine, Credit Cards, Electronic Fund Transfer, and Computerized Clearing House Service are in uses in Nepali banking service market. Nepalese Banking system is advancing ahead in liberalized and competitive environment.

There have been several changes in Nepalese Banking system so far the rules and regulation, policies, and programs are concerned. Commercial Banks are free to quote their Cost of Fund (Interest Rate) and return on assets. Competitive environment has too some extent, been conductive quality service and sustainability. Nepal Rastra Bank has taken off the imposition of the Statutory Liquidity Requirement (SLR) and ever been lowering down the bank rate and Cash Reserve Ratio (CRR).

Profit is one of the main indicators of sound financial performance. It is usually the result of sound business management, cost control, credit risk management and general efficiency of operation. Profit is essential for an enterprise for its own survival and growth also.

A Commercial Bank should maintain capital adequacy to run smoothly and to meet a wide range of contingencies also. Liquidity is another significant variable of a commercial Bank. If bank fails to maintains adequate liquidity it faces various difficulties. On the other hand excess liquidity is the loss of income. Hence a bank must maintain adequate cash and bank balance for day to day operation smoothly.

Nepal Bank Limited is an oldest and a most popular bank of Nepal. Nepal Bank Limited was established on 1994 B.S. Kartik 30, Monday (November 15, 1937) NBL's authorized capital was Rs. 10 million & issued capital Rs. 2.5 million of which paid-up capital was Rs. 842 thousand with 10 shareholders. It is the first bank of Nepal to establish under the principle of Joint venture (Joint venture between govt. & general public). After adoption of liberal and free economy in the county and changes in policies in provisioning for Bad debt it is felt some weakness in the economic condition of the Bank.

The Financial Sector Reform Program (FSRP) was launched to improve the financial position along with steer the managerial reform of the state owned Commercial Banks namely Nepal Bank Limited and Rastriya Banijya Bank and to strengthen the capacity of Nepal Rastra Bank as a central Bank to ensure financial stability along with the expansion of the system.. Under the FSRP, the management of NBL was handed over to the team of ICC Consulting Group from Bank of Scotland (Ireland) on July 22, 2002. The contract was extended first time for July 21, 2007. NRB has taken over the control of the NBL in accordance with the section 86 © of NRB Act 2002 after the expiry of contract with ICC Consulting of the Bank of Scotland (Ireland) on July 21, 2007.

Today's context, most of the investors are attractive towards the banking sectors. There must be comparative study among the different banks. If it's remaining indifferent towards the other banks relevant information, in long-run it will give negative impact. Most of the customers, they are attractive towards such banks; who provides well and efficient service. Similarly, investor invest their money those banks need to survive in competitive market for long-run, it should be consider; liquidity position, profitability position, market position as well as other positions.

Therefore, this study basically depends upon the financial performance of NBL. Effective planning and control is central to enhancing the Bank's value. An analysis of the present financial performance is necessary to draw the conclusion. Financial analysis is the process of identifying the financial strength and weakness of the Bank by properly establishing the relationship between the items of Balance sheet, Profit and loss account and Cash flow statement. Ratio analysis used the data from Balance sheet, profit and loss account, cash flow statement and certain market data also. It is a widely used technique to evaluate the financial position and performance of a business. Ratios can be uses to predict the future of a company. Financial analysis of any Commercial Banks is useful to shareholders, management, deposit holders, creditors, government and other public also.

1.3. Objective of the Study

The main Objective of this study is to find out the strength and weakness of Nepal Bank Limited by analyzing its financial statement. The study is conducted with the following objective.

- To highlight the overall performance of the Bank.
- To analyze the performance of the Bank's in term of Liquidity, Activity or Efficiency, Profitability and Leverage.
- To analyze the relationship between the variables affecting the performance and profitability of the Bank.
- To provide valuable recommendation on the basis of finding of the analysis for future studies and development.

1.4. Importance of the Study

As other business, banking business organizations are also facing significant challenges. Economic liberalization policy of the Government has encouraged the establishment and growth of financial institutions in Nepal. Now, there are so many financial institutions such as Commercial Banks, Development Banks, Finance Companies and Cooperatives in operation. Some other institutions in pipeline are supposed to come into function very soon. Before the year 2041 B.S. there were only two Commercial Banks in existence. As the government owned banks were not able to cater the need of the people with modern banking facilities the need of privately owned banks were badly felt and there were rapid growth of Commercial Banks during a short span of time. Now a day there are cut throat competition in banking business.

An attempt has been made to analyze the strength and weakness of Nepal Bank Limited. The bank may be a successful one from optimum uses of sources and funds. The proper analysis of its financial data will help the management, shareholders, depositors, lenders and borrowers and other concern parties of the bank.

1.5. Limitation of the Study

This study is in searching the financial performance analysis of Nepal Bank Ltd. The main limitations of the study are as follows:

- The whole study is based of secondary data such as financial statement and financial reports.
- The study is confined of only five years periods arranging from 2002/03 to 2006/07.
- The gathered data are not tried to verify.
- Since the study deals with only Nepal Bank Limited.
- The other limitations are time constraints, financial problems etc.

1.6. Organization of the Study

The research has been carried out for the partial fulfillment of the requirements for the degree of master of business studies (MBS). The research report is organized under the prescribed format by Central Department of Management, Tribhuvan University. The study has been organized into the following five different chapters:

i) **Introduction:** This chapter includes General Background, Statement of the Problem, Objective of the Study, Importance of the Study, Limitation of the Study and Organization of the Study.

ii) **Review of Literature:** The chapter includes Origin and Concept of Bank, History of Banking in Nepal, Concept of Commercial Bank, Functions of Commercial Banks, Banking & Financial Institutions in Nepal, Nepal Bank Limited, Review of related Studies, Review of Journals and Articles, Review of Thesis and Research Gap.

iii) **Research Methodology:** This chapter includes Concept of Research Methodology, Research Design, Data Collection Techniques, Method of Data Analysis, Tools used for Analysis of Data, Financial Tools, Statistical Tools and Trend Analysis.

iv) **Presentation and Analysis of Data:** This is the heart chapter of study. This chapter includes Presentation and analysis of data using financial tools such as ratio analysis, statistical tools such as coefficient of correlation, the probable error and trend analysis etc.

v) **Summary, Conclusion and Recommendations:** This chapter includes summary of the study, main findings of the study, suggestions and recommendations for further improvement.

CHAPTER-II

REVIEW OF LITERATURE

The purpose of reviewing the literature is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing a research design. Thus, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. From this, it is clear that the purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what to be done.

The review of literature is a crucial aspect because it denotes planning of the study. The main purpose of literature review is to be find out what works have been done in the area of the research problem under study and what has not been done in the field of the research study being undertaken. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed.

2.1. Origin and Concept of Bank

This chapter includes the brief presentation of the origin and concept of bank, Concept of commercial bank, evolution of the banking sector in Nepal with detail profile about the Nepal Bank Limited. This chapter covers the review of theoretical background financial performance analysis (FPA).

2.1.1. Origin of Bank

There are different opinions on the origin of the bank. According to one opinion, the term bank was originated form Italian word ‘Banco’ which meant bench. The money exchangers at that time kept heap of money on the bench from which came the use of word ‘Banco’. In the opinion of Macleod, since banco means ‘heap’, it denotes the joint fund contributed by many persons.The origin of the word ‘Bank’ is linked to:German word ‘Bank’ means a joint stock company, Latin word ‘Bank’ means a bench, Italian word ‘Bank’ means a bench and French word ‘banquet’ means a bench (Vaidya, 2001:2).Moneylenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they are unable to meet their liabilities, the depositors used to break their benches. Hence the word ‘Bankruptcy’ is derived from there (Klise, 1972: 3).

The term bank was first used in Italy in 1157 A.D. in 20^{th} century. The first bank was set up in Venice, Italy as a public bank, by the bame ‘Bank of Venice’. Subsequently, ‘Bank of Barcelona’ in 1401 A.D. and ‘Bank of Geneva’ in 1407 A.D. were established. In 1609 A.D., ‘Bank of Amerterdam’, a famous bank was established. In reality, the history of modern banking had started from ‘Bank of England’ in 1694 A.D. But the modern joint stock banks were established in England only in 1833 A.D. In 1844 A.D., ‘Banque De France’ was established in France in 1807 A.D. Later, the banks were established in other parts of the world (Shekher & Shekher, 1999:2).

2.1.2. Concept of Bank

Generally, an institution established by law, which deals with money & credit is called bank (Bhandari, 2003: 1). It is obvious that in a common sense, an institution involved in monetary transactions is called bank.

A bank is a financial institution, which plays a significant role in the country. It facilitates the growth of trade & industry and boost national economy. However, a bank is a resource of economic development, which maintains the self-confidence of various segments of society and extends credit to the people (Vaidhya, 2001' 1)

A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credits & transfers by written orders of depositors (The Encyclopedia America, 1984; 302).

The business of the banking is collection of funds from community & extending credit to people for useful purposes. Bank plays a vital role in making money from lenders to borrowers. Bank is a profit seeking business, not a community charity profit seeker. It is expected to pay dividend & otherwise, add to the wealth of shareholders (Encyclopedia, The world Book, 1984: 6).

Hence, in concise, we can say that there is no single universally accepted definition of bank. In brief, it is an institution, which accepts deposits in different accounts, provides loans of different types, and creates credit.

2.1.3. History of Banking in Nepal

The history of banking in Nepal is not very old. It goes at least back to the Lichchhavi era. There were 'Gosthies' to work as credit banks established under the permission of Royal order & they were conducted through local legislation called 'Panchali'. Then the king Jayasthiti Malla from Malla dynasty, allowed 'Tankadhari', a class of people, to deal in depositing & lending of money & ornaments. The Banka who still works ornaments used to deal in lending & depositing the ornaments in that time also. King, Ram shah also developed the banking system in Nepal. He found that unorganized lending was taking place in the society at very high interest rates. So, he fixed up the interest rates of lending (Bhandari, 2003: 6).

Though it seemed realizing the development of banking in those early times, it could not be materialized till the end of Rana regime. The first government institutionalized credit house called 'Tejarath Adda' was established during the tenure of Prime Minister, Ranoddip Singh (1993 – 1994B.S.). The 'Tejarath Office' used to give loans to government employees against the securities of gold and silver. (Bhandari, 2003: 7).

Banking in true sense in Nepal, started with the establishment of Nepal Bank Limited on 30th kartik, 1994 B.S. as a first commercial bank of Nepal under Nepalese Banking Law & Nepal Bank Act 1994 B.S. formulated by the Industrial Board of Nepal (Bhaldari, 2003: 7).

Nepal Rastra Bank established as a central bank on 14th Baisakh, 2013, under Nepal Rastra Bank Act, 2012 B.S. The bank was empowered by the Act to have direct control over banking institution of the country to manage the circulation of national currency along with foreign exchange rate. Then came Rastriya Banijya Bank established on 10Th Magh, 2022 B.S. established under Rastriya Banijya Bank Act, 2021 B.S. (Bhandari, 2003: 8).

2.1.4. Concept of Commercial Bank

Commercial Banks are that financial institutions which deal in accepting deposits of people & institutions & giving loans against securities. They provide working capital needs of trade, industry & even to agricultural sector. Commercial Banks also provide technical & administrative assistance to trade, industries & business enterprises. Commercial bank is a corporation, which accepts demand deposits, subject to check & makes short-term loan to business enterprises, regardless of the scope of its other services.

A commercial banker is a dealer in money & substitutes for money, such as cheque or bill of exchange. It also provides a variety of financial services (The New Encyclopedia Britanica, 1985: 605).

The American Institute of Banking has laid down for functions of the Commercial Banks i.e. receiving & handling deposits, handling payments for its clients, granting loan & investment & creating money by extension of credit (American Institute of Banking, 1985: 609). Principally; Commercial Banks accept deposits & provide loans, primarily to business firms, thereby facilitating the transfer of funds on the economy (Bhandari, 2003: 65).

In the Nepalese context, a commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans & performs commercial banking functions (Banking and financial Institution Act, 2004).

Commercial Banks are those banks, which pool together the savings of the community & arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand of on short notice. Commercial Banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade & industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash, credits & overdrafts. Apart from financing, they also render services like collection of bills & cheques, safe keeping of valuables, financial advising, etc. to their customers (Vaidya, 2001: 38).

However, central bank is the main bank of any nation that directs & controls all other banks. In Nepal, Nepal Rastra Bank is the central bank & all the commercial bank perform their functions under its rules, regulations & directions.

2.1.5. Functions of Commercial Bank

Commercial Banks are the most important types of financial institution for the nation in terms of aggregate assets. Traditional functions of Commercial Banks are only concerned with accepting deposits & providing loans. But modern Commercial Banks work for overall development of trade, commerce, services & agriculture also. The business of banking is very broad in modern business age. The number & variety of services provided by bank will probably expand. Recent innovation in banking include the introduction of credit cards, accounting services for business firms, factoring, leasing, participating in the Euro-dollar market & lock-box banking. The main functions of Commercial Banks are as follows:

i. Accepting Deposits: It is fair deduction that no person or body, corporate or otherwise, can be banker who does not take deposits, issue & pay cheques & collect cheques from his customers. Here, all functions are related with the acceptance of deposits. Therefore, accepting deposits by bank is the oldest function of bank. A bank accepts deposits in three forms viz. saving, current & fixed. Saving deposit is one of the deposits collected form small depositors & low-income depositors. The banks usually pay small interest to depositors for their deposits. Current account is also known as demand deposits. Under this, any amount may be deposited. There are no restrictions regarding number & amount of withdrawals as contrary to saving account. The banks don’t pay any interest on such account but charge small amount on the customers having current account. A fixed or time deposit is one where customers are requested to keep a fixed amount in the bank for specific period, generally by those who don’t need money for stipulated time. The bank pays a higher interest on such deposits.

ii. Advancing Loans: The second major function of a commercial bank is to provide loans & advances from the money, which it receives by way of deposits for the development of industry, trade, commerce, services & agriculture. The main purpose of commercial Bank is to boost up the development pace of communities & the economy as a whole.

iii. Agency services: The bank also performs number of services on behalf of the customers. The following are the agency functions provided by the bank.

a. Dealing with the transaction of foreign exchange business
b. Serving as an agent of correspondent on behalf of the customers
c. Issuing letter of credit, circulate note, traveler's cheques etc.
d. Purchasing & selling different kinds of securities & remitting funds
e. Keeping valuable article in safe custody
f. Providing financial advice to various persons & bodies whenever required

iv. Creating Money: The major function of the bank that separates it from other financial institution is the ability to create money & to destroy money, which is accomplished by lending & investing activities. The power of the commercial banking has great economic significant as it results in the elastic credit system that is necessary for the economic progress at a relatively steady growth rate (American Institute of Banking, 1985: 149).

2.1.6. Banking and Financial Institutions in Nepal

Banking and financial institutions includes commercials banks, development bank, rural development banks, finance companies and other cooperative also. Similarly, it includes a; other financial institution not directly involved in accepting public deposits but occupy important role in financial system in mobilizing financial resources collected in different form such as premiums through insurance business, collection of Employee Provident Fund and Citizen Investment Trust belong to this type of financial institutions. Apart from this securities market also mobilizes financial resource in capital market through selling and buying of securities such as corporate share, debenture and bonds.

In Nepal, there are 23 Commercial Banks are operating so far. They are:

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. Agriculture Development Bank
4. Nabil Bank Limited
5. Standard Chartered Bank Limited
6. Himalayan Bank Limited
7. Nepal Bangladesh Bank Limited
8. Nepal SBI Bank Limited
9. Everest Bank Limited
10. Lumbini Bank Limited
11. Nepal Industrial & Commercial Bank Limited
12. Kumari Bank Limited
13. Nepal Investment Bank Limited
14. Bank of Kathmandu
15. Laxmi Bank Limited
16. Machhapuchhre Bank Limited
17. Nepal Credit & Commercial Bank Limited
18. Siddhartha Bank Limited
19. Global Bank Limited
20. Citizen’s International Bank Limited.

21.Bank of Asia Limited.

22.Prime Commercial Bank Limited.

23.Sunrise Bank Limited.

(Source: www. Nepalrastrabank.com.np)

The Commercial Banks in Nepal are categorized into four groups on the basis of capital owned. They are; Commercial Banks (A Class Financial Institutions), Development Banks (B Class Financial Institutions), Finance Companies (C Class Financial Institutions), and Micro Finance Development Banks (D Class Financial Institutions).

The number of Banks and Financial Institutions up to mid April, 2008 are as follows;

Banking & Financial Institutions	**No**
1. Nepal Rastra Bank	1
2. Commercial Banks	23
3. Development Bank	58
4. Rural Development Bank	5
5. Finance companies	79
6. Micro Finance Institutions	12
7. NRB licensed Cooperatives (Performing Limited banking transaction)	16
8. NRB licensed Non government Organization Financial Institutions (Performing Micro Finance activities)	47

(Source: Economic Survey F/Y2007/008, Page No.59)

The non Banking financial institutions include 22 insurance companies, 1 Deposit and Credit Guarantee corporation, 1 Employee Provident Fund, 1 Citizen Investment Trust and 117 Postal Saving Banks.

2.1.7. Nepal Bank Limited

The oldest bank of Nepal, Nepal Bank Limited was established on 1994 B.S. Kartik 30, Monday (November 15, 1937) NBL's authorized capital was Rs. 10 million & issued capital Rs. 2.5 million of which paid-up capital was Rs. 842 thousand with 10 shareholders. It is the first bank of Nepal to establish under the principle of Joint venture (Joint venture between govt. & general public).

Nepal Bank Limited seeks to provide an environment within which the bank can bring unique financial value and services to all customers. It will be a sound institution where depositors continue to have faith in the security of their funds are receive reasonable returns; borrowers are assured of appropriate credit facilities at reasonable prices; other service-seekers receive prompt and attentive service at reasonable cost; employees are paid adequate compensation with professional career growth opportunities and stockholders receive satisfactory return for their investment.

At Nepal Bank Limited, we believe that our banking should be based on: Respect, service and safety for the customers we serve Respect, reward and opportunity for the people with whom we work Respect, cooperation and support for the economic community of Nepal. Nepal Bank Limited has the following objectives

- Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country.
- Provide competitive and customer oriented banking services to all customers through competent and professional staff.
- Reclaim leadership within the national financial community.

Now Nepal Bank limited has 98 Branches located in different parts of the country and one Head Office in Katmandu. The bank is under the control of Central Bank of Nepal, Nepal Rastra Bank (NRB). NRB has appointed a seven members management committee. This management committee performs as the board of director of the bank. The Bank's objectives to render service to the people whether rich or poor and to contribute to the nation's development will also need the support. There are 2,893 staffs, and 409 security and other personnel. There are branches under single computer network is 44 and number of computerized branches are 46. Its authorized capital is Rs.380, 383 thousand, total deposit is Rs.4,290,000 thousand, total loan and advance is Rs.1,709,000 thousand, net profit is Rs.450,833 thousand, Operating profit is Rs.428,318 thousand up to mid january,2009.

2.2. Review of Related Studies

2.2.1 Review of Journals and Articles

The person’s opinions or views expressed regarding Commercial Banks and their activities on Journals, Books and booklets, magazines etc. are focused as follows.

Shrestha, M.K., (1980) has focused that the bank has sufficient liquidity to meet the claim of depositors excluding fixed deposits. The bank is explicitly depending more on borrowed funds and has highly geared capital structure. The bank has been able to meet the interest on deposits out of its profits. Similarly, the rate of return on ownership capital is favorable. Although the performance of the bank is satisfactory, operational efficiency should be enhanced to achieve its higher profit goals. Moreover, the intense competitive environment in the banking sector has also made it mandatory to improve operative efficiency in order to return its market share.

Sharma, M.R. (1988) has concluded that it would definitely be unwise for Nepal not to let the JVBs operate in the country and not to take advantages of them as additional means of resources mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to develop the JVBs at the cost of the domestic banks, so far, one should admit frankly no different treatment has been extended to the domestic and JVBs, at least form the government's side which is commendable. If Government of Nepal keeps on the stance of treating the domestic and JVBs also show their alacrity to come forward to share the trails and tribulations of this poor country, both types of bank will coalesce and co-exist, complementing each other and contributing to the nation's accelerated development. On the contrary, if the JVBs use their strength against treading into the cumbersome path of development along with the domestic Commercial Banks from the more profitable urban areas and lucrative urban sectors unless reined in by the determination of the government.

Shrestha, R.L. (2046) has suggested that the bank should deal in highly risky transaction to maintain strong capital base. However, the capital base should neither be too much leading to inefficient allocation of scarce resources not too weak as to expose to extreme risk. The study accepts that the operations of bank and the degree of risk associate with are subject to changes country-wise, bank-wise and period-wise. Henceforth, the study suggests preparing standard capital adequacy rations for each individual bank keeping in mind the various relevant factors.

Bajracharya, B.B.,(2047) has concluded that the mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal and Commercial Banks are the most active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the economy.

2.2.2 Review of Thesis

Various thesis studies have been conducted in different aspect of commercial bank in the field of financial performance. The conclusion of previous study is relevant with this study too. Therefore, reviews of those theses have been presented here.

Adhikari, D.R. (1993) in his study "Evaluating the financial performance of Nepal Bank Limited" concludes that the bank has been unable to utilize its resources (i.e. deposits) on highly yielding investment portfolio to maximize return. Operational efficiency of the bank is indicated by the operational loss and this has been found unsatisfactory. Hence, the bank is suggested to manage its investment portfolio efficiency.

Gurung, V.C. (1995) in his study "A financial study of joint venture bank in Nepal with reference to Nepal Grindlays Bank Limited and Nepal Indosuez Bank Limited" concludes that the liquidity positions of NGBL is unsatisfactory which is below the standard i.e. 2:1 which cannot meet the short term obligation. It is necessary to utilize its total assets efficiently. Profitability trend is increasing but yet to be satisfactory. The bank has maintaining sound capital adequacy ratio as directed by central bank i.e. NRB.

Joshi, D. (1993) in his study "A study of Commercial Banks with special reference to financial analysis of RBB" concludes that the bank has lower liquidity position than necessity. Capital structure is highly geared and there is a gradual increase in funded debt. The return on assets is not satisfactory. He suggests that the bank should invest its resources in more productive sectors and equity financing should be emphasized.

Mandal, M. (1996) in his study "A comparative financial analysis of NIBL, NABL and NGBL" has found that the situation of the bank is quite different from that of general business enterprises. More ever, from the point of view of working capital policy, NABL and NGBL have followed aggressive working capital policy than NIBL but from the point of view liquidity positions, NIBL is better than the two banks. Furthermore net profit to total assets ratios in case of NIBL is better than the two banks. Furthermore net profit to total assets ratios in case of NIBL has registered better performance by utilizing its overall resources for earning more profit than other two banks (NABL and NGBL).

He has also found that the Joint Venture Banks are not concentrated to mobilize their deposit funds in productive sector. So, they are suggested to come forward to meet government obligation by financing in the priority sector, development programs, income-generating programs, generating new services and ideas etc.

Shakya, D.R. (1995) in his study "Financial Analysis of Joint venture Banks in Nepal", found that their higher, inadequate investment on priority sector, highly invested on government securities and debenture bond, lower profit margin due to higher operating expenses and higher interest expenses in both banks (NABL and NGBL). On the other hand, EPS and DPS are increasing each year. Liquidity position of both banks is satisfactory. Return ratios are in fluctuating trend where ROA, ROE, of NGBL is higher than that of NGBL. NGBL's profitability is more satisfactory than that of NABL.

He recommends utilizing its risky assets, shareholders fund and total assets are more efficiently for generating more profit margins. Both banks should reduce their expenses for being more profitable. They should be more active to earn operating income rather than non-operating income i.e. foreign fluctuation gain.

Poudel, S. (2000) in his study "A comparative financial performance analysis of joint venture bank in Nepal (A case study of Nepal Bangladesh Bank Ltd. and Nepal Arab Bank limited) has found that the liquidity position of NB bank is better than that of NABIL. Though the liquidity position is lower, NABIL is able to meet its current obligation.

Both joint venture banks are extremely leveraged indicating outsiders claim exceed for more than that of the owner and bank assets. Comparatively capital structure of NB bank is more risky than that of NABIL. Earning performance and prospects of NB is better than that of NABIL.

He Recommends that the NB Bank should reduce the its excessive non performing assets (Cash and bank balance) and invest on the income generating current assets (Government Treasury bill) while NABIL must have to strengthen the liquidity position.

He further recommends to both Joint Venture Bank to increase their equity capital by issue of share expanding general reserve and retaining more earning. Again, he recommends for both joint venture banks to develop such develop such dividend policy.

Pathak, R.R. (2001) in his study “A comparative study on financial performance between NGBL and HBL” concludes that the short term solvency position of both banks are found below the normal standard and NGBL seems relatively better than of HBL

Return on investment comparatively decides that HBL has idle deposit due to lower return as compared with NGBL. Both the banks are highly leveraged. Comparatively HBL seems relatively more. Thus, the both have lower ratio of shareholders equity over total claims of creditors. Earning per share trend of both banks is found to be decreasing.

He suggests both banks to utilize its resources in more profitable sector. He recommends to invest more in the most earning assets like loan and advance and to reduce the operating expenses to maximize profit.

Research Gap

The review of above mentioned thesis has definitely enriched the researchers' vision to draw the meaningful conclusion in realistic term. However, they are not sufficient to draw the conclusion about particular banks. They are outdated also. Due to this, present research has been forwarded to draw the conclusion about the financial performance of the concerned bank. In the present context, especially Nepal Bank Limited is selected, as there are not sufficient studies regarding the Bank. This study will be helpful for the further study and concern authority who want to gain the knowledge about Nepal Bank Limited.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Concept of Research Methodology

Research is undertaken not to solve the problem existing in the work setting but also to add or contributed to the general body of knowledge in a particular area of interest to the researcher. Research is thus a knowledge building process. It generates new knowledge, which can be used for different purpose it is used to build a theory, develop policies, supports decision making and solve problems. With the open of new frontiers of knowledge through research new concept and theories are developed to explain, verify and analyzed the social phenomena (Wolf and Pant, 1999: 204).

Research Methodology is a way to systematically solve the research problem (Kothari, 1990: 10). It may be understood as a science of studying how research is done scientifically. In it, study the various steps that are generally adopted by a researcher, studying his research problem among with the logic behind them.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

This topic presents the short outline of the methods applied in the process of analyzing the present financial performance of the Nepal Bank Limited (NBL). Research is a systematic method of finding out the solution to a problem whereas research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective ink view.

This chapter looks into the research design, nature and sources of data, data collection procedure and tools and techniques of analysis.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. For the analysis of the present financial performance of Nepal Bank Ltd, analytical as well as descriptive designs applied to achieve the objective of the research.

Thus, a research design is a plan for the collection and analysis of data. It presents a series of guideposts for the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz.

(i) Selection of problem
(ii) Methodology
(iii) Data gathering
(iv) Data analysis and
(v) Report writing.

The research design asks, what approach to the problem should be taken, what methods will be used, what strategies will be used, what strategies will be effective etc. Identification, selection and formulation of a research problem may be considered as planning stage of a research and the remaining activities refer to the design, operation and completion of the research study.

A research design is the specification of methods and procedures of acquiring the information needed. It is the overall operational pattern of framework, of the project that stipulates what information is to be collected from which sources and what procedure. If it is a good design, it will ensure that the information obtained is relevant to the research questions and that it was collected objective and economical procedures.

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research works.

The main reason for a full review of research in the past is to know the outcomes of those investigations in areas where similar concepts and methodologies had been used successfully. Further, an extensive or even extensive or even exhaustive process of such review may offer vital links with the various trends and phases in the researchers in one’s are of specialization, familiarizing with the characteristic percepts, concepts and interpretation, with the special terminology, with the rationale for understanding one’s proposed investigation.

In this connection a review of previous related research projects will help the researcher to formulate a satisfactory structure for the project.

There is significant importance of review of literature in any types of research works, some of which are:

1. Identification of research problem and relevant variables.
2. Avoidance of repetition.
3. Synthesis of prior works.
4. Determining meaning and relationship among variables.

3.3 Data Collection Techniques

The researcher used only secondary data collection techniques. Secondary data from F/Y 2002/003 to 2006/007 are collected from some reports, publications, official records etc. The major sources of secondary data for this study are as follows:

a) Annual reports of the bank from 2002/003 to 2006/007.
b) Published and unpublished bulletins, reports of the bank.
c) Published and unpublished bulletins, reports of the Nepal Stock Exchange.
d) Previous studies and reports.
e) Unpublished official records.
f) "Banking and Financial statistics" report of Nepal Rastra Bank Magazines.
g) Journals and other published and unpublished related documents and reports for Central Library of T.U. and Library of Nepal Rastra Bank.
h) Various Internet Websites.
i) Other published materials.
j) Economic Survey of F/Y 2007/008.

3.4 Methods of Data Analysis

Data, valuable information and other things collected from different sources in raw form and in the initial stage in judging in independently do not help for decision but proper arrangement of them is essential thus the collected information and facts have been properly processed, tabulated, for the purpose of analysis and analyzed using relevant financial and statistical tools to achieve the objective.

3.5 Tools used for Analysis of Data

The main indicator used in this performance analysis is the operating efficiency which gives the operational result of the bank, i.e.; operational profit or loss. Besides this, various financial indicators like current ratio, loan to deposit ratio, return on capital, return on net worth, return on total assets, earning per share, dividends per share, payout ratio and net worth per share vs. market price per share have been used to measure the financial performance of the following formula have been used to compute these financial ratios.

3.5.1 Financial Tools:

Ratio analysis is a powerful and the most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expressions" and as the relationship between two or more things (Webster's New Collection Dictionary, 1975: 958).

A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy, 1974: 97).

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 1979: 97).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

3.5.1.1. Liquidity Ratio:

Liquidity refers to the ability of a firm to meet its short-term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 1999: 693).

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance (Scott, 1992: 140).

To find out the ability of bank to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position.

3.5.1.1.1. Current Ratio

Current ratio indicates the ability of the bank to meet its current obligation. It measures the relationship between current assets and current liabilities, which is expressed as:

$$CurrentRatio = \frac{Current\ Assets}{Current\ Liabilities}$$

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

3.5.1.1.2. Liquid Fund to Current Liability Ratio

It indicates the ability of bank to discharge its liquidity risk. Liquid fund are those assets, which can be converted into cash with in a short period without any decline in their volume.

$$Liquid\ \ fund\ to\ current\ liability\ ratio = \frac{Liquid\ Fund}{Current\ Liabilities}$$

3.5.1.1.3. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reason is that if bank maintains higher ratio of cash, it has to pay interest on deposits and some canings may be lost. In contrast, if a bank maintains low ratio of cash, may fail to make payment for the demands of the depositors. So, sufficient appropriate cash reserve should be maintained properly. This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing 'cash and bank balance' by deposits. This ratio can be calculated using the following formula.

$$Cash\ and\ bank\ balance\ to\ total\ deposit\ ratio = \frac{Cash\ \mathrm{and}\ Bank\ Balance}{Total\ Deposits}$$

3.5.1.1.4. Cash and Bank Balance to Current Deposit Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the current assets. Higher ratio indicates the bank's sound ability to meet the daily cash requirement of their customer's deposit. If bank maintain low ratio, bank may not able to make the payment of against cheques. So bank has to maintain cash and bank balance to current ratio properly. This ratio is computed to disclose the soundness of the company to pay total calls made of current deposits. It can be expressed as:

$$\text{Cash and bank balance to current deposit ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Deposits}}$$

3.5.1.2. Activity/Efficiency Ratio:

It is also known as turnover or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turnover means; how many numbers of times the assets flow through a firm's operations and into sales (Kulkarni, 1994: 138). Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

3.5.1.2.1. Loan and Advances to Total Deposit Ratio

Commercial Banks utilize the outsider's fund for profit generation purpose. Loan and advances to total deposit ratio shows whether the banks are successful to utilize the outsiders funds (i.e. total deposits) for the profit generating purpose on the loan and advances or not. Generally, a high ratio reflects higher efficiency to utilize outsider's fund and vice-versa. The ratio can be calculated by using following formula.

$$\text{Loan and advances to total deposit ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

3.5.1.2.2. Loan and Advances to Total Assets Ratio

It measures the ability in mobilizing total assets into loan and advances for profit generating income. A higher ratio is considered as an adequate symbol for effective utilization of total assets of bank into loan and advances which creates opportunity to earn more and more. It is calculated as:

$$\text{Loan and advances to total assets ratio} = \frac{\text{Loan and Advances}}{\text{Total Assets}}$$

3.5.1.2.3. Total Assets to Total Liability Ratio

The total assets of the bank should play active role in profit generating through lending activities. This ratio measures the bank's ability to multiple its liability into assets. It is always recommended to have higher ratio of total assets to total liabilities ratio since it signifies overall increases of credit. The higher ratio indicates the higher productivity.

$$\text{Total assets to total liability ratio} = \frac{\text{Total Assets}}{\text{Total Liability}}$$

3.5.1.2.4. Total Investment to Total Deposit Ratio

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

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

3.5.1.3. Profitability Ratios:

Profit is the difference between revenues and expenses over a period of time. A Bank should earn profit to survive and to grow over a long period of time. So profits are essential, but profit earning is not the ultimate aim of company and it should never be earned at the cost of employees, customer and society.

Profitability ratios are the indicators of degree of managerial success in achieving firm's overall goals (pradhan, 1996: 41). It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

3.5.1.3.1 Return on Loan and Advances Ratio

This ratio measures the earning capacity of the Commercial Banks through its fund mobilization as loan advances. Higher ratio indicated greater success to mobilize fund as loan and advances and vice versa. Mostly loan and advances include cash, credit, overdraft, bills purchased and discounted.

$$\text{Return on loan and advances} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

3.5.1.3.2 Net Profit/loss to Total Assets Ratio

The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher the ratio indicated the higher efficiency in the utilization of total assets and vice-versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice-versa. In this study, net profit/loss to total assets ratio is examined to measure the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

$$\text{Net profit/loss to total assets ratio} = \frac{\text{Net Profit/Loss}}{\text{Total Assets}}$$

3.5.1.3.3 Interest Income to Total Loan and Advances Ratio

It tells income as interest from total loan and advances. It is useful to know the fact that whether the loan has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy. It is calculated by using the following formula:

$$\text{Interest income to T. Loan and Advance ratio} = \frac{\text{Interest Income}}{\text{Total credit \&Advances}}$$

3.5.1.3.4 Earning Per Share (EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders for every share held have earned. A company can decide whether to increase or reduce the number of shares on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below.

$$\text{EPS} = \frac{\text{Net Profit after taxes}}{\text{Number of common stocks outstanding}}$$

3.5.1.4. Lending Efficiency Ratio:

The efficiency of a firm depends to a large extent on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. The following are the various type of lending efficiency ratios:

3.5.1.4.1. Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total loan and advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the net profit of the banks will come down by such amount. Increase in loan loss provisions decrease in profit result to decrease in dividends but it’s positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related deposits. So it can said that loan suffer it only for short term while the food financial conditions and safety of loans will make bank’s prosperity resulting increasing profits for long term. The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan and advances.

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan Loss Provision}}{\text{Total Loan and Advances}}$$

3.5.1.4.2. Non-performing Loans to Total Loan and Advances Ratio

NRB has directed all the Commercial Banks create loan loss provision against the doubtful and bad debts. But both of our concerned banks have not provided data on non-performing loan in balance sheet and profit and loss account.

$$\text{Non-performing loan to total loan and advances} = \frac{\text{Non–performing Loan}}{\text{Total Loan \& Advances}}$$

3.5.1.5. Limitations of Ratio Analysis:

Ratio analysis is suffered from some inherent limitations that are direct inherited from financial statements. Some of the most common weakness of ratio analysis is as follows:

- The firms or industry although apparently comparable in respect to size, age, location; product mix and technology may not be really comparable if they are following different accounting methods.
- Financial statement records past transactions. They are, thus an index of what happened in the past. They do not show the current position of the business. Evidently ratio analysis is also primarily concerned with analyzing the past, which may or may not be relevant today. It is thus a sort of 'POST-MORTEM' analysis rather than a guide for decision-making.
- In the context of persistent price level changes, intra firm trends analysis losses much of its operational significance.
- The differences in the definitions of items in the balance sheet and the income statement make the interpretation of ratios difficult.
- Some times ratio analysis may suffer from what is known as fallacy of misplaced concreteness (Singh, 1993: 101).

Although, various limitations of ratio analysis and doubt may arise about the valid measure of the financial performance but they are used widely to measure the financial performance of the firm.

3.5.2. Statistical Tools:

3.5.2.1. Arithmetic Mean (X):

For supporting the study, statistical tool such Mean, Standard Deviation, Coefficient of Variation, Correlation, Trend Analysis, Hypothesis and diagrammatic cum pictorial tools have been used under it.

i. Arithmetic Mean (X):

Averages are statistical constants, which enable us to comprehend in a single effort of the whole (Gupta, 2000: 357). It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

X= Σx
N

Where,Σx

X = Arithmetic mean

N = Number of observations

ΣX = Sum of observations

3.5.2.2. Standard Deviation (S.D.)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or * (Shrestha, 1991: 43). It is used as absolute measure of dispersion or variability. It is calculated as:

Where,

Standard deviation = $\frac{\Sigma x}{N}$

Sum of squares of observations = Σx

Number of observations = N

3.5.2.3. Coefficient of Variation (C.V.)

The Co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage (Shrestha, 1991: 45). It is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa.

3.5.2.4. Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is of three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non-linear. Here, we study simple correlation only. In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent variable (Shrestha, 2051: 31).

3.5.2.5. Probable Error:

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling.

If the value of ‘r’ is less than the probable error, there is no evidence of correlation, i.e., the value of ‘r’ is not at all significant. Then, if the value of ‘r’ is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of ‘r’ is significant.

3.5.3. Trend Analysis:

Trend analysis is the tools that are used to show grandly increase and decrease of variable in a period of time, is known as trend analysis. With the help of trend analysis; the tendency of variables over the period can be seen clearly. Here, trend analysis of deposit, investment and profit has been conducted.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1. Introduction

Data and information from F/Y 2002.003 to 20206/007 regarding overall financial performance of Nepal Bank Limited are presented and analyzed in this chapter. The researcher collected past five years of data set which are then analyzed and examined to find out where the areas of improvement and provide necessary suggestions for further improvement.

4.2. Ratio Analysis

Among the different financial tools, ratio analyses have been used. The meaning and concept of ratio analysis have been presented in earlier chapter. Different types of ratios have been explained and calculated in this chapter.

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. For this study, the following ratios are calculated:

4.2.1. Liquidity Ratio

For analyzing the financial performance of the firm, liquidity ratio is one of the powerful tools, whether the company is able to meet its current obligation is judged by liquidity ratio. A high liquidity ratio shows the financial strength of the firm.

The following ratios are evaluated and interpreted under the liquidity ratio.

1. Current Ratio
2. Cash and Bank Balance to Current Assets Ratio
3. Investment on Government securities to Total Current Assets Ratio
4. Cash and Bank Balance to Total Current Assets Ratio

4.2.1.1. Current Ratio

Current assets represents the amount of liquid i.e. cash and near cash assets available to the business which can be converted into cash within a year and current liability gives the indication of the upcoming cash requirements which are payable within a year from current assets.

In the study current assets refer to cash and bank balance, investment, money at short call, bills for collection loan and advances, customer acceptance and discount bills purchased and other assets. Similarly current liabilities refer to deposit liability excluding fixed deposit, bills payable, loan and advances, from other banks accrued expenses and other liabilities.

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

The proportion of current ratio of 2:1 is considered satisfactory. This conventional rule is based on the assumption that even if the half decreases the current assets, the firm can meet its current obligation. Although there are no any hard and fast rules, the current ratio having 2:1 is usually considered an adequate ratio. If the ratio of the bank is less than 2:1, the solvency position of the bank is not good. The cash payment may not be available to pay current liabilities. If the ratio is more than 2:1, the bank may have an excessive investment in current amount of current assets to meet the current obligations.

The table No. 4.1 presents the data relating to current assets, current liabilities and current ratio of NBL.

Table No. 4.1
Current Ratio

Rs. in 000

Year	Current Assets	Current Liabilities	Ratio
2002/03	4,676,709	26,817,364	0.17
2003/04	6,613,065	27,950,524	0.24
2004/05	6,709,337	31,408,006	0.21
2005/06	7,174,058	32,426,859	0.22
2006/07	7,317,293	35,288,436	0.21
Average	**6,498,092**	**30,778,238**	**0.21**

The above table shows the liquidity position of the NBL in terms of current assets to current liabilities. The higher ratio is 0.24 in F/Y 2003/004; the lower ratio is 0.17 in F/Y 2002.003 and Mean ratio is 0.21 times.

4.2.1.2. Cash and Bank Balance to Current Assets Ratio

Cash and bank balance to current assets ratio reflects the portions of cash and bank balance in total of current assets. Cash and bank balance are liquid assets than other in current assets proportions. So, the ratio visualizes higher liquidity position than current ratio.

In the present study, cash and bank balance represents total of local currency, foreign currency, cheque in hand and various bank balances in local as well as foreign bank and money at call. It is computed as total of cash and bank balance dividing by total current assets.

Cash and bank balance to current assets= $\frac{\text{Total of cash and Bank Balance}}{\text{Total current Assets}}$

The ratio related to cash and Bank balances to current assets have been presented in table No. 4.2.

Table No. 4.2
Cash and Bank Balance to Current Assets Ratio

Rs. in 000

Year	Cash & Bank Balance	Current Assets	Ratio %
2002/03	4,595,169	4,676,709	98.26
2003/04	5,861,070	6,613,065	88.63
2004/05	6,159,337	6,709,337	91.80
2005/06	7,174,058	7,174,058	100.00
2006/07	7,117,293	7,317,293	97.27
Average	**6,181,385**	**6,498,092**	**95.19**

The above table shows that the cash and bank balance to current assets ratio has ranged between 88.63% in 2003/04 to 100% in 2005/06. The average ratio is 95.19%. The ratio is in fluctuating trend.

4.2.1.3. Investment on Govt. Securities to Total Current Assets Ratio

Government securities are liquid assets as well as confidential investment until the state is living. Therefore, it is also a very important and very near cash item of the current assets. Investment on government securities to current assets ratio visualizes the proportion of investment on government securities to current asset. It is calculated as investment on govt. securities dividing by total current assets.

Investment on Gov.securities to current assets = $\frac{\text{Investment on Gov. Securities}}{\text{Current Assets}}$

Table No. 4.3 shows the data and ratio of above term of NBL.

Table No. 4.3

Investment on Govt. Securities to Total Current Assets

Year	Investment on Govt. securities	Current Assets	Ratio
2002/03	12,153,157	4,676,709	2.60
2003/04	10,593,845	6,613,065	1.60
2004/05	11,277,980	6,709,337	1.68
2005/06	11,776,900	7,174,058	1.64
2006/07	13,226,330	7,317,293	1.81
Average	**11,805,642**	**6,498,092**	**1.87**

The above table reveals that the investment on govt. securities to current assets ratio has ranged from 1.60% in 2003/04 to 2.60% in 2002/03.The ratio is fluctuating trend. The average ratio is 1.87%.

4.2.1.4. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance is said to be the first defense of every banks. The ratio between the cash and bank balance and total deposit measures the ability of the bank to meet the unexpected demand of cash and all type of deposits. It is calculated as cash and bank balance dividing by total deposits.

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

The ratio related to above term have been presented in Table No. 4.4.

Table No. 4.4
Cash and Bank Balance to Total Deposit Ratio

Rs. in 000

F/Y	Cash and Bank Balance	Total Deposit	Ratio %
2002/03	4,595,169	**35,014,001**	13.12
2003/04	5,861,070	**35,735,044**	16.40
2004/05	6,159,337	**35,934,164**	17.14
2005/06	7,174,058	**35,829,765**	20.02
2006/07	7,117,293	**39,014,204**	18.24
Average	**6,181,385**	**36,305,436**	**16.98**

The above table shows that the cash and bank balance to total deposit ratio is in increasing trend except fiscal year 2006/07. The highest ratio is 20.02% in fiscal year 2005/06 and lowest ratio is 13.12 in fiscal year 2002/03.The Average ratio is 16.98%.

4.2.2. Activity Ratio/ Utilization Ratio

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into profit generating assets.

The following ratios are calculated under this group.

1 Loan and Advance to Total Deposit Ratio
2 Loan and Advance to Total Working fund (Total assets) Ratio
3 Non- performing Asset to Total Loan and Advance Ratio
4 Non- performing Asset to Total Assets Ratio
5 Loan Loss Provision to Non- performing Asset Ratio
6 Total Investment to Total Deposit Ratio
7 Investment on Govt. securities to Total Working Fund (Total assets) Ratio

4.2.2.1. Loan and Advance to Total Deposit Ratio

This Ratio measures the extent to which the bank is successful in utilizing total deposit in the form of extending loan and advances. A high ratio represents the greater ability of the bank to utilize the total deposit and vice versa. The ratio is calculated by dividing loan and advance by total deposits.

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

The Table No. 4.5 shows the loan and advances to total deposit ratio of NBL for the five years.

Table No. 4.5
Loan & Advances to Total Deposit Ratio of NBL

Rs. in 000

Year	Loan and advances	Total Deposits	Ratio (%)
2002/03	18,132,327	35,014,001	51.79
2003/04	17,937,658	35,735,044	50.20
2004/05	16,866,546	35,934,164	46.94
2005/06	12,441,554	35,829,765	34.72
2006/07	13,756,620	39,014,204	35.26
Average	**15,826,941**	**36,305,436**	**43.59**

The above table shows loan & advance to total deposits ratio of NBL.The average Loan and Advance is Rs.15,826,941 thousand and average Deposit is Rs.36,305,436 thousand. In the fiscal year 2002/03 loan & advance to total deposit ratio is highest i.e. 51.79% but it is in decreasing trend in the following years. The average loan & advance to total deposit ratio is 43.59% over the study period.

4.2.2.2. Loan and advances to Total working Fund (Total Assets) Ratio

This ratio reflects the extent in mobilizing working fund in the form of loan and advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan and advances and vice versa. It is calculated as loan and advances dividing by Total Working Fund (Total Assets).

$$\text{Loan and Advances to Total Working Fund} = \frac{\text{Loan and Advances}}{\text{Total Assets (Working Fund)}}$$

Where,

Total working fund is the total assets, which are compose of current assets, fixed assets, miscellaneous assets, investment, loan for development banks etc.

The Table No. 4.6 exhibits the ratio of loan and advance to total working fund.

Table No. 4.6
Loan and Advances to Total Working Fund Ratio

Rs. in 000

F/Y	Loan & Advance	Total Assets	Ratio %
2002/03	18,132,327	39,816,491	45.54
2003/04	17,937,658	44,161,880	40.62
2004/05	16,866,546	47,045,154	35.85
2005/06	12,441,554	35,918,905	46.64
2006/07	13,756,620	39,258,794	35.04
Average	**15,826,941**	**206,201,224**	**40.74**

The above table shows the loan and advances to total working fund ratio of NBL. From the above table it is found that the ratio has ranged between 35.04% in fiscal year 2006/07 to 46.64% in fiscal year 2005/06. The table shows that the ratio is fluctuating trend and average ratio is 40.74%.

4.2.2.3. Non- performing Asset to Total Loan and Advance Ratio

Non-performing assets to total loan & advances ratio shows the actual figure of NPA over the total lending of bank. It is the base ratio to measure efficiency of lending department. Here, lower ratio reflects higher efficiency to provide good lending and vice versa. The ratio is calculated by using following formula:

$$\text{NPA to total loan \& advances ratio} = \frac{\text{Non-performing Assets}}{\text{Total Loan \& Advances}}$$

Table: 4.7

Non-performing Assets to Total Loan & Advances Ratio of NBL

Rs. in 000

Year	NPA	Loan & advances	Ratio (%)
2002/03	10,964,913	18,132,327	60.47
2003/04	9,640,082	17,937,658	53.74
2004/05	8,372,108	16,866,546	49.64
2005/06	2,262,183	12,441,554	18.18
2006/07	1,856,049	13,756,620	13.49
Average	**6,619,067**	**15,826,941**	**39.11**

The above table reflects the actual figures of non-performing assets, Total Loan and advances & their ratios of NBL for the latest five fiscal years period. The average NPA for the period is Rs.6, 619,067 and average Loan and advance is Rs.15, 826,941. The ratios in the years 2002/03, 2003/04, 2004/05, 2005/06 & 2006/07 are 60.47, 53.74, 49.64, 18.18 &13.49% respectively. The highest ratio is 60.47% in the year 2002/03 and it is in decreasing continuously in the following years and the average ratio is 39.11% for the period.

4.2.2.4. Non- performing Asset to Total Assets Ratio

Non-performing assets to total assets ratio shows the total default loan out of total assets. It measures the strength and weakness of bank in relation to financial condition. Normally, lower ratio reflects more efficiency in granting loan & advances and vice versa. The ratio is calculated as following formula:

$$\text{NPA to total assets ratio} = \frac{\text{Non-performing Assets}}{\text{Total Assets}}$$

Table: 4.8

Non-performing Assets to Total Assets Ratio of NBL

Rs. in 000

Year	NPA	Total assets	Ratio (%)
2002/03	10,964,913	39,816,491	27.54
2003/04	9,640,082	44,161,880	21.83
2004/05	8,372,108	47,045,154	17.80
2005/06	2,262,183	35,918,905	6.30
2006/07	1,856,049	39,258,794	4.73
Average	**6,619,067**	**206,201,224**	**15.64**

The above table shows the actual figures of non-performing assets, total assets & their ratios of NBL over the latest five fiscal years. The average NPA is Rs.6,619,067 and the average total assets is Rs.206,201,224.The ratio 27.54% which is highest is in the year 2002/03 & 4.73% which is lowest is in 2006/07. The average NPA to Total Assets ratio is 15.64% for the study period.

4.2.2.5. Loan Loss Provision to Non- performing Asset Ratio

Loan loss provision to non-performing assets ratio shows the provision made for future loss so that the bank can remove from worst condition and could operate it as smoothly. Higher ratio reflects the effective in relation to future loss but it directly affected in profitability and vice versa. The ratio is calculated by using following formula:

$$\text{Loan loss Provision to NPA ratio} = \frac{\text{Loan Loss Provision}}{\text{Non-performing Assets}}$$

Table: 4.9

Loan Loss Provision to Non-performing Assets Ratio of NBL

Rs. in 000

Year	Loan Loss Provision	NPA	Ratio (%)
2002/03	10,161,229	10,964,913	92.67
2003/04	9,055,835	9,640,082	93.94
2004/05	8,647,636	8,372,108	103.29
2005/06	2,685,391	2,262,183	118.71
2006/07	2,698,142	1,856,049	145.37
Average	**6,649,647**	**6,619,067**	**110.80**

The above table shows the Loan loss Provision, non-performing assets & their ratios of NBL for the study period. The average Loan Loss provision for the period is Rs.6649647 and average NPA is Rs.6619067. The ratio in fiscal year 2006/07 is highest and i.e 145.37% and ratio in fiscal year 2002/03 is lowest i.e.92.67. The ratio is in increasing trend for the period.

4.2.2.6. Total Investment to Total Deposit Ratio

This ratio measures the extent to which the bank is successful in utilizing outsider's fund i.e. total deposits in the form of investment. A higher ratio represents the greater ability of the bank to utilize the deposit. On the other hand a lower ratio indicates bank's inability to put its deposits into lending although it may help to maintain a sound liquidity position. The amount of deposits should be soundly invested to provide interest on its deposits and dividend to its owners. This ratio is calculated as total investment dividing by total deposits.

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

Total investment and total deposits ratio have been presented in Table No. 4.7.

Table No. 4.10
Total Investment to Total Deposit Ratio

Rs. in 000

F/Y	Total Investment	Total Deposit	Ratio %
2002/03	12,463,990	35,014,001	35.60
2003/04	11,004,820	35,735,044	30.80
2004/05	14,199,216	35,934,164	39.51
2005/06	14,501,391	35,829,765	40.47
2006/07	16,083,323	39,014,204	41.22
Average	**13,650,548**	**36,305,436**	**37.52**

The above table clearly shows that the total investment to total deposit ratio. The ratio has been ranged from 30.80% in fiscal year 2003/04 to 41.22% in fiscal year 2006/07.The average ratio is 37.52%.

4.2.2.7. Investment on Govt. Securities to Total Working Fund Ratio

Government securities are highly liquid assets as well as confidential investment until the state is living. So it is also a very important and near cash item of current assets. Investments in government securities to total working fund visualize the proportion of investment on government securities to total assets. It is calculated as investment on government securities dividing by total working fund or total assets.

$$\text{Investment on Govt. securities to Total working Fund} = \frac{\text{Investment on Gov. Securities}}{\text{Total Working Fund}}$$

Investment on government securities to total working fund have been presented in Table No. 4.8.

Table No. 4.11
Investment on Govt. Securities to Total Working Fund Ratio

Rs. in 000

F/Y	Investment on Govt. Securities	Total Working Fund	Ratio %
2002/03	12,153,157	39,816,491	30.52
2003/04	10,593,845	44,161$880	23.99
2004/05	11,277,980	47,045,154	23.97
2005/06	11,776,900	35,918,905	32.79
2006/07	13,226,330	39,258,794	33.69
Average	**11,805,642**	**206,201,224**	**28.99**

The above table shows the investment on govt. securities to total working fund ratio of NBL. The highest ratio is 33.69% in fiscal year 2006/07 and lowest ratio is 23.97% in fiscal year 2004/05. The average ratio is 28.99% in the study period.

4.2.3. Profitability Ratio

A Bank should be able to earn profit to survive and growth over a long period of time. Profit is the indicator of efficient operation of a bank. The bank acquires profit by providing different services to its customers or by making investment in different sectors.

Profitability ratios measure the efficiency of bank. Higher the profit ratios show the higher efficiency of the bank and vice versa. The following ratios are calculated under the profitability ratios.

1 Return on Total Assets (ROA)
2 Returns on Total Deposit
3 Return on Loan and Advance
4 Returns on Investment (ROI)
5 Returns on Shareholders Equity (ROSE)
6 Total Interests Earned to Total outside Assets
7 Total Interest Earned to Operating Income

4.2.3.1. Return on Total Assets

This ratio measures the profitability of the bank with respect to total Assets. It measures the profitability of all financial resources i.e. total assets investment in the banks. Return will be higher if the bank's total assets are well managed and utilized efficiently. It is calculated as net profit dividing by total assets.

$$\text{Return on Total Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Where,

Net Profit includes the profit that is left to the internal equities after all cost. Return on Total Assets ratio has been presented on Table No. 4.9.

Table No. 4.12
Return on Total Assets Ratio of NBL

Rs. in 000

Year	Net Profit	Total assets	Ratio (%)
2002/03	-251,731	39,816,491	(0.632)
2003/04	710,391	44,161,880	1.609
2004/05	1,730,130	47,045,154	3.678
2005/06	1,207,265	35,918,905	3.361
2006/07	226,953	39,258,794	0.578
Average	**724,602**	**206,201,224**	**1.757**

The above table shows net profit, total assets and their ratios of NBL from the fiscal year 2002/03 to 2006/07. The average Net profit for the period is Rs.724,602 thousand and average Total assets is Rs.206,201,224 thousand. In the study period the highest ratio is 3.678% in the fiscal year 2004/05 and the lowest ratio is (0.632%) in the fiscal year 2002/03. In an average the ratio remains at 1.757%.

4.2.3.2. Return on Total Deposit

This ratio represents the bank's efficiency in utilizing its total deposit in generating profit. The higher ratio represents the higher efficiency of the bank in utilizing the deposits. The bank has to pay interest on deposit therefore proper utilization of deposit is necessary for the banks. This ratio is calculated as net profit dividing by total deposit.

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

Where,

Net Profit means profit after tax and total deposit means those amounts which deposited in various account i.e. current, saving, fixed and other deposits. Return on total deposit ratio of NBL has been presented in the following table.

Table No. 4.13
Return on Total Deposit Ratio

Rs. in 000

F/Y	Net Profit	Total Deposit	Ratio %
2002/03	-251,731	35,014,001	-0.72
2003/04	710,391	35,735,044	1.99
2004/05	1,730,130	35,934,164	4.81
2005/06	1,207,265	35,829,765	3.36
2006/07	226,953	39,014,204	0.58
Average	**724,602**	**36,305,436**	**2.00**

The above table shows net profit, total deposit and their ratios of NBL from the fiscal year 2002/03 to 2006/07.The average Net profit for the period is Rs.724,602 thousand and average Total deposit is Rs.36,305,436 thousand. In the study period the highest ratio is 4.81% in the fiscal year 2004/05 and the lowest ratio is (0.72%) in the fiscal year 2002/03. In an average the ratio remains at 2.00%.

4.2.3.3. Return on Loan and Advances Ratio

It measures the earning capacity of Commercial Banks on its deposits mobilized on loan & advances. Mostly loan and advances include loan, cash credit, and overdraft, bills purchased and discounted. It is calculated as net profit dividing by loan and advances.

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

The higher ratio denotes the capacity of bank for earning net profit by investing the amount on loan and advances and vice versa.

Table No. 4.15 shows the return on loan and advances ratio of NBL.

Table No. 4.14
Return on Loan and Advances Ratio

Rs. in 000

F/Y	Net Profit	Loan and Advance	Ratio %
2002/03	-251,731	18,132,327	-1.39
2003/04	710,391	17,937,658	3.96
2004/05	1,730,130	16,866,546	10.26
2005/06	1,207,265	12,441,554	9.70
2006/07	226,953	13,756,620	1.65
Average	**7,24,602**	**15,826,941**	**4.84**

The above table shows net profit, Loan and Advance and their ratios of NBL from the fiscal year 2002/03 to 2006/07. The average Net profit for the period is Rs.724,602 thousand and average Loan and

Advances is Rs.15,826,941 thousand. In the study period the highest ratio is 10.26% in the fiscal year 2004/05 and the lowest ratio is (1.39%) in the fiscal year 2002/03. In an average the ratio remains at 4.84%.

4.2.3.4. Return on Investment

This ratio measures the profitability with respect to total investment. In other words, the ratio shows how well the bank has invested its resources to generate profit. It shows how much the bank has invested it resources and how well or efficiently it has mobilized to generate profit or to get return out of it. It is calculated as net profit dividing by total investment.

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

Where,

Net Profit means profit after tax and total investment includes investment on govt. securities, bonds and other investment.

The higher ratio represents the higher efficiency of the bank in utilizing its resources on investment and getting return out of it and vice versa.

Return on investment or net profit to total investment ratio has been presented in table no. 4.11.

Table No. 4.15
Return on Investment (ROI)

Rs. in 000

F/Y	Net Profit	Total Investment	Ratio %
2002/03	-251,731	12,463,990	-2.02
2003/04	710,391	11,004,820	6.45
2004/05	1,730,130	14,199,216	12.18
2005/06	1,207,265	14,501,391	8.32
2006/07	226,953	16,083,323	1.41
Average	**724,602**	**13,650,548**	**5.27**

The above table shows net profit, total investment and their ratios of NBL from the fiscal year 2002/03 to 2006/07.The average Net profit for the period is Rs.724,602 thousand and average Total investment is Rs.13,650,548 thousand. In the study period the highest ratio is 12.18% in the fiscal year 2004/05 and the lowest ratio is (2.02%) in the fiscal year 2002/03. In an average the ratio remains at 5.27%.

4.2.3.5. Return on Shareholders Equity

This ratio gives an insight of profitability of the bank in relation to shareholders fund to raise the profit. The higher ratio represents the higher efficiency of the bank in utilizing the long-term funds of shareholders. It is calculated as net profit divided by shareholders equity.

$$\text{Return on Shareholders Equity} = \frac{\text{Net profit}}{\text{Shareholders Equity}}$$

Where,

Net profit is net profit after tax and shareholders equity includes paid up capital, Profit and loss provision etc.

The Table No. 4.12 shows the return on shareholders Equity (ROSE) in different years of NBL.

Table No. 4.16

Return on Shareholder's Equity Ratio of NBL

Rs. in 000

Year	Net Profit	Shareholder's Equity	Ratio (%)
2002/03	-251,731	380,383	-66.18
2003/04	710,391	380,383	186.76
2004/05	1,730,130	380,383	454.84
2005/06	1,207,265	380,383	317.38
2006/07	226,953	380,383	59.66
Average	**724,602**	**380,383**	**190.49**

The above table shows the net profit, shareholder's Equity and their ratio of NBL from the fiscal year 2002/03 to 2006/07.On this period, the average return is Rs.724,602 thousand and the average shareholder's Equity is Rs.380,383 thousand. The Return on shareholder's Equity is highest i.e. 454.84% in the fiscal year 2004/05 and the lowest i.e.-66.18% in fiscal year 2002/03. In an average the ratio remains at 190.49% for the study period.

4.2.3.6. Total Interest Earned to Total Outside Assets Ratio

This ratio measures the efficiency of the bank to earn interest by utilizing the total outside assets. It reflects that the extent to which the bank is successful to earn interest as major income on all the outside assets. The higher ratio represents higher efficiency of the bank to earn interest by utilizing total outside assets. It is calculated as total interest earned dividing by total outside assets.

$$\text{Total Interest Earned to Total outside Assets} = \frac{\text{Total Interest Earned}}{\text{Total outside Assets}}$$

Where,

The total outside assets includes investment, loan and advances received including bills purchased and discounted.

Table No. 4.13 exhibits total interest earned to total outside assets ratio from FY 2002/03 to 2006/07.

Table No. 4.17
Total Interest Earned to Total outside Assets Ratio

Rs. in 000

F/Y	Total Interest Earned	Total outside Assets	Ratio %
2002/03	2,200,314	20,418,797	10.78
2003/04	1825,,041	19,886,643	9.18
2004/05	1,987,119	22,418,126	8.86
2005/06	2,049,030	27,130,657	7.55
2006/07	1,848,612	24,246,409	7.62
Average	**1,982,023**	**22,820,126**	**8.80**

The above table shows total interest earned, total outside assets and their ratios of NBL from the fiscal year 2002/03 to 2006/07.The average total interest earned for the period is Rs.1,982,023 thousand and average Total outside assets is Rs.22,820,126 thousand. In the study period the highest ratio is 10.78% in the fiscal year 2002/03 and the lowest ratio is 7.55% in the fiscal year 2005/06. In an average the ratio remains at 8.80%.

4.2.3.7. Total Interest earned to Total Operating Income Ratio

This ratio reflects the extent to which the bank has successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income. The higher ratio reflects the ability of bank in earning interest out of total operating income by mobilizing of interest bearing assets. It is calculated as total interest earned dividing by total operating income.

$$\text{Total Interest earned to Total Operating Income} = \frac{\text{Total Interest Earned}}{\text{Total Operating Income}}$$

Where,

Total operating income includes the interest income, commission and discounts, foreign exchange income and other income.

Total interest earned to total operating income ratio has been presented in Table No. 4.14.

Table No. 4.18
Total Interest earned to Total Operating Income Ratio

Rs. in 000

F/Y	Total Interest Earned	Total Operating Income	Ratio %
2002/03	2,200,314	2,523,112	87.21
2003/04	1,825,041	3,981,285	45.84
2004/05	1,987,119	4,171,292	47.64
2005/06	2,049,030	1,714,669	119.50
2006/07	1,848,612	1,544,635	119.68
Average	**1,982,023**	**2,786,999**	**83.97**

The above table shows total interest earned, total operating income and their ratios of NBL from the fiscal year 2002/03 to 2006/07.The average Total Interest Earned for the period is Rs.1,982,023 thousand and average Total Operating Income is Rs.2,786,999 thousand. In the study period the highest ratio is 119.68% in the fiscal year 2006/07 and the lowest ratio is 45.84% in the fiscal year 2003/04. In an average the ratio remains at 83.97% in the study period.

4.2.4. Capital Structure/Leverage Ratios

Capital structure is the long term source of financing. It includes shareholders equity, long term loan and deposit in a bank. Capital structure ratio is the ratio between equity and loan term debt and deposit. It is calculated to measure the financial risk and the firm's ability to use long-term debt and equity. A very high ratio is not favorable. On the other hand low employment of debt is also considered not favorable from the owner point of view. Therefore moderate policy is used which results in mid rang risk and profitability.

So the firm should have appropriate mixture of debt and owner equity to finance firm's assets. The following ratios are calculated to measure the capital structure of the bank.

1 Shareholders Equity to Total Deposit Ratio
2 Shareholders Equity to Total Assets Ratio
3 Long Term Debt to Shareholders Equity Ratio
4 Total Debt to Shareholders Equity Ratio
5 Long Term Debt to Total Assets Ratio
6 Total Debt to Total Assets Ratio

4.2.4.1. Shareholders Equity to Total Deposit Ratio

This ratio measures whether the bank is maintaining sufficient amount of shareholders fund or not in comparison to the amount of total deposit. It is computed as shareholders equity dividing by total deposit.

$$\text{Shareholders Equity to Total Deposit} = \frac{\text{Shareholders Equity}}{\text{Total Deposit}}$$

Where,

Shareholders equity includes paid up capital, general reserve and undistributed profit. Total deposit includes current deposit, saving deposit, fixed deposit and other deposit.

In the following table, the shareholders equity to total deposit ratio has been presented.

Table No. 4.19
Shareholders Equity to Total Deposit Ratio

Rs. in 000

F/Y	Shareholders' Equity	Total Deposit	Ratio %
2002/03	380,383	35,014,001	1.09
2003/04	380,383	35,735,044	1.06
2004/05	380,383	35,934,164	1.06
2005/06	380,383	35,829,765	1.06
2006/07	380,383	39,014,204	0.97
Average	**380,383**	**36,305,436**	**1.05**

The above table shows the shareholders' equity to total deposit ratio of NBL from FY 2002/03 to FY 2006/07. Shareholders' Equity is same in all year is Rs.380,383 thousand. The average Total Deposit is Rs.36,305,436 thousand in the study period. The highest ratio is 1.09% in FY 2002/03 and lowest ratio is 0.97% in FY 2006/07. The average ratio is 1.05%.

4.2.4.2. Shareholders Equity to Total Assets Ratio

This ratio measures whether the bank has sufficient amount of shareholders fund or not to total assets. Any bank should maintain a sufficient percentage amount of total assets as shareholders fund. This ratio is calculated as shareholders equity dividing by total Assets.

$$\text{Shareholders Equity to Total Assets} = \frac{\text{Shareholders Equity}}{\text{Total Assets}}$$

Where,

Shareholders equity includes paid up capital, general reserve and undistributed profit, loan loss provision etc. and total assets includes total of assets side of balance sheet.

Shareholders equity to total assets ratio have been presented in the following table.

Table No. 4.20
Shareholders Equity to Total Assets Ratio

Rs. in 000

F/Y	Shareholders' Equity	Total Assets	Ratio %
2002/03	380,383	39,816,491	0.95
2003/04	380,383	44,161,880	0.86
2004/05	380,383	47,045,154	0.86
2005/06	380,383	35,918,905	1.06
2006/07	380,383	39,258,794	0.97
Average	**380,383**	**206,201,224**	**0.94**

The above table shows Shareholders' equity, total assets and their ratios of NBL from the fiscal year 2002/03 to 2006/07.The Shareholders' Equity for the period is same Rs.380383 thousand and average Total assets is Rs.206,201,224 thousand. In the study period the highest ratio is 1.06% in the fiscal year 2005/06 and the lowest ratio is 0.86% in the fiscal year 2003/04 and 2004/05. In an average the ratio remains at 0.94%.

4.2.4.3. Long Term Debt to Shareholders Equity Ratio

This ratio represents the proportion of long-term debt to shareholders fund. The high ratio indicates the uses of more long-term debt in relation to shareholders equity and vice versa. It is calculated as long-term debt dividing by shareholders equity.

$$\text{Long Term Debt to Shareholders Equity} = \frac{\text{Long Term Debt}}{\text{Shareholders Equity}}$$

Where,

Long-term debt includes fixed deposit and loans from other banks. Shareholders equity includes paid up capital, general reserve, undistributed profit, loan loss provision etc.

Long term debts to shareholders equity ratio have been presented run the following table.

Table No. 4.21
Long-Term Debt to Shareholders Equity

Rs. in 000

F/Y	Long Term Debt	Shareholder's Equity	Ratio
2002/03	8,909,969	380,383	23.24
2003/04	7,815,947	380,383	20.55
2004/05	7,438,076	380,383	19.55
2005/06	6,939,890	380,383	18.24
2006/07	6,998,314	380,383	18.40
Average	**7,620,439**	**380,383**	**20.00**

The above table shows Long-term Debt, Shareholders' Equity and their ratios of NBL from the fiscal year 2002/03 to 2006/07.The average Long-term Debt for the period is Rs.7,620,439 thousand and Shareholders' Equity is same in all year is Rs.380,383 thousand. In the study period the highest ratio is 23.24% in the fiscal year 2002/03 and the lowest ratio is 18.24% in the fiscal year 2005/06. In an average the ratio remains at 20.00%.

4.2.4.4. Total Debt to Shareholders Equity Ratio

An accounting ratio obtained by dividing total debt by shareholders equity is called total debt to shareholders equity ratio. This ratio is related to all external liabilities to owners recorded claim. It is also known as external-internal equity ratio. It is determined to measure the firm's obligation to creditors in relation to the funds invested by owners. So it is the great test of the financial strength of the company.

Generally very high debt to equity ratio is unfavorable to the business because the debt gives third party's legal claim on the company. These claims are for interest payment at regular intervals.

On the other hand a very low debt to equity ratio is also unfavorable for the shareholders point of view. They want this ratio to be high so that they can have better return with smaller capital.

It is calculated as total debt dividing by shareholder's equity.

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

Where,

Total debt includes customer deposit, loan from other banks and other liabilities. Shareholders equity includes paid up capital general reserve, undistributed profit, loan loss provision etc.

Total debts to shareholders equity ratios have been presented in the following table.

Table No. 4.22
Total Debt to Shareholders Equity

Rs. in 000

F/Y	Total Debt	Shareholders Equity	Ratio
2002/03	49,647,622	380,383	130.52
2003/04	53,176,406	380,383	139.80
2004/05	54,470,700	380,383	143.20
2005/06	42,220,361	380,383	110.99
2006/07	45,506,309	380,383	119.63
Average	**49,004,280**	**380,383**	**128.83**

The above table shows Total Debt, Shareholders' Equity and their ratios of NBL from the fiscal year 2002/03 to 2006/07. The average Total Debt for the period is Rs.49,004,280 thousand and Shareholders' Equity is same in all year is Rs.380,383 thousand. In the study period the highest ratio is 143.20 in the fiscal year 2004/05 and the lowest ratio is 110.99 in the fiscal year 2005/06. In an average the ratio remains at 128.83 times.

4.2.4.5. Long-Term Debt to Total Assets Ratio

This ratio represents the proportion of long-term debt to total Assets. It is calculated as long-term debt dividing by total assets.

$$\text{Long-Term Debt to Total Assets} = \frac{\text{Long-term Debt}}{\text{Total Assets}}$$

Where,

Long-term debt consists of fixed deposit and loan from other banks. Total Assets consist of all the assets of right hind side of the balance sheet.

Long-term debts to total assets ratios has been presented in the following table.

Table No. 4.23
Long-term Debt to Total Assets Ratio

Rs. in 000

F/Y	Long-term Debt	Total Assets	Ratio %
2002/03	8,909,969	39,816,491	22.38
2003/04	7,815,947	44,161,880	17.70
2004/05	7,438,076	47,045,154	15.81
2005/06	6,939,890	35,918,905	19.32
2006/07	6,998,314	39,258,794	17.83
Average	**7,620,439**	**206,201,224**	**18.61**

The above table shows Long-term Debt, Total Assets and their ratios of NBL from the fiscal year 2002/03 to 2006/07. The average Long-term Debt for the period is Rs.7,620,439 thousand and average

Total assets is Rs. 206,201,224 thousand. In the study period the highest ratio is 22.38% in fiscal year 2002/03 and the lowest ratio is 15.81% in fiscal year 2004/05. In an average the ratio remains at 18.61%.

4.2.4.6. Total Debt to Total Assets Ratio

This ratio signifies the extent of debt financing on the total assets and measures the financial securities to the creditors. Creditors prefer the low ratio because it represents securities to creditors in extending credit. But very low ratio is not favorable to shareholders when a firm earns the rate higher than the interest rate on the interest funds.

This ratio is calculated as dividing total debt by total Assets.

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

Where,

Total debt includes short term and long-term loans and a total deposits and Total asset includes all the assets of right hand side of the balance sheet.

The total debts to total Assets ratios have been presented in the following table.

Table No. 4.24
Total Debt to Total Assets Ratio

Rs. in 000

F/Y	Total Debt	Total Assets	Ratio %
2002/03	4,964,7622	39,816,491	124.69
2003/04	5,317,6406	44,161,880	120.41
2004/05	5,447,0700	47,045,154	115.78
2005/06	4,222,0361	35,918,905	117.54
2006/07	4,550,6309	39,258,794	115.91
Average	**49,004,280**	**206,201,224**	**118.87**

The above table shows Total Debt, Total Assets and their ratios of NBL from the fiscal year 2002/03 to 2006/07.The average Total Debt for the period is Rs.49,004,280 thousand and average Total Assets is

Rs.206,201,224 thousand. In the study period the highest ratio is 124.69% in the fiscal year 2002/03 and the lowest ratio is 115.78% in the fiscal year 2004/05. In an average the ratio remains at 118.87%.

4.2.5. Income and Expenditure Analysis

4.2.5.1. Income Analysis

Income is an important indicator of financial performance of any business firm. Income refers to the value created by the use of resources. The analysis is made as per the proportionate major income to total income of Nepal Bank Limited. The major incomes of the bank are interest income, commission and discount income, exchange fluctuation income, loan loss provision written back, other operating and non operating income and profit from extra ordinary activities.

The following table shows the proportion of the sources involved in generating income. The income sources of bank in amount as well as in percentage are given below.

Table No. 4.25
Income Analysis for NBL

Rs. in 000

Income Source	Fiscal Year					
	2002/03	2003/04	2004/05	2005/06	2006/07	Average
Interest Earned	2,200,314	1,825,041	1,987,119	2,049,030	1,848,611	1,982,023
Commission & Discount	280,137	231,916	188,421	177,784	181,019	211,855
Exchange Fluctuation Income	42,661	71,815	1,369	121,337	-	59,295
Other Operating Income	-	101,590	134,725	140,842	287,648	166,201
Non Operating Income	594,799	645,528	1,451,459	22,905	50,389	553,016
Loan Loss provision written Back	-	1,105,394	408,199	1,813,642	-	1,109,078
Profit/Loss from extra ordinary activities	-	-	-	-	236,095	236,095
Total Income	3,117,911	3,981,284	4,171,292	4,325,540	2,603,762	3,639,958

In above table interest income includes interest received from loan and advances, overdraft; inter bank loan, investment on government securities and investment on debenture etc.

The above table shows interest earning is highest is Rs.2,200,314 thousand in FY 2002/2003 and lowest is Rs.1,825,041 thousand in FY 2003/04. The average interest earned Rs.1,982,023 thousand.

Commission and discount earning includes income received as commission and discount from letter of credit, drafts, bank transfer, guarantee, remittance charge etc.

The above table shows commission and discount income is highest in F/Y 2002/03 is Rs.280,137 thousand and lowest in F/Y 2005/06 is Rs.177,784 thousand. The average Commission and discount income Rs.211,855 thousand in the study period.

The Exchange fluctuation income is highest in F/Y 2005/06 is Rs.121,337 thousand and lowest in F/Y 2006/07 is Rs. 0. The average exchange fluctuation income earned Rs.59,295 thousand in the study period.

The other operating income is highest in F/Y 2006/07 is Rs.287,648 thousand and lowest in F/Y 2002/03 is Rs.0. The average other operating income is Rs.166,201 thousand.

The non-operating income is highest in F/Y 2004/05 is Rs.1,451,459 thousand and lowest in FY 2005/06 is Rs.22,905 thousand. The average non-operating income earned Rs.553,016 thousand.

The Income from loan loss provision written back is highest in FY 2005/06 is Rs.1,813,642 thousand and lowest in F/Y 2002/03 and 2006/07 is Rs.0. The average income from loan loss provision written back is Rs.1,109,078 thousand.

The Profit from extra ordinary activities in FY 2006/07 is Rs.236,095 thousand.

In the study period the average total income is earned Rs.3,639,958 thousand.

4.2.5.2. Expenses Analysis

The cost that has been occurred in producing revenue is called expenses. This analysis shows the proportionate of expenses under the different heading.

The total expenses in the NBL includes interest on deposit liabilities, interest on loan and advances, staff expenses, office operation expenses, exchange fluctuation loss, loan loss provision and provision for staff bonus.

The following table shows the structure of total expenditure amount as well as percentage.

Table No.4.26

Expenses Analysis for NBL

Rs. in 000

Expenses Head	Fiscal Year					
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
Interest Paid	1,585,600	1,025,532	748,952	774,324	772,644	981,410
Staff Expenses	1,541,829	1,848,846	1,305,249	1,067,634	1,125,324	1,377,776
Office Operating Expenses	225,923	317,582	382,710	548,108	329,491	360,763
Exchange Fluctuation Loss				-	46,279	9,256
Provision for Loan Loss	16,290	-	4,250	607,483	80,376	141,680
Provision for staff Bonus	-	78,933	-	120,726	22,695	44,471
Total Expenses	**3,369,642**	**3,270,893**	**2,441,162**	**3,118,275**	**2,376,809**	**2,915,356**

The above table shows the expenses analysis of NBL. The expenses headings are interest paid, staff expenses, office operating expenses, exchange fluctuation loss, provision for loan loss, provision for staff bonus etc.

An interest expense is the major expenses of the bank. In this study, interest and commission paid denotes the interest paid on deposits, borrowing fees, loans and advances and commission paid. NBL paid interest highest Rs.15,85,600 thousand in F/Y 2002/03 and lowest Rs.748,952 thousand in F/Y 2004/05 and average interest paid Rs. 981,410 thousand.

In the study period average staff expenses is Rs.1,377,776 thousand, average office operating expenses is Rs.360,763 thousand, exchange fluctuation loss is Rs.46,279 thousand in FY 2006/07 only, average provision for loan loss is Rs.177,100 thousand and average provision for staff bonus is Rs.44,471. The average total expense is Rs.29,15,356 thousand.

4.3. Coefficient of correlation Analysis

Under this chapter Karl Pearson's coefficient of correlation is used to find out the relationship between the following variables. The general concepts of coefficient of correlation have been explained in previous chapter i.e. in chapter three.

i) Coefficient of Correlation between Deposit and Loan and Advance
ii) Coefficient of Correlation between Deposit and Total Investment
iii) Coefficient of Correlation between Outside Assets and Net Profit

4.3.1. Coefficient of Correlation between Deposit and Loan and Advances

Deposit played a very important role in performance of commercial bank and similarly loan and advances are important to mobilize the collected deposit. Coefficient of correlation between deposit and loan and advances measure the degree of relationship between these two variables.

In this analysis, deposit is independent variable (X) and loan and advances is dependent variable (Y). The main objective of computing coefficient of correlation (r) between these two variable is to justify whether deposit are significantly used on loan and advances in a proper way or not.

The following table shows the value of ‘r’, ‘r^2’, probable error (P.Er.) and 6 P.Er. between deposit and loan and advances for NBL.

[The detail of calculation is in Annex 1.]

Table No. 4.27

Correlation between Deposit and Loan and Advance

r	r2	P.Er	6 P.Er.
-0.53277	0.28384	0.21604	1.29621

From the above table it is found that coefficient of correlation between deposit and loan and advances is -0.53277, it is shows that there is negative relationship between the two variables i.e. total deposit and loan and advances. Considering the value of ‘r’ i.e. -0.53277 and company with 6 P.Er. i.e. 1.29621, we can find that ‘r’ is highly lower than 6 P.Er. which reveals that the value of ‘r’ is insignificant. In other words, there is insignificant relationship between deposit and loan and advances. This indicates that the bank is unsuccessful to mobilize their deposit in proper way as loan and advances.

4.3.2. Coefficient of Correlation between Deposit and Total Investment

Coefficient of correlation between deposit and total investment measures the degree of relationship between these two variables. Here deposit is independent variables (X) and total investment is dependent variables (Y). The purpose of computing co-efficient of correlation between deposit and total investment is to find where deposit is significantly used as investment or not.

The following table shows the value of ‘r’, ‘r^2’, P.Er. and 6 P.Er. between deposit and total investment for NBL.

[The detail of calculation is in Annex 2.]

Table No. 4.28

Correlation between Deposit and Total Investment

r	r2	P.Er	6 P.Er.
0.73926	0.5465	0.47169	2.8301

From the above table it is found that Coefficient of Correlation between total deposits (Independent) and total investment (dependent) value of ‘r’ is 0.73926 which indicates the positive relationship between these two variables. Considering the value of Coefficient of Determination ‘r2’ is 0.5465 which indicates that 54.65% of variation in the dependent variable (total investment) has been explained by the independent variable (total deposit).By considering the probable error, since the value of ‘r’ 0.73926 is less than the 6 times P.Er. is 2.8301 which denotes that the correlation between total deposit and total investment is insignificant.

4.3.3. Coefficient of Correlation between Outside Assets and Net Profit

Coefficient of correlation between outside assets and net profit measures the degree of relationship between these two variables. Here outside assets is independent variable (X) and net profit is dependent variable (Y). The purpose of computing coefficient of correlation between outside assets and net profit is to find out whether the net profit is significantly correlated with respective total assets or not.

The following table shows the value of ‘r’, ‘r^2’, P.Er. and 6 P.Er. between outside assets and net profit of NBL for the study period.

[The detail of calculation is in Annex 3.]

Table No. 4.29

Coefficient of Correlation between Outside Assets and Net Profit

r	r2	P.Er	6 P.Er
0.35719	0.12758	0.26763	1.60578

From the above table it is found that the coefficient of correlation between total outside assets (independent) and net profit (dependent) is 0.35719, which indicates the positive relationship between these two variables. Considering the value of coefficient of determination ‘r2’ is 0.12758 which indicates, that 12.78% of variation in the dependent variables (net profit) has been explained by the independent variables (total outside assets). More ever by considering the probable error, further it can be said that there is insignificance relationship between total outside assets and net profit because the value of ‘r’ 0.35719 is less than 6 times P.Er. i.e. 1.60578.

It indicates that NBL is not capable of earning net profit by mobilizing its total outside assets.

4.4. Trend Analysis

Trend analysis is a statistical tool, which highlights the previous trend of the financial performance and helps in forecasting the future financial results of NBL. The equation as stated in previous chapter is used to compare the overall performance of Nepal Bank Limited from F/Y 2002/03 to 2006/07.

In this study the method of least square is used for the analysis of the trend. Following variables are taken for analysis of Trend.

1. Trend Analysis of Total Deposit
2. Trend Analysis of Loan and Advances
3. Trend Analysis of Net Profit

4.4.1. Trend Analysis of Total Deposit

Commercial Banks have to play mainly on the fund resource obtained from depositors. A banker’s first duty is to protect his deposit to whom he has a contractual obligation to repay money promptly in full with interest at the agreed rate and this fundamental consideration overrides all others.

Total deposit a major source of Commercial Banks consists of current deposits, fixed deposits, saving deposits, money at call & short notices and other deposit. Deposit collection shows a bank's efficiency in performance of efficient utilization.

Under this topic, an effort has been made to calculate the trend value of total deposit for five years from 2002/03 to 2006/07 for the bank. The following figure shows the trend line of total deposit of NBL. The detail for the calculation is given in Annex 4.

Table No. 4.30

Deposit Trend of NBL

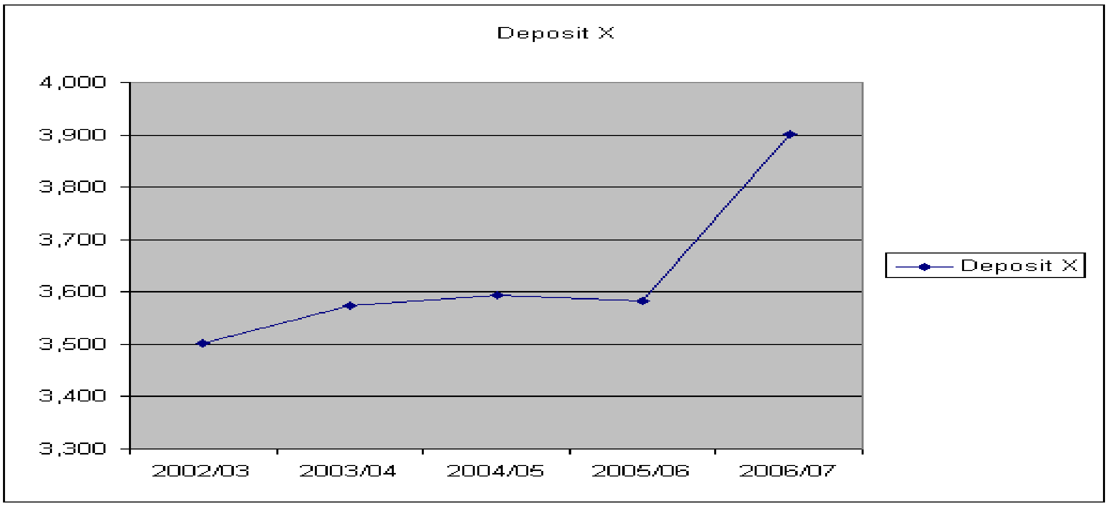
(Rs.in 000)

Year	Total Deposits	Trend
2002/03	35,014,001	3468.20
2003/04	35,735,044	3549.10
2004/05	35,934,164	3630.00
2005/06	35,829,765	3710.90
2006/07	39,014,204	3791.80

Figure No. 4.1

Trend line of Total Deposit of NBL

(Rs.in 000)



The above figure shows the total deposit of NBL is increasing in increasing trend from F/Y 2002/03 to 2006/07.

4.4.2.Trend Analysis of Loan and Advances

Under this topic the trend values of loan and advances have been calculated for five years from 2002/03 to 2006/07. The following figure shows the trend value as well as trend line of loan and advances. The detail of calculation is in Annex 5.

Table No. 4.31

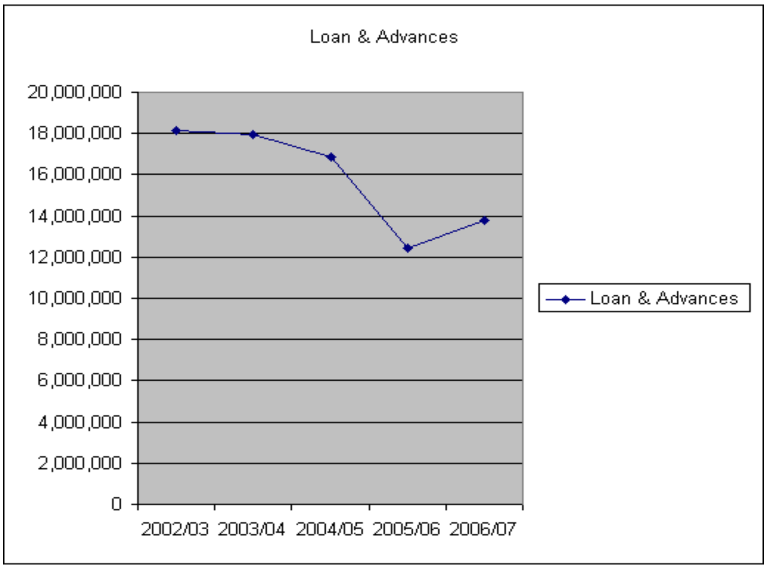
Loan and Advance Trend of NBL

(Rs.in 000)

Year	Loan and Advance	Trend
2002/03	18,132,327	1867.20
2003/04	17,937,658	1724.70
2004/05	16,866,546	1582.20
2005/06	12,441,554	1439.70
2006/07	13,756,620	1297.20

Figure No. 4.2

Trend line of Loan and Advances of NBL



The above figure shows the Total Loan & Advances of NBL is in decreasing trend from f/Y 2002/03 to 2005/06 and increased in f/y 2006/07.

4.4.3.Trend Analysis of Net Profit

Under this topic, the trend value of net profit has been calculated for five years of NBL from 2002/02 to 2006/07. The following figure shows the trend value of net profit.

[The detail of calculation is in Annex 6.]

Table No. 4.32

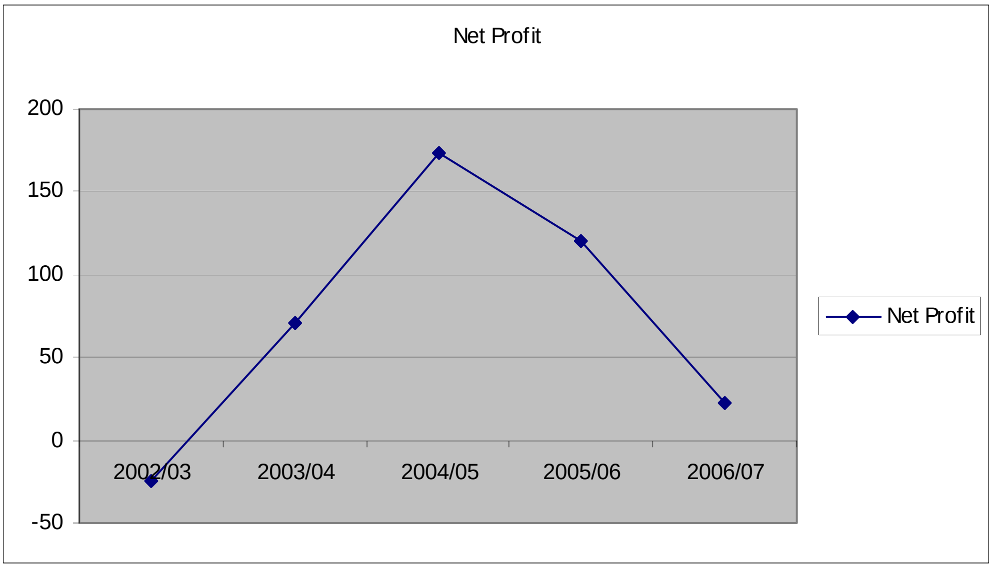
Net Profit Trend of NBL

(Rs.in 000)

Year	Net Profit	Trend
2002/03	-251,731	43.60
2003/04	710,391	57.90
2004/05	1,730,130	72.20
2005/06	1,207,265	86.50
2006/07	226,953	100.80

Figure No.4.3

Trend line of Net Profit of NBL



The above figure shows the Net Profit of NBL is in increasing trend in Fiscal Year 2002/03 to 2004/05 and is in decreasing trend in f/y 2004/05 to 2006/07.

CHAPTER-V

SUMMARY, FINDINGS & RECOMMENDATION

5.1 Summary

Money, finance and financial institutions have come to play practically indispensable role in the process of development. They not only influence the structure and investment decisions, but are also influenced by the process and levels of development itself. This interaction is not only international i.e. the national level but also external through the promotion of financial and economic linkage.

The Nepal's forward financial system is dominated by banking system, where Commercial Banks are the largest and important constituent. A sound banking system is necessary for the national development. In this study, NBL is chosen.

In early 1980's the liberalization policy directed as the development of qualitative banking services by allowing even the foreign banks to operate in Nepalese money market led to the establishment of several Commercial Banks under foreign collaboration. As a result many joint venture banks came into operation with modern banking facility to provide modern services to its customer.

This study was conducted with a view to examine, evaluate and compare the financial performance of Nepal Bank Limited.

In global market condition, banking has become highly complex and sophisticated. Several changes are taking place in the banking environment. Those changes create threats and opportunity, which have direct impact on the performance of the banks. Therefore, future is going to be more challenging than what is today. These days, the service oriented banks in the new competitive banking industry with quality and speed service will be able to attain their objective including profit generation along with maintaining social responsibility.

Financial analysis is the process of identifying financial strengths and weakness of the bank by properly establishing the relationship between the items of financial statements .i.e. Balance Sheet, Income statement and Cash Flow statement. It is key for financial decision-making and for making plans and policies before using sophisticated forecasting and budgeting procedures. Such analysis is considerable things for company’s common stock holders, investors, bondholders and others. Thus it is base for a firm’s survival, growth and expansion.

Through the analysis of the bank financial statement is different from that of other companies due to the special nature of assets and liabilities structure of the banking industry, financial performance of NBL is done on the basis of financial statement from f/y 2002/03 to 2006/07. To approach the result, some financial and statistical tools have been used. As financial tools, ratio analysis has been used massively. Ratio Analysis is used to examine the liquidity position, utilization of assets and deposits, leverage position, earning capacity etc. In the same way, some statistical tools such as mean, standard deviation, C.V., coefficient of correlation analysis, trend analysis etc. have been used to accomplish the objective. This study is mainly based on the secondary data that have been processed and analyzed.

5.2 Findings

Based on the analysis of data, the main findings are given below.

5.2.1 Liquidity Ratio

Liquidity position of the bank is examined with the help of liquidity ratio. The liquidity position of bank reveals the following position.

- The current asset to current liabilities ratio of NBL has ranged from 0.24 to 0.17 and mean ratio is 0.21 times.
- The cash and bank balance to current assets ratio has ranged between 88.63% in 2003/04 to 100% in 2005/06. The average ratio is 95.19%. The ratio is in fluctuating trend.
- The investment on govt. securities to current assets ratio has ranged from 1.64% in 2003/04 to 2.60% in 2002/03.The ratio is fluctuating trend. The average ratio is 1.87%.
- The cash and bank balance to total deposit ratio is in increasing trend except fiscal year 2006/07. The highest ratio is 20.02% in fiscal year 2005/06 and lowest ratio is 13.12 in fiscal year 2002/03.The Average ratio is 16.98%.

5.2.2 Activity Ratio

The activity ratio of NBL reveals the following positions:

- In the fiscal year 2002/03 loan & advance to total deposit ratio is highest i.e. 51.79% and lowest ratio is 35.26% in F/Y 2006/07. It is decreasing trend in following years. The average loan and advance to total deposit ratio is 43.59% over the study period.
- The loan and advances to total working fund ratio of NBL is found that the ratio has ranged between 35.04% in fiscal year 2006/07 to

46.64% in fiscal year 2005/06. The table shows that the ratio is fluctuating trend and average ratio percentage is 40.74%.

- The Non-performing assets to Total Loan and advances ratio is 60.47% in the year 2002/03 which highest in the study period and it is in decreasing continuously in the following years and the average ratio is 39.11% for the period.
- The Non-performing assets to total assets ratios of NBL is 27.54% which is highest is in the fiscal year 2002/03 & 4.73% which is lowest is in fiscal year 2006/07. The average NPA to Total Assets ratio is 15.64% for the study period.
- The Loan loss Provision to non-performing assets ratio of NBL in fiscal year 2006/07 is highest i.e 145.37% and the ratio in fiscal year 2002/03 is lowest i.e.92.67%. The ratio is in increasing trend for the period.
- The total investment to total deposit ratio has been ranged from 30.80% in fiscal year 2003/04 to 41.22% in fiscal year 2006/07.The average ratio is 37.52% and except fiscal year 2003/04 its ratio is increasing trend.
- The investment on govt. securities to total working fund ratio of NBL is fluctuating trend. The highest ratio is 33.69% in fiscal year 2006/07 and lowest ratio is 23.97 in fiscal year 2004/05. The average ratio is 28.99 in the study period.

5.2.3 Profitability ratio :

- In the study period Return on Total assets highest ratio is 3.678% in the fiscal year 2004/05 and the lowest ratio is - 0.632% in the fiscal year 2002/03. In an average the ratio remains at 1.757%.

- In the study period the highest Return on Deposit ratio is 4.81% in the fiscal year 2004/05 and the lowest ratio is - 0.72% in the fiscal year 2002/03. In an average the ratio remains at 2.00%.
- In the study period the Return on total investment ratio is highest in the fiscal year 2004/05 is 12.18 % and the lowest ratio is -2.02% in the fiscal year 2002/03. In an average the ratio remains at 5.27%.
- The Return on shareholder's Equity is highest i.e. 454.84% in the fiscal year 2004/05 and the lowest i.e.-66.18% in fiscal year 2002/03. In an average the ratio remains at 190.49 % for the study period.
- In the study period the Total interest earned to total outside assets ratio is highest in the fiscal year 2002/03 is 10.78% and the lowest ratio is 7.55% in the fiscal year 2005/06. In an average the ratio remains at 8.80%.
- In the study period the Total Interest earned to Total Operating income ratio is the highest in the fiscal year 2006/07 i.e.119.68% and the lowest ratio is 45.84% in the fiscal year 2003/04. In an average the ratio remains at 83.97% in the study period.
- The highest Return on Loan & Advance Ratio is 10.26% in the fiscal year 2004/05 and the lowest ratio is - 1.39% in the fiscal year 2002/03. In an average the ratio remains at 4.84%.

5.2.4 Capital Structure / Leverage Ratio

Capital structure ratio shows the bank's long-term financial positions. Debt financing is more risky than equity. The firm has a compulsory legal obligation to pay interest to the creditors regardless the firm making profit or not. The firm should have appropriate mix of debt and owner's equity to finance firm's assets. The capital structure or leverage ratio of bank reveals the following.

- Shareholders' Equity to Total Deposit Ratio is highest ratio in F/Y 2002/03 i.e. 1.09% and lowest ratio is 0.97% in FY 2006/07. The average ratio is 1.05% in the study period.
- Shareholders equity to total assets ratio is 1.06% in the fiscal year 2005/06 which is highest and the lowest ratio is 0.86% in the fiscal year 2003/04 and 2004/05. In an average the ratio remains at 0.94%.
- Long-term debt to shareholders equity ratio is 20.55% in the fiscal year 2003/04 which is highest ratio in the study period and lowest ratio is 18.24% in the fiscal year 2005/06. In an average the ratio remains at 20.00%.
- Total debt to shareholders equity ratio is 143.20% in the fiscal year 2004/05 which is highest ratio in the study period and the lowest ratio is 110.99% in the fiscal year 2005/06. In an average the ratio remains at 128.83%.
- The highest Long-term debt to total assets ratio is 22.38% in the fiscal year 2002/03 and the lowest ratio is 15.81% in the fiscal year 2004/05. In an average the ratio remains at 18.61% in the study period.
- Total debt to total assets ratio is 124.69% in the fiscal year 2002/03 which is highest in the study period and the lowest ratio is 115.78% in the fiscal year 2004/05. In an average the ratio remains at 118.87%.

5.2.5 Income Analysis

Income is an important indicator of financial performance of any business firm. Income refers to the value created by the use of resources. The major income of bank includes interest earned, commission and discount earning from foreign exchange and other miscellaneous income.

- In analyze period interest earning is highest i.e.Rs.2,200,314 thousand in F/Y 2002/2003 and lowest is Rs.1,825,048 thousand in F/Y 2003/04. The average interest earned Rs. 1,982,023 thousand in the study period.
- Commission and discount earning is highest in F/Y 2002/03 i.e. Rs.280,137 thousand and lowest is Rs.177,784 thousand in F/Y 2005/06. The average Commission and discount earned Rs.211,855 thousand in the study period.
- The Exchange fluctuation income earned highest is Rs.121,337 thousand in F/Y 2005/06 and lowest is Rs.1,369 thousand in F/Y 2004/05. The average exchange fluctuation income earned Rs.59,295 thousand in the study period.
- The Other operating income earned is highest i.e. Rs.287,648 thousand in F/Y 2006/07 and lowest is Rs.101,590 thousand in F/Y 2003/04. The average Other operating income earned Rs.166,201 thousand in the study period.
- The Non-operating income earned highest is Rs.1,451,459 thousand in F/Y 2004/05 and lowest is Rs.22,905 thousand in F/Y 2005/06. The average Non-operating income earned Rs.553,016 thousand in the study period.
- The loan loss provision written back earned highest is Rs.1,813,642 thousand in F/Y 2005/06 and lowest is Rs.408,199 thousand in F/Y 2004/05. The average loan loss provision written back earned Rs.1,109,078 thousand in the study period.
- The Profit from extra ordinary activities earned in F/Y 2006/07 is Rs.236,095 thousand.
- In the study period the average Total Income is earned Rs.3,639,958 thousand.

5.2.6 Expenses Analysis

The costs that have been incurred on producing revenue are called expenses. The total expenses are the combination ot the interest paid, staff expenses, office operating expenses, exchange fluctuation loss, non-operating expenses, provision for possible loss, provision for staff bonus etc.

- NBL paid highest interest in F/Y 2002/03 is Rs.1,585,600 thousand and lowest paid Rs.748,952 thousand in F/Y 2004/05 and average interest paid Rs.981,410 thousand.
- In the study period average staff expenses is Rs.1,377,776 thousand average office operating expenses is Rs.360763 thousand, exchange fluctuation loss is Rs.46,279 thousand in F/Y 2006/07 only., average provision for possible loss is Rs.177,100 thousand and average provision for staff bonus is Rs.74,118 thousand. The average total expense is Rs. 2,915,356 thousand.

5.2.7. Coefficient of Correlation Analysis

Coefficient of correlation analysis is used to make the study more effective and conclusion oriented. Coefficient of correlation between deposit & loan and advances, total deposits & total investment and total outside assets & net profit has been used to study the relationship between variables.

- The coefficient of correlation between total deposit (independent variable) and total loan and advances (dependent variable) is -0.53277. It shows that there is negative relationship between the two variables. Considering the value of ‘r’ i.e. -0.53277 and company with 6 P.Er. i.e. 1.29621, we can find that ‘r’ is highly lower than 6 P.Er. which reveals that the value of ‘r’ is insignificant. In other words, there is insignificant relationship between deposit and loan and advances. This indicates that the bank is unsuccessful to mobilize their deposit in proper way as loan and advances.

- The coefficient of correlation between total deposits (independent variable) and total investment (dependent variable) value of ‘r’ is 0.73926. It shows positive relationship between two variables. By application of coefficient of determination of the value of ‘r2’ is 0.54650, which indicates that 54.65% of variation of the dependent variable (total investment) has been explained by the independent variable (deposits). By considering the probable error, since the value of ‘r’ 0.73926 is less than the 6 times P.Er i.e. 2.8301 which denotes that the correlation between total deposit and total investment is insignificant. This indicates that the bank is not successful to mobilize their deposit in proper way as investment.
- The coefficient of correlation between total outside assets (independent variable) and net profit (dependent variable) is 0.35719, which indicates the positive relationship between these two variables. Considering the value of coefficient of determination ‘r2’ is 0.12758 which indicates, that 12.75% of variation in the dependent variables (net profit) has been explained by the independent variables (total outside assets). More ever by considering the probable error, further it can be said that there is insignificance relationship between total outside assets and net profit because the value of ‘r’ 0.35719 is less than 6 times P.Er i.e. 1.60578. It indicates that NBL is not capable to earning net profit by mobilizing its total outside assets.

5.2.8. Trend Analysis

Under this study, trend analysis is performed to see the total deposit trend, loan and advance trend and net profit trend. The trend analysis has revealed the following position:-

- It is found that the trend line of total deposit of NBL is increasing.
- It is shows that the trend line of total loan and advance of NBL is decreasing.
- The figure shows that the net profit of NBL is in decreasing trend.

5.3. Recommendations

A clear financial picture of NBL can be viewed from all above presentation. Based on the analysis of the study, following recommendation has been offered to overcome weakness, inefficiency and to improve present financial position of the bank.

- ➢ As per Nepal Rastra Bank Directives No 13, the Commercial Banks (A class) should deposit as liquidity 5% of their deposit in NRB. Here we see that Nepal Bank Limited has maintained the liquidity ratio.
- ➢ The low increase in the deposit in bank particularly in Nepal where economic activities, economic growth rate and inflation is on increasing is serious so it is necessary to give emphasis in increasing deposit volume in total as the total deposit of all banking sector is increasing.
- ➢ The decrease in net profit is the cause in decrease in loan and advance, which is the main function of the bank so it is recommended to increase safe loan for better profitability.
- ➢ The Non-performing Assets to Loan & Advance ratio and NPA to total assets ratios in the study period seem in decreasing trend. The NPA to Loan & Advance ratio is decrease from 60.47% to 13.49%

in f/Y 2006/07. As per NRB circular the Non-performing assets should be not more than 5% in a commercial Bank. So it is recommended to decrease the NPA level as per the norms.

- The decrease in net profit is the cause in decrease in Investment also, which is the main function of the bank so it is recommended to increase the idle fund in Investment for better profitability.
- The bank has been unable to utilize its resources (i.e. deposits) on highly yielding investment portfolio to maximize return. Hence, the bank is suggested to manage its investment portfolio efficiency.
- The network of the bank is its strength. It is recommended to increase commission business through the use of this network.
- The negative net worth in the bank is not only serious but it may cause bank run and effect as banking panic to the whole national economy, the 41% share of the bank is of government it is recommended to inject additional share capital for the healthy banking practice and to capture depositor's faith.
- It is recommended to reduce the expenditure on operation especially on employee to have more profitability.

BIBLIOGRAPHY

A. Books

1. American Institute of Banking (1985): *Principle of Banking Operation,* USA.
2. Anthony, H. (1981): *Banks and Markets*, Heinemann & Educational Books, London.
3. Banks and Financial Institution Act 2063 Nepal.
4. Bajracharya, B.C. (1991): *Monetary Policy and Deposit Mobilization in Nepa*l, Rajat Jayanti Smarika RBB, Kathmandu.
5. Bhandari, Dilli Raj (2003): *Banking and Insurance: Principle and Practice,* Aayush Publication Private Limited, Kathmandu.
6. Bhattarai, Sharma (2004): *Implementation of Directives Issued by Nepal Rastra Bank*: A Comparative study of Nepal SBI Bank Limited and Bangaladesh Bank Limited, Unpublished Master Degree Thesis, submitted to Office of the Dean, Faculty of Management, T.U., Kritipur.
7. Debt Recovery Act 2060 for Bank and Financial Institution.
8. Gupta, S.P. (2000): *Management Accounting*, Sahitya Bhawan prakashan, Agra.
9. Hanks, J.W. & Stucki, R. (1956): *Money: Banking and National Income*, South Western publication Company, New York.
10. Khadka, Dinesh Kumar (2004): *Non-performing assets of Nepalese Commercial Banks,* Unpublished Master Degree Thesis, Submitted to Office of the Dean, Faculty of Management, T.U., Kritipur.
11. Klise, E.S. (1972): *Money & Banking,* South Western Publication Company, New York.

12. Kothari, C.R. (1990): *Research Methodology: Method and Techniques*, Wiley eastern Limited, New Delhi.
13. Mithani, D.M. (1987): *Money, Banking & International Trade,* Himalayan Publication Company, Bombay.
14. Nepal Rastra Bank Act 2058 Nepal.
15. Nepal Rastra Bank Circular 2065
16. Pandey, I.M. (1979): *Financial Management*, Bikas Publishing House Private Limited, New Delhi.
17. Pant, P.R. & Wolff, H.K. (2000): *A Handbook for Social Science Research and Thesis Writing*, Buddha Academic Enterprises Private Limited, Kathmandu.
18. Roy, A.F. (1974): *Financial Statement Analysis*, Tata Mc-Graw Hill Publishing Company Private Limited, New Delhi.
19. Shekher & Shekher (1999): *Banking Theory and Practice*, Vikas Publishing House Private Limited, New Delhi.
20. Shing, S.P. (1993): *Financial Analysis for Credit Management in Banks*, Vikas Publishing House Private Limited, New Delhi.
21. Shrestha, K. N. and Manandhar, K.D. (2051): *Statistics and Quantitative Techniques for Management*, valley publishers private Limited, Kathmandu.
22. Shrestha Niva (2004): *A Study on non-performing loan and loss provisioning of commercial banks*, Unpublished Master Degree Thesis, Submitted to Office of the Dean, Faculty of Management, T.U., Kritipur.
23. The Encyclopedia America (1984): Volume III: USA.
24. The Encyclopedia World Book (1984): Volume I: USA.
25. The New Encyclopedia Britanica (1985): Volume XIV, UK.
26. Vaidya, S. (2001*): Banking Management*, Monitor Nepal, Kathmandu

B. Buletins

27. Economical Survey Fiscal Year 2007/08
28. Monetary Policy 2008
29. Nepal Bank Bulletins

C. *Web sites*

30. www.nepalrastrabank.com.np
31. www.nepalbank.com.np

APPENDICES

APPENDIX – I	Balance sheet of Nepal Bank Limited (2060-3-32)
APPENDIX – II	Profit and Loss Account of Nepal Bank Limited (2059-4-1 to 2060-3-32
APPENDIX – III	Balance sheet of Nepal Bank Limited (2062-3-31)
APPENDIX – IV	Profit and Loss Account of Nepal Bank Limited (2061-4-1 to 2062-3-31)
APPENDIX - V	Balance sheet of Nepal Bank Limited (2064-3-31)
APPENDIX – VI	Profit and Loss Account of Nepal Bank Limited (2063-4-1 to 2064-3-31)
APPENDIX-VII	Principal Indicators (2002/03 to 2006/07)

ANNEXES

Annex 1

Computation of coefficient of correlation between Deposit and Loan & Advances of NBL

(Rs. in 000)

Fiscal Year	Deposit X	Loan & Advances Y	(x)	(Y)	X^2	Y^2	XY
2002/03	35,014,001	18,132,327	3,501	1,813	12,257,001	3,286,969	6,347,313
2003/04	35,735,044	17,937,658	3,573	1,793	12,766,329	3,214,849	6,406,389
2004/05	35,934,164	16,866,546	3,593	1,686	12,909,649	2,842,596	6,057,798
2005/06	35,829,765	12,441,554	3,582	1,244	12,830,724	1,547,536	4,456,008
2006/07	39,014,204	13,756,620	3,901	1,375	15,217,801	1,890,625	5,363,875
N=5	**$\sum X$= 36,305,436**	**$\sum Y$= 15,826,941**	**$\sum x$= 18,150**	**$\sum y$= 7,911**	**$\sum X^2$= 65,981,504**	**$\sum Y^2$ = 12,782,575**	**$\sum XY$ = 28,631,383**

Here, N=5, $\sum x$=36,305,436, $\sum y$=15,826,941, $\sum X$=X/1000000=18,150

$\sum Y$= y/1000000=7,911, $\sum X^2$=65,981,504, $\sum Y^2$=12,782,575, $\sum XY$=28,631,383

Now,
Coefficient of correlation (r) can be calculated by using following formula

$$= \frac{N\sum XY-\sum X\sum Y}{\sqrt{[N\sum X^2-(\sum X)^2]}\times\sqrt{[N\sum Y^2-(\sum Y)^2]}}$$

$$= \frac{5\times28631383-18150\times7911}{\sqrt{[5\times65981504-(18150)^2]}\times\sqrt{[5\times12782575-(7911)^2]}}$$

$$= \frac{143156915-143584650}{\sqrt{329907520-329422500}\times\sqrt{63912875-62583921}}$$

$$= \frac{-427735}{\sqrt{485020}\sqrt{1328954}}$$

$$= \frac{-427735}{696.43\times1152.8}$$

$$= \frac{-427735}{80284450}$$

r = 0.53277

r^2 = 0.28384

Calculation of Probable error (P.Er.)

$$\text{P.Er.} = 0.6754 \times \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1- 0.28384}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.71616}{2.2360}$$

$$= 0.6745 \times 0.32029$$

P.Er. = 0.21604

6 P.Er. = 1.29621

Annex 2

Computation of Coefficient of Correlation between Deposit (X) And Total Investment (Y) of NBL

(Rs. in 000)

Fiscal Year	Deposit X	Investment Y	X^2	Y^2	XY
2002/03	3,501	1246	12,257,001	1552516	4362246
2003/04	3,573	1100	12,766,329	121000	3930300
2004/05	3,593	1419	12,909,649	2013561	5098467
2005/06	3,582	1450	12,830,724	2102500	5193900
2006/07	3,901	1606	15,217,801	2585664	6272808
N=5	**$\sum X$=18,150**	**$\sum Y$ = 6823**	**$\sum X^2$=65,981,504**	**$\sum Y^2$ = 9464241**	**$\sum XY$ =24857721**

Here, N=5, $\sum X$=18,150, $\sum Y$=6823, $\sum X^2$=65,981,504, $\sum Y^2$=9464241, $\sum XY$=24857721

Now,

Coefficient of correlation (r) can be calculated by using following formula

$$r = \frac{N\sum XY-\sum X\sum Y}{\sqrt{[N\sum X^2-(\sum X)^2]}\times\sqrt{[N\sum Y^2-(\sum Y)^2]}}$$

$$= \frac{5\times24857721 - 18150\times6823}{\sqrt{[5\times65981504 - (18150)^2]}\times\sqrt{[5\times9464241 - (6823)^2]}}$$

$$= \frac{124288605 - 123837450}{\sqrt{(329907520 - 329422500)}\times\sqrt{(47321205 - 46553329)}}$$

$$= \frac{451155}{\sqrt{485020}\times\sqrt{767876}}$$

$$= \frac{451155}{696.434 \text{ X } 876.285}$$

$$= \frac{451155}{610274.668}$$

$$r = 0.739265$$

$r^2 \quad = 0.5465$

Calculation of probable error (P.Er.)

$$\text{P.Er.} = 0.6754 \times \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1- 0.5465}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.4535}{2.23607}$$

$$= 0.6745 \times 0.20281$$

$$= 0.47169$$

$6 \text{ P.Er.} \quad = 2.8301$

Annex 3

Computation of Coefficient of Correlation between Outside Asset (X) and Net Profit (Y) of NBL

(Rs. in 000)

Fiscal Year	Outside Assets X	Net Profit Y	X^2	Y^2	XY
2002/03	2,041	-25	4165681	625	-51025
2003/04	1,988	71	3952144	5041	141148
2004/05	2,241	173	5022081	29929	387693
2005/06	2,713	120	7360369	14400	325560
2006/07	2,424	22	5875776	484	53328
N=5	**$\sum X$=11,407**	**$\sum Y$ = 361**	**$\sum X^2$=26376051**	**$\sum Y^2$ = 50479**	**$\sum XY$ =586704**

Here, N=5, $\sum x$=11,407, $\sum y$=361, $\sum X^2$=26376051, $\sum Y^2$=50479, $\sum XY$=586704

Now,

Coefficient of correlation (r) can be calculated by using following formula

$$r = \frac{N\sum XY-\sum X\sum Y}{\sqrt{[N\sum X^2-(\sum X)^2]}\times\sqrt{[N\sum Y^2-(\sum Y)^2]}}$$

$$= \frac{5\times856704-11407\times361}{\sqrt{[5\times26376051-(11407)^2]}\times\sqrt{[5\times50479-(361)^2]}}$$

$$= \frac{4283520-4117927}{\sqrt{131880255-130119649}\times\sqrt{252395-130321}}$$

$$= \frac{165593}{\sqrt{1760606}\times\sqrt{122074}}$$

$$= \frac{165593}{1326.88\times349.39}$$

$$= \frac{165593}{463598.60}$$

$r = 0.35719$

$r^2 = 0.12758$

Calculation of probable error (P.Er.)

$$P.Er. = 0.6754 \times \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1- 0.12758}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.88724}{2.23607}$$

$$= 0.6745 \times 0.39678$$

$$= 0.26763$$

$6\ P.Er. = 1.60578$

Annex 4

Calculation of Trend value

Calculation of Trend value of Total Deposit of NBL

(Rs. in Million)

Fiscal Year (t)	Total Deosit y	x= t - 04/05	X^2	XY	yc=a + bx
2002/03	3,501	-2	4	- 7,002	3468.20
2003/04	3,573	-1	1	- 3,573	3549.10
2004/05	3,593	0	0	0	3630.00
2005/06	3,582	1	1	3,582	3710.90
2006/07	3,901	2	4	7,802	3791.80
N=5	$\sum y=18150$	$\sum x = 0$	$\sum x^2=10$	$\sum xy = 809$	

Here, N=5, $\sum y= 18150$, $\sum x^2=10$, $\sum xy = 809$,

Now,

$$a = \frac{\sum y}{N}$$

$$= \frac{18150}{5}$$

$$= 3630$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{809}{10}$$

$$= 80.9$$

The equation of straight line trend is

yc = a + bx

yc = 3630 + 80.9 x X

Annex 5

Calculation of Trend value of Total Loan & Advances of NBL

(Rs. in Million)

Fiscal Year (t)	Loan & Advances y	x= t -04/05	X^2	XY	yc=a + bx
2002/03	1,813	-2	4	-3626	1867.20
2003/04	1,793	-1	1	-1793	1724.70
2004/05	1,686	0	0	0	1582.20
2005/06	1,244	1	1	1244	1439.70
2006/07	1,375	2	4	2750	1297.20
N=5	$\sum y=7,911$	$\sum x = 0$	$\sum x^2=10$	$\sum xy = -1425$	

Here, N=5, $\sum y= 7911$, $\sum x^2=10$, $\sum xy = -1425$

Now,

$$a = \frac{\sum y}{N}$$

$$= \frac{7911}{5}$$

$$= 1582.20$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{-1425}{10}$$

$$= -142.5$$

The equation of straight line trend is

yc = a + bc

yc = 1582.2 + (-142.5) x X

Annex 6

Calculation of Trend value of Net Profit of NBL

(Rs. in Million)

Fiscal Year (t)	Net Profit = y	x= t -04/05	X^2	XY	yc=a + bx
2002/03	-25	-2	4	50	43.60
2003/04	71	-1	1	- 71	57.90
2004/05	173	0	0	0	72.20
2005/06	120	1	1	120	86.50
2006/07	22	2	4	44	100.80
N=5	**$\sum Y = 361$**	**$\sum x = 0$**	**$\sum x^2=10$**	**$\sum xy = 143$**	

Here, N=5, $\sum y = 361$, $\sum x^2 = 10$, $\sum xy = 143$

Now,

$$a = \frac{\sum y}{N}$$

$$= \frac{361}{5}$$

$$= 72.20$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{143}{10}$$

$$= 14.30$$

The equation of straight line trend is

$$yc = a + bc$$

$$yc = 72.20 + 14.30 \text{ x } X$$

APPENDIX - I

नेपाल बैंक लिमिटेड

२०६० साल अषाढ ३२ गतेको वासलात

पुंजी र दायित्व				सम्पत्ति र जायजेथा			
गत वर्ष रु.	विवरण	अनुसूची	यस वर्ष रु.	गत वर्ष रु.	विवरण	अनुसूची	यस वर्ष रु.
३८०,३८२,६००।००	१. शेयर पुंजी	१	३८०,३८२,६००।००	१,६६५,१०३,६६५।११	१. नगद मौज्दात	७	१,४१६,५४५,१७३।२६
(९,९३४,२५८,२१३।९०)	२. जगेडा तथा कोषहरु	२	(१०,२११,५१४,३०१।६६)	४,९६२,०१२,०५९।३६	२. बैंक मौज्दात	८	३,१७८,६२३,७४५।०२
२१३,२६३,५७३।०९	३. तिर्न बाँकी कर्जा सापट	३	५२,००९,९३५।८८	१,५४३,५९९,०७८।८४	३. माग तथा अल्पसूचनामा प्राप्त हुने रकम	९	८१,५४०,०००।००
३४,२६४,८४६,०६१।७९	४. निक्षेप हिसाब	४	३५,०१४,००१,४४३।८८	७,१५१,३८१,५८१।३२	४. लगानी	१०	१२,४४७,६९९,८६३।८०
१२०,१४५,१७४।९५	५. भुक्तानी दिनु पर्ने बिलहरु	५	१४१,३११,३५६।७९	८,६३८,४३८,१५९।३७	५. कर्जा, सापट तथा बिल खरिद	११	७,९७१,०९७,४९८।८३
१४,५१५,४६३,४२३।०४	६. अन्य दायित्व	६	१४,४४०,२९९,४६९।२५	१३९,६४०,५६८।९२	६. स्थिर सम्पत्ति	१२	१३७,७९५,४५०।१६
				१५,४५९,६६७,५०६।०५	७. अन्य सम्पत्ति	१३	१४,५८३,१८८,७७३।०७
३९,५५९,८४२,६१८।९७	**कुल दायित्व :**		**३९,८१६,४९०,५०४।१४**	**३९,५५९,८४२,६१८।९७**	**कुल सम्पत्ति :**		**३९,८१६,४९०,५०४।१४**

सम्भावित दायित्व — अनुसूचि १४
संचालकहरुको Declaration — अनुसूचि २३
पुंजीकोषको पर्याप्तता — अनुसूचि २४
प्रमुख सुचाङ्कहरु — अनुसूचि २५
नगद प्रवाह विवरण — अनुसूचि २६
प्रमुख लेखा नीतिहरु — अनुसूचि २७
लेखा सम्बन्धी टिप्पणीहरु — अनुसूचि २८

१ देखि १४ सम्मको अनुसूचीहरु बासलातका अभिन्न अङ्ग हुन् ।

मिति : पौष २५, २०६०

APPENDIX - II

नेपाल बैंक लिमिटेड

मिति २०५९ श्रावण १ गते देखि २०६० आषढ ३२ गते सम्मको नाफा नोक्सान हिसाब

खर्च				आम्दानी			
गत वर्ष रु.	विवरण	अनुसूची	यस वर्ष रु.	गत वर्ष रु.	विवरण	अनुसूची	यस वर्ष रु.
१,७१३,२०२,६७९।१०	१. व्याज खर्च	१५	१,५८५,५९९,८४५।०३	१,५२६,९८९,०३४।११	१. व्याज आम्दानी	१८	२,२००,३१४,०२३।१८
१,२२७,८५१,१७८।२०	२. कर्मचारी खर्च	१६	१,५४१,८२८,९६९।१२	२४१,००६,५३३।८६	२. कमिशन तथा डिष्काउण्ट	१९	२८०,१३६,८०९।३३
१५८,४९१,६८६।३४	३. कार्यालय संचालन खर्च	१७	२२५,९२३,१७६।६९	१८३,६१९,९४८।१६	३. सटही घटवढ आम्दानी	२०	४२,६६०,९२२।२४
-	४. सटही घटवढ नोक्सान	२०	-	१२४,७५८,७८५।२६	४. गैर संचालन आम्दानी	२१	
-	५. गैर संचालन खर्च	२१	-	६६,३११,१९४।०५	५. अन्य आम्दानी	२२	
-	६. असुली हुन नसक्ने कर्जाको अपलेखन		-	३,०७१,२९६,०४८।२०	६. खुद नोक्सान (तल सारेको)		२५१,७३०,६७२।०६
२,११४,४३६,०००।००	७. जोखिम सम्बन्धी व्यवस्था		-				
-	८. कर्मचारी बोनस व्यवस्था		-				
-	९. आयकर व्यवस्था		-				
-	१०. लगानीमा व्यवस्था		१६,२९०,०००।००				
-	११. खुद नाफा (तल सारेको)		-				
५,२१३,९८१,५४३।६४	**जम्मा :**		**३,३६९,६४१,९९०।८४**	**५,२१३,९८१,५४३।६४**		**जम्मा :**	**२,७७४,८४२,४२६।८१**

गत वर्ष रु.	विवरण	यस वर्ष रु.	गत वर्ष रु.	विवरण		यस वर्ष रु.
७,३८१,१४८,८६४।५५	१. गत वर्षसम्मको संचित नोक्सान	१०,६३६,०८६,०९८।८३				
३,०७१,२९६,०४८।२०	२. यस वर्षको नोक्सान	२५१,७३०,६७२।०६	-	१. गत वर्ष सम्मको संचित मुनाफा		
-	३. साधारण जगेडाकोष	-				
-	४. भैपरी आउने जगेडा	-	-	२. यस वर्षको मुनाफा		
-	५. बैंक विकास कोष	-				
-	६. लाभांश समीकरण कोष	-	१०,६३६,०८६,०९८।८३	३. सञ्चित नोक्सान		१०,८८७,८१६,७७०।८९
-	७. कर्मचारी सम्बन्धी जगेडाहरु	-				
-	८. अन्तरिम एवं प्रस्तावित लाभांश	-				
-	९. बोनस शेयर जारी	-				
-	१०. विशेष जगेडा कोष	-				
४२,९३८,१८६।०८	११. सटही घटवढ कोष	-				
१४०,७०३,०००।००	१२. आयकर भूक्तानी (आ.ब.२०५४।५५ सम्मको)	-				
	१३. सञ्चित मुनाफा	-				
१०,६३६,०८६,०९८।८३	**जम्मा:**	**१०,८८७,८१६,७७०।८९**	**१०,६३६,०८६,०९८।८३**	**जम्मा :**		**१०,८८७,८१६,७७०।८९**

१५ देखि २२ सम्मका अनुसूचीहरु नाफा नोक्सान हिसाबका अभिन्न अङ्ग हुन् ।
मिति : पौष २५, २०६०

APPENDIX - III

नेपाल बैंक लिमिटेड

२०६२ साल आषाढ ३१ गतेको वासलात

पुंजी र दायित्व				सम्पत्ति र जायजेथा			
गत वर्ष रु.	विवरण	अनुसूची	यस वर्ष रु.	गत वर्ष रु.	विवरण	अनुसूची	यस वर्ष रु.
३८०,३८२,६००	१. शेयर पुंजी	१	३८०,३८२,६००	१,०१०,२३१,४६७	१. नगद मौज्दात	७	१,०६९,६१३,५३५
ढ९,३९४,९०८,४९१ण	२. जगेडा तथा कोषहरु	२	ढ७,८०५,९२८,४८९ण	४,८५०,८३८,८९५	२. बैंक मौज्दात	८	५,०८९,७२३,९४८
(	३. तिर्न बाँकी कर्जा सापट	३	१,२४७,०६५,३७४	७५१,९९४,५२१	३. माग तथा अल्पसूचनामा प्राप्त हुने रकम	९	५५०,०००,०००
३५,७३५,०४४,४२७	४. निक्षेप हिसाब	४	३५,९३४,१६३,६४५	११,००४,८१९,५७१	४. लगानी	१०	१४,१९९,२१६,४२४
३१,४२६,६३५	५. भुक्तानी दिनु पर्ने बिलहरु	५	४१७,७८७,८५६	८,८८१,८२३,३२३	५. कर्जा, सापट तथा बिल खरिद	११	८,२१८,९०९,६०९
१७,४०९,९३४,८६४	६. अन्य दायित्व	६	१६,८७१,६८३,००५	१९५,०४६,५०८	६. स्थिर सम्पत्ति	१२	१८७,०८४,६१८
				१७,४६७,१२५,७५०	७. अन्य सम्पत्ति	१३	१७,७३०,६०५,८५७
४४,१६१,८८०,०३५	कुल दायित्व :		४७,०४५,१५३,९९१	४४,१६१,८८०,०३५	कुल सम्पत्ति :		४७,०४५,१५३,९९१

सम्भाबित दायित्व अनुसूचि १४
संचालकहरुको Declaration अनुसूचि २३
पुँजीकोषको पर्याप्तता अनुसूचि २४
प्रमुख सुचाङ्कहरु अनुसूचि २५
नगद प्रवाह विवरण अनुसूचि २६
प्रमुख लेखा नीतिहरु अनुसूचि २७
लेखा सम्बन्धी टिप्पणीहरु अनुसूचि २८
मिति : मार्ग १२, २०६२
१ देखि १४ सम्मको अनुसूचीहरु बासलातका अभिन्न अङ्ग हुन् ।

APPENDIX - IV

नेपाल बैंक लिमिटेड

मिति २०६१ श्रावण १ गते देखि २०६२ आषढ ३१ गते सम्मको नाफा नोक्सान हिसाब

खर्च				आम्दानी			
गत वर्ष रु.	विवरण	अनुसूची	यस वर्ष रु.	गत वर्ष रु.	विवरण	अनुसूची	यस वर्ष रु.
१,०२५,५३२,७८९	१. व्याज खर्च	१५	७४८,९५२,६१७	१,८२५,०४१,४२१	१. व्याज आम्दानी	१८	१,९८७,११९,०९९
१,८४८,८४५,८१७	२. कर्मचारी खर्च	१६	१,३०५,२४९,२६५	२३१,९१५,६२४	२. कमिशन तथा डिष्काउण्ट	१९	१८८,४२०,८५१
३१७,५८१,९०६	३. कार्यालय संचालन खर्च	१७	३८२,७१०,५५९	७१,८१५,०११	३. सटही घटवढ आम्दानी	२०	१,३६८,७९७
	४. सटही घटवढ नोक्सान	२०	-	६४५,५२८,४६९	४. गैर संचालन आम्दानी	२१	१,४५१,४५९,२२४
	५. गैर संचालन खर्च	२१	-	१,२०६,९८४,२५३	५. अन्य आम्दानी	२२	५४२,९२४,१७०
	६. असुली हुन नसक्ने कर्जाको अपलेखन		-	-	६. खुद नोक्सान (तल सारेको)		-
-	७. जोखिम सम्बन्धी व्यवस्था		-				
५००	८. लगानीमा व्यवस्था		४,२५०,०००				
७८,९३२,३७७	९. कर्मचारी बोनस व्यवस्था		-				
-	१०. आयकर व्यवस्था		-				
७१०,३९१,३८९	११. खुद नाफा (तल सारेको)		१,७३०,१२९,७००				
३,९८१,२८४,७७८	जम्मा :		४,१७१,२९२,१४१	३,९८१,२८४,७७८	जम्मा :		४,१७१,२९२,१४१

गत वर्ष रु.	विवरण	यस वर्ष रु.	गत वर्ष रु.	विवरण		यस वर्ष रु.
१०,८८७,८१६,७७१	१. गत वर्षसम्मको संचित नोक्सान	१०,३३२,०६९,३७४		१. गत वर्ष सम्मको संचित मुनाफा		
	२. यस वर्षको नोक्सान	(	७१०,३९१,३८९	२. यस वर्षको मुनाफा		१,७३०,१२९,७००
१४२,०७८,२७८	३. साधारण जगेडाकोष	३४६,०२५,९४०	१०,३३२,०६९,३७४	३. सञ्चित नोक्सान		९,०२४,०४२,१३४
	४. भैपरी आउने जगेडा	-				
	५. बैंक विकास कोष	-				
	६. लाभांश समीकरण कोष	-				
	७. कर्मचारी सम्बन्धी जगेडाहरु	-				
	८. अन्तरिम एवं प्रस्तावित लाभांश	-				
	९. बोनस शेयर जारी	-				
	१०. विशेष जगेडा कोष	-				
१२,५६५,७१४	११. सटही घटवढ कोष	-				
	१२. आयकर भूक्तानी	-				
	१३. पूजी मिलान कोष	७६,०७६,५२०				
	१३. सञ्चित मुनाफा	-				
११,०४२,४६०,७६३	**जम्मा :**	**१०,७५४,१७१,८३४**	**११,०४२,४६०,७६३**	**जम्मा :**		**१०,७५४,१७१,८३४**

१५ देखि २२ सम्मका अनुसूचीहरु नाफा नोक्सान हिसाबका अभिन्न अङ्ग हुन् ।
मिति : मार्ग १२, २०६२