CHAPTER 1

1 INTRODUCTION

Nepal is mountainous, land locked and developing country. Banking system of Nepal has undergone significant change since liberalization of the financial sector in the mid eighties. It has improved in quantitative as well as qualitative terms. Though banking system in Nepal is not so multifaceted when compared to that of developed countries, it has definitely grown to become more complex in recent years. Financial system of Nepal is still in its primary stage of development. Small and fast growing financial sector comprises of commercial banks and other financial institutions like development banks, finance companies, cooperatives etc. So far, development of financial services in the country is uneven. In some regions of the country, fast and advanced banking services are available while other regions are fully deprived of banking services. More than 80% Nepalese people are rely on agriculture sector. In Nepal, there has been a decrease in productivity of agriculture and on the other hand the population of the country is on rise. "The emergence and expansion of productive industries are necessary for the all rounds 10% and limited portion of labour force is involved in industry, consequently more than 80% of the total population depends on agriculture for their livelihood." Agriculture is still not sufficient to feed the growing population in Nepal. Therefore, the manpower from agricultural sector must be transferred to other sectors for economic development. Industrial sector have contributed to the national economy less that 56.1% of total GDP. (Economic Survey 2054/55:45)

Capital accumulation and formulation play vital role in accelerating the economic growth of a nation, which in turn is basically determined, among others, by saving and investment propensities. But the capacity to save in the developing countries is quite low with a relatively higher marginal propensity of consumption.

Banking plays a significant role for the development of national economy. It provides an effective payment credit system, which facilitates the channeling of funds from the surplus spending units to the deficit spending units in the economy. The basic task of the financial institution is to mobilize the saving to high yielding investment projects to offer attractive and secured returns to the different sectors of the economy according to the plan priorities of the of the country. This process of financial institutions give rise to money and other financial assets, which therefore have a central place in the development process of the economy. Banking intuitions are inevitable for the resources mobilization and all round development of the country. It is resource for economic development; it maintains economic confidence of various segments and extends credit to people.

Mobilization of the savings of the general public in the form of deposits and its channelization to various productive sectors of economy is the primary function of any commercial bank. In order to collect the scattered saving and put those into productive channels, financial institutions like; Banks are necessity. In the absence of such institutions, the saving will not be utilized properly within the economy and will either divert abroad or used for unproductive consumptions or susceptive activities.

The national savings is attracted by the commercial banks into deposits which are then mobilized into investments into the productive sectors of the economy. Investment in the productive sectors like agriculture, commerce, service, industry as well as the deprived sectors of the economy helps in the economic growth of the country. The higher the economic growth, higher will be the national savings of the country.

Commercial banks occupies quite an important place in the framework of every economy because it provides capital for the development of trade, industry and business, investing the collected saving as deposits. Besides these, commercial bank renders numerous services to their customers, shareholders and society in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks are playing active role and have changed the economic structure of the world.

Being a developing country, Nepal is directing its effort to uplift her economy rapidly. But still it has been an agricultural dominated economy, considering economic and social development as the primary objectives. Nepal has adopted the “Mixed Economy Model” with the implicit assumption that the state and private sectors can compliment each other in the development process of the country via issuing shares and accepting deposits from them. Then the bank can mobilize and invest such accumulated resources into field of agriculture, trade, commerce, industry, tourism, and hydroelectricity project etc.

A sound banking system is important because of the key role it plays in the economy intermediation, facilitating payment flows, credit allocation and maintaining financial discipline among the borrowers. Banks can encourage thrift and allocate savings and by enabling savings to be used outside the sector in which key originate. In any economy whether highly developed financial markets or less well developed financial markets, banks remains at the center of economic and financial activity and a stand apart from other institutions as primary providers of payment services and a fulcrum for the monetary policy implementation.

1.1 GENERAL BACKGROUND OF BANKING

Banking has come to the present advanced form through various stages. Some sort of banking activities has been carried out since the time immemorial traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia. Merchants, goldsmith and money lenders are the ancestors of modern banking.

The Word bank derives from the Italian word “Banco” which means a bench for keeping, lending and exchanging of money in the market by moneylenders. During the early periods the banking business has mostly done by the individuals and business groups for the purpose of facilitating commercial sector. “The bank of Venice” was established in 1157 AD as the pioneer bank in the history of banking. Then ‘Bank of Barcelona’ was established in 1401 AD as the second bank of the world.

1.2 ORIGIN OF BANKING IN NEPAL

Like other countries landlords, moneylenders, merchants, goldsmith etc are the ancient bankers in Nepal. In 19th century, Prime Minister Rannodip Singh established “Tejarath Adda” to provide loan to the government employee at a low interest rate, but it could not accept deposits from publics. The Major part of the country remains untouched from these limited banking activities.

The development of trade with India and other countries increase the necessity of the institutional banker, which can act more widely to enhance the trade and commerce and touch the remote non banking sector in the economy. Reviewing this situation, the "Udhyog Parishad" was constituted in 1993 BS. One year after formulation, it was formulated the 'Company Act' and 'Nepal Bank Act' in 1994 BS. Then Nepal Bank Ltd. (NBL) was established under Nepal Bank Act 1994 BS, as the first commercial bank of Nepal with the authorized capital of 10 million Rupees.

Table 1.1

List of Commercial Banks Operating in Nepal

S.NO.	NAMES	OPERATION DATE	HEAD OFFICE	PAID UP CAPITAL (RS. IN MILLION)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.3
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	9278.0
4	NABIL Bank Ltd.	1984/07/16	Kathmandu	492.2
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu	1002.6
6	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu	620.8
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu	810.8
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu	647.8
9	Nepal Bangladesh Bank Ltd.	1993/06/05	Kathmandu	744.1
10	Everest Bank Ltd.	1994/10/18	Kathmandu	831.4
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu	603.1
12	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar	1195.7
13	Lumbini Bank Limited	1998/07/17	Narayangadh	750.0
14	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biaratnagar	792.0
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara	821.7
16	Kumari Bank Limited	2001/04/03	Kathmandu	900.0
17	Laxmi Bank Limited	2002/04/03	Birgunj	732.0
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	690.0
19	Global Bank Ltd.	2007/01/02	Birgunj	700.0
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu	560.0
21	Prime Bank Ltd	2007/9/24	Kathmandu	700.0
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	700.0
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	700.0
24	Development Credit Bank Ltd.	2008/05/25	Kathmandu	1100.00
25	NMB Bank Ltd.	2008/06/02	Kathmandu	1000.00

Having felt need of development of banking sector and to help the government formulate monetary policies, Nepal Rastra Bank was established in 2013 BS, as a central bank of Nepal under Nepal Rastra Bank Act 2012. Rastriya Banijya Bank was established in 2022 BS under Rastriya Banijya Bank Act 2021. This act is now revised as commercial banking Act 2031(BS). For development of sources of a poor person, raising their living standard by participating them in any income generating activities, Co-Operative Bank was established in 2020 BS, which was letter on converted to Agricultural Development Bank on 2024 BS. Industrial Development Corporation was established in Ashadh 2016 BS under Nepal Industrial Development Corporation Act 2016. The government of Nepal observed the necessity of rapid development of the country for which it has adopted, "Liberalized economic Policy and encouraged foreign investment".

Consequently, the third commercial bank in Nepal, or the first foreign joint venture bank, was set up as Nepal Arab Bank Ltd (now called as NABIL Bank Ltd) in 2041 BS. Nepal Indosuez Bank Ltd. (now called as Nepal Investment Bank) on 2042 BS, Nepal Grindlays Bank Ltd (now called as Standard Chartered Bank Nepal Ltd.) on 2043 BS, & Himalayan Bank Ltd. in 2049 BS, Nepal SBI Bank. On 2050 BS & Nepal Bangladesh Bank was established on 2051 BS. At present, altogether 25 commercial banks, (Table No. 1.1) which include 8 Joint venture banks, are in the operation besides many more finance and co-operative companies. Nepalese banking system has now a wide geographic reach and institutional diversification.

1.3 INTRODUCTION TO NABIL BANK

Nabil Bank Ltd, the first foreign joint venture bank of Nepal, started in 12th July 1984 (29th Ashar 2041), It was established with joint venture of Emirates Bank international Limited (EBI), financial institution of Nepal and Nepalese people with shares of 50%, 20% and 30% respectively. But later on shares of Emirates Bank International Limited (EBI) were sold to National Bank Limited of Bangladesh in 2051 BS. Nabil was incorporated with the objective of extending international standard modern banking services to various sector of society. Pursuing its objectives, Nabil provides a full range of banking services.

After 11 years of active participation, Emirates Bank International Limited (EBI) divested its’ 50% shareholding to National Bank Limited (NBL) Dhaka, Bangladesh. With increased economic cooperation under SAARC framework particularly in the field of trade commerce and induction of SAPTA agreement, the participation in National Bank Limited of Bangladesh in Nepal seemed to be most timely. However the board of directors had decided to release the technical assistance contract with National Bank Limited, Dhaka in May 2001 in a view to that the management of the Nabil Bank Limited could be handled by the Nepalese employees.

The annual general meeting held on 12 August 2001 decided to rename the bank as “NABIL Bank Limited” to be effective from 1st January 2002. The bank has now 28 branches, being the highest number of branches of any joint venture bank operating in Nepal.

NABIL provides a full range of commercial banking services through its outlets spread across the nation and reputed correspondents banks across the globe. Moreover, NABIL has a good name in the market for its highly personalized services to the customers.

The bank has focused in improvement of information technology, venturing into new areas of banking activities and also laid greater stress in improving the quality of manpower. The bank has also emphasized to remain competitive in fast changing environment and adopt new marketing policies. NABIL Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

NABIL as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele-banking system.

PRESENT CAPITAL STRUCTURE OF NABIL BANK

Share Capital Structure	Nrs. (Million)
Authorized Capital	500.00
Issued Equity Capital	492.00
Paid-up capital	492.00

(Source:- **www.nabilbank.com.np**, "Financial Report of Fiscal year 2063/064")

SHARE HOLDING PATTERN OF NABIL BANK

1. National Bank Ltd. Bangladesh	50%
2. NIDC	10%
3. Rastriya Beema Sansthan	9.66%
4. Nepal Stock Exchange	.34%
5. General Public	30%

(Source:- **www.nabilbank.com.np**, "Financial Report of Fiscal year 2063/064")

1.4 OPERATING SYSTEM OF NABIL BANK

The operation takes place from the head office which is in Kamaladi. The bank provides a complete range of professional, commercial and corporate banking and related financial services through its two credit cards counters and one exchange counter with the largest no. of branches among any other Joint Venture Bank in Nepal. Nabil bank is handling its daily operation by using modern banking techniques that exist in international banking circle such as computer system, credit card, master card, visa international. Nabil bank is trying to make its staff efficient by conducting training, seminars, conferences so that they can perform better that the staff of other commercial banks and Nabil can face the competition with the other local banks and other joint venture banks very easily.

The bank is a major player in facilitating import and export activities with modern and efficient trade finance and international as well as established business group or corporation of merged firms in private sectors. NABIL BANK ranks amongst the top three financial institutions in Nepal in terms of its market share of handling Nepal's trade. Besides NABIL is successful in establish good relationship with several embassies donor institutions, Non-government organization, AID Agencies like DANIDA, JICA, USAID and foreign joint investment institutions established in Kathmandu. Due to this, its business volume is increasing and performance is also become well day by day.

1.5 BRANCHES OF NABIL BANK

NABIL bank Ltd is a joint venture bank whose head office is located at Kamaladi, Kathmandu. It has number of branches operating all over the country. At present, it has 28 branches all over the nation including Head Office NABIL House, Kamaladi, Kantipath Branch, Tripureshwore Branch, New Road Branch, Jorpati Branch, Birgunj Branch, Alau Branch (Parsa), Biratnagar Branch, Lalitpur Branch (Kupondole), Itahari Branch, Butwal Branch, Pokhara Branch, Bhairahawa Branch, Nepalgunj Branch, Lakeside Branch (Pokhara) Exchange Counter

Tribhuvan International Airport, Dharan Branch, Bhalwadi Branch, (Rupandehi) Maharajgunj Branch, Birtamod Branch, Damak Branch, Hetauda Branch, Narayangadh Branch, Baglung Branch, Tulsipur Branch, Ghorahi Branch, Dhagadhi Branch, Mahendranagar Branch in operation, the largest no. of branches amongst any other joint venture bank in Nepal.

1.6 PERFORMANCE OF NABIL BANK

As a commercial bank, the main objective of this bank is to earn profit by providing loans and accepting deposits from the customer and make satisfy them in an optimal manner through healthy competition and sound management

Nabil Bank had started its business operation from Kantipath banking office. Within 20 years period it has been able to extend its business in different parts of the country. The bank is providing direct services to numerous customers; it has planned to extend its additional branch in future. Though facing a keen competition with the contemporary banks, it has successful to hold maximum percentage of total banking sector. It has also aided millions of rupees in the form of revenue to the government.

Nabil Bank Ltd. is successful to create its own image within the kingdom of Nepal. It is successful to create the banking relation with the most of the countries of the world. It is capable to render its services necessary for export and import to any business person of the world.

1.7 BANKING SERVICES & PRODUCTS RENDERING BY NABIL BANK

NABIL bank is providing the full independent commercial banking services to the clients. It is established in Nepal with the objectives of providing following services to its clients/customers.

- Accepting deposits from customer in various like: current, saving and fixed A/C.
- Granting loan and advances in term of Overdraft, Demand loan, Housing Loan, Educational loan, Hire Purchase Agricultural Loan etc.
- Discounting Bills.
- Making investment in Treasury Bills, Foreign Bills etc.
- Providing Bank Guarantee and Trade finance.
- Opening facility of Letter of Credit.
- Remittance services.
- Issuing Travelers Cheque.
- Providing safety locker's facility
- Tele banking facility

1.8 ADAPTING OF MODERN TECHNOLOGY

The bank has been providing the services with the latest technologies and computerized equipments. The bank is determines to give quality services to its customers. The Tele banking facility of the bank enables the clients to get the information as well as statement of A/Cs through fax whenever required simply by dialling the telephone no. under banking option facility of making inquiry of interest rates, foreign exchange rate and even placing for fresh cheque book of one's A/C is also straight forwardly available.

The bank has enrolled itself as SWIFT (Society of Worldwide Inter Bank Financial Tele Communication) member to adopt fast communication means among the member bank of SWIFT. Messages are transmitted through SWIFT to the member banks of time which is widely used in remittance, Later of Credit and many more areas of communication as well.

1.9 STATEMENT OF PROBLEM

Emphasizing the role of commercial banks, various financial institutions have been established to assist the process of economic development of Nepal. The major problem in almost all underdeveloped countries and Nepal is no exception, is that of capital formulation and proper utilization. To avoid problems and thereby contribute to the national economy, various commercial banks have played vital role by accepting deposits and providing various types of loan. Loan affects overall development of the country. The development of the country directly related to the volume of loan, which is also obtained from commercial banks. The problem of lending has become very serious for developing country like Nepal. This is due to lack of sound policy of commercial banks.

Commercial banks are found to be making loan only in short term basis against movable merchandise. There is hesitation to investment on long term project as they are much more safety, they do not consider the profit potential of the project. There is raised criticism that commercial bank have served only richer communities and not the poor. This has directly had negative impact in economic growth. Nowadays commercial bank does not seem to be capable to invest their funds in more profitable sector i.e. treasury bills, development bonds and other securities. They keep high liquidity and flow lower funds to the productive sectors, this result in lower profitability to commercial banks and ignorance to the national economies growth process. This is the main reason of crisis in the commercial banks and in the whole national economy as well.

In order to help realize the goal of the poverty alleviation, access to increased flow of credit and investment in the economic activities of direct benefit to the maximum number of low income people through micro and medium size loan needs serious attention in the days to come. It is also necessary to identify the activities that ensure quick return of the investment.

The mushrooming of banking and finance companies and about a dozens of rural banks and co-operative societies in short span of time has brewed new comparative scenario, and has posed a challenge to the previously monopolistic bank like NABIL which are making attractive profits. In the changed scenario these banks need to explore their strength and weakness to improve their performance because their successes depend upon their ability to boost their productivity and financial performance.

Thus the present study seeks to explore the efficiency and weakness of NABIL Bank. Attempts are also being made to explore the following questions.

- How far have NABIL Bank been able to convert the mobilized resources into investment, collected from public.
- To what extent this bank has been able to raise their profitability,
- How efficiency this bank is managing their liquidity, activity, assets, capital structure, capital adequacy, etc.
- What is the lending pattern of loan and advances and other investment?
- What are the components which affect the operating income of NABIL?

1.10 OBJECTIVE OF THE STUDY

Each and every activity should be motivated to achieve specific goals. It is desired outcomes. It defines path and courses of action to the human being. So the primary objective of study is to indicate the financial position of NABIL. And the secondary objective is to analyze & judge the financial stability of NABIL, and make suggestion to improve its financial efficiency. The specific objectives of the study are;

- To analyze the liquidity, profitability, capital structure, capital adequacy, leverage, ownership ratios and operation of NABIL Bank.
- To analyze the relationship between Dividend Per Share and Earning Per Share of NABIL Bank.
- To evaluate the soundness of profitability and operating efficiency of NABIL Bank.
- To study the income and expenditure statement of NABIL Bank.
- To provide recommendations and suggestions of improvement of financial performance of NABIL Bank for the future on the basis of study.
- To identify the level of profitability of bank.
- To identify how efficiency the bank has utilized its assets in generating interest earned.

1.11 IMPORTANCE OF THE STUDY

Commercial banks in developing countries like Nepal have the greatest responsibility towards the economic development of the country. The main objective of the bank as a commercial organization is to maximize the surplus by the efficient use of its fund and resources. Being a commercial bank, it also has a responsibility towards the socio economic up-liftment of the country by providing specially considered loans and advances towards less privileged sectors.

The study has various significant.

- The study enlightens the shareholders about the financial performance of their respective bank. This allows them to have a comparative retrospect whether their fund was better utilized or not.
- The study also compels the management of respective banks for self assessment of what they have done in the past and guides them in their future plans and programs.

- The financial agencies, stock exchange and stock traders are also interested in the performance of the bank as well as the customers, depositors and debtors, who can objectively identify the better bank to deal with in terms of profitability, safety and liquidity.

- Policy makers at the macro level that is government and Nepal Rastra Bank will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.12 ORGANIZATION OF THE STUDY

This whole study has been divided into five chapters. Each is developed to some aspects of the study.

First Chapter contained introduction of the study. It is all about the background of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Second chapter deals with review of literature relating to financial performance of NABIL. It contained conceptual review of study and review of related studies.

Third chapter is research methodology. It contained the assumption of the study, research design; source of the data for this study, which are secondary source and the period of the study, is mentioned. The important part of this chapter is that it highlights the methodology used for this study.

Fourth Chapter deals with the presentation, analysis and interpretation of data. In this chapter, data of the study are presented and they are analyzed through the way of designed methodology in the fourth chapter. Fifth chapter contained summary, conclusion and recommendation of study.

1.13 LIMITATION OF THE STUDY

This study is limited by the following factors.

Every study defines some boundaries. They have to study within this framework. So there are some limitations due to lack of data time and information. They are as follows;

- This research paper is prepared especially, in fulfillment of degree course for MBS. Since the collection of data through primary sources requires on the spot visit, consuming lots of time fund and, not affordable by a student, all the relevant data and information are collected and consolidated from the published financial documents like balance sheet, profit and loss account and other related journals and websites.

- The study deals with certain financial tools such as ratio analysis and statistical tools.

- Only secondary data is used here.

- Limited resources and time at the disposal of the researcher did not allow a much more wide analysis of the subjective in question.

- The whole study will be limited to the past five years (From 059/60 to 063/64) period.

CHAPTER 2

2 REVIEW OF LITERATURE

Literature refers to the detail of any thing. Review of literature is basically a stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. In the course of research, review of existing literature would help the researcher to find out what studies have been conduct and what remaining to go with. In this section relevant contents related with the topic of the study are mentioned or arranged like, concepts of banks commercial banks.

For the purpose of the study, this chapter is categorized under two major headings, which are discussed as below:

- Conceptual Frame Work
- Review of Related Articles & Thesis

2.1 CONCEPTUAL FRAMEWORK

As this study is related to financial analysis of NABIL Bank Ltd. following aspects of analysis are reviewed in sequential manner.

- Concept of commercial bank
- Concept of joint venture bank
- Concept of financial performance
- Concept of financial analysis
- Objectives of financial analysis

2.2 CONCEPT OF COMMERCIAL BANK

Specially, commercial bank deals with the activities of trade, commerce industry and agriculture. The main objective of commercial bank is to mobilize ideal resources in productive area after collecting them from scattered sources for profit maximization.

Banking is an institution, which deals with money credit. It accepts deposits from publics, makes fund available to those who need them and helps in remittance of fund from one place to another. They perform several financial monetary and economic activities to accelerate the economic growth of the country. With these resources and bank’s own capital, bank disburse loan or extend credit and also invest in securities.

According to the Sayers (1970:30), “Ordinary Banking business consists of changing cash for bank deposits and bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank deposits in exchange for bill of exchange, bonds the secured or unsecured.”

The Commercial Bank Act 2031 defines a commercial bank as a, “Bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transaction.”

A commercial bank is a bank which exchanges money, deposits money, accept deposits, grants loan and performs commercial bank functions and which is not a bank meant for cooperative agriculture, industries as per such specific functions.

A Commercial bank performs four major functions like, “Receiving and handling deposits, handling payment for its clients, granting loan and investment and creating money by extension credit.”

According to US Law, “Any institution offering deposits subject to withdrawal on demand and making loans of a commercial banks or business nature is a bank.”

So, the importance of banking as the nerve center of economic development can’t be over emphasized and it is said that bank which are the need of and great wealth of the country have go to be kept very scared.

Function of Commercial Bank

- Accept deposits
- Provides Loans
- Discounting Bill
- Credit creation
- To transfer money
- To serve agency function
- To exchange foreign currency
- To open letter of credit
- To help issuing capital.

2.3 CONCEPT OF JOINT VENTURE BANK

A joint venture is an association of two or more persons or enterprises to make the operation highly effective with their collective effort. Joint Venture Banks are the commercial banks firmed by joining the two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods & services.

On the view of B.N Ahuja, (1994) P-174, “A business contract of management effort between two person, companies or organizations involving risk and benefit sharing.”

Joint Venture Banks is an innovation in finance and it is growing stage, mostly in developing country, foreign investment plays a significant role for economic development by flowing capital, technology, skills, managerial efficiency and others.

When two or more than two independent firms mutually decide to participate in a business venture, contribute to the total equity more or less capital and establish a new organization, it is known as Joint Venture.

Joint venture banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post-shipment finance to exporters. In this way, JVBs are successful to bring healthy competition among banks, increase in foreign investment, promote and expand import export trade, introduce new techniques and technologies.

A joint venture is an association of two or more persons or parties having exceptional advantages in specific operation is undertaken to make the operation highly remunerative with their collective efforts. In 1980's government introduced "Financial Sector Reforms" which facilitated the establishment of Joint Venture Banks (JVBs), which gave a new horizon to the Nepalese Banking Sector. Joint Venture Bank, especially with foreign banks, was expected to bring technology; modern management as well as foreign capital in banking industry besides export and import trades. Since these banks being new, urban based and run by foreign management, they started their operations with the accumulated system which could attract the elite group of business community due to their prompt service, modern management.

2.4 CONCEPT OF FINANCIAL PERFORMANCE

Financial performance analysis means the analysis of financial activities of the company directed towards achieving its value maximizing objective. For the better financial activities, effectives, effective and efficient decisions are necessary and those better financial activities contribute excellent financial performance which in turn results to growth of the organization.

Financial performance analysis can be defined as the heart of financial decision. The growth and development of an enterprise is fully affected by financial performance and financial performance of an enterprise is correct when true facts and figures are sort out.

Business organizations are inspired to generate profit. The value of profit earned is also one of the major indications of a good financial performance of a firm.

According to the Robinson, (1951) P-21-22, "Profit earned by the firm is the main financial performance indicators of business enterprises."

Financial performance analysis is an analysis of better understanding of forms positions i.e. its strength and weakness. Thus, it involves the use of various financial statements. First, the balance sheet which represents the firm's financial position at the moment and then comes income statement which represents the summary of firms profitability over a time.

Financial performance analysis as a part of financial management is the main indicator of success and failure of the firm. Its decision plays a vital role to increase the profitability by analyzing past performance and efficiency of the firm from accounting data and financial statements. Profit is essential for a firm to survive, grow in long run as well as to maintain capital adequacy through retained earnings. However, profit can't solely predict the financial performance of the firm.

Financial condition of the business firm should be sound from the point of view of shareholders and stakeholders and financial institution and nation as a whole. However, financial aspects are one of the most neglected aspects of the public enterprises in Nepal. However, joint venture banks have been analyzing their financial performance in order to take corrective actions in timely manner, but which has also been limited within the banks themselves. In Nepalese context, commercial banks are playing vital role in economic growth of the country and NABIL Bank is one of the leading banks in this aspect. This bank has achieved a great success in terms of market share and profitability compared to other joint venture banks because of its professional and reliable services to the customers. Therefore, it would be clear and transparent to analyze the financial performance of this leading foreign joint venture bank of Nepal by using various measuring financial tools to know about their earning and the utilization of the earnings to boost up the economic expansion of the country.

Financial performance analysis can be considered as a spirit of the financial decisions. The growth and development of any business firm is directly influenced by the financial policies. Rational evaluation of the financial performance management in public enterprises is too much involved in record keeping, raising necessary funds and maintaining relationship with the bank or other financial institutions. But a financial aspect is one of the most neglected aspects of public enterprises in Nepal. However joint venture banks have analyzed financial performance for their corrective action. But their analysis is limited with the bank themselves. Financial performance as a part of financial management, there are different institutions that affect or are affected by the decision of the firm.

Management of the firm is interested in all aspects of financial analysis to adopt food financial management system for the internal control of the enterprise. Similarly, trade creditors are primarily interested in the liquidity positions of the firm. Long term creditors are more interested in the cash flow ability of the enterprise to service debit over a long run. All the concerned groups are directly or indirectly interested about the financial performance of the firm.

The absolute accounting figures are reported in the financial statement, balance sheet, profit and loss account and other statements do not provide a meaningful understanding of the performance and financial position of the firm. Thus financial analysis is the main qualitative judgment process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of the balance sheet and profit & Loss Account.

Joint venture bank of Nepal is profit making business institutions. So the profit earned by a joint venture commercial bank in Nepal is the main financial performance indicator of the bank. However, it can not exclusively forecast the performance of the bank by analyzing the profitability status only. Every aspects of the financial analysis are to be considered for financial performance of the bank.

2.5 CONCEPT OF FINANCIAL ANALYSIS

Financial analysis is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail the accounting information given in the financial statement to gain better understanding of the firm’s financial position and performance. It is performed to determine the liquidity, solvency, efficiency and profitability position of the organization. It gratifies the need of the concerned parties like potential investors, shareholders, government, general public, short term as well as long term creditors and management itself about their vested interest providing them with adequate information.

In the view of C.R. Kothari, (1991) P-487, “Ratio analysis is such a powerful tool of financial analysis that through its economic and financial position of a business unit can be fully x-rayed.”

According to I.M. Pandey, “Financial Analysis is a process if identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet and the profit and loss Account.”

Financial Analysis of a firm consists different of kinds of indicators out of which financial statement analysis, ratio analysis, sources and uses of funds are the major indicators to measure the strength & weakness of a firm. But here the study is mainly focused on the ratio analysis and some other financial indicators to analyze the financial position & performance of bank.

A quantitative judgment of the financial performance and financial position of the firm should be made form viewpoint of the firm’s investment. “A ratio is defined as the indicated quotient of two mathematical expressions and as the relationship between two or more figure.”

Financial analysis is a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of trend of these factors as shown in a series of statements. By establishing a strategic relationship between the items of a balance sheet and income statement and operative data, the financial analysis unveils the meaning and significance of such items.

The analysis of financial statement is necessary, the reason is that balance sheet, profit and loss account and fund flow statements even are successful to fulfill their targets but they cannot meet the requirement of different interests. To obtain the meaningful information according to own need, they should be analyzed. Ratio Analysis is widely used.

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 the current financial condition can be determined.

The function of financial analysis of institution can be broken down into three major decisions a firm can make; the investment decision, the financing decision and the dividend decision. An optimal combination of the three decisions will be maximizing the value of the firm.

A powerful and most widely used tool of financial analysis is ratio analysis. A ratio is a relationship between two accounting figures expressed mathematically; the term ratio refers to the numerical or quantitative relationship between two items. The type of relationship can be expressed as percentage, fraction and proportion to number. Ratio helps summarize large quantities of financial data and to make qualitative judgment about the performance.

2.6 OBJECTIVE OF FINANCIAL ANALYSIS

Basically there are three major objective of financial analysis.

- To select the pieces of financial information that is relevant to a particular problem.
- To fit these into a coherent picture of the problem in relation to the firms aims and financial resources.
- To suggest alternative solution to the problem.

As a matter of facts the objective of analysis depends upon the analyst as quality if the data available.

2.7 REVIEW OF RELATED STUDY

2.7.1 REVIEW OF JOURNALS & ARTICLES

Relevant related articles and journals relating to the different aspects of commercial bank will help to conduct this study smoothly. So some of the articles relating to banking sectors are given below;

The number of commercial banks increased dramatically after the democratically elected government adopted the liberal and market oriented economic policy. (Thapa, 2051:17)

After liberalization and globalization of the world economy the economic transaction such as trading and commerce, industrial and banking activities have grown up tremendously. Likewise, an international trade of the developing country has also boosted up. But on the other hand, the increasing competitiveness has also increased various type of risk in every business, including banking sector. To manage with their risk, the banks in favor of their clients have adopted strategies relating to treasury management. (Shrestha, 2055, P-20)

An article “Joint Venture Banks in Nepal” published in 1999 Vol. XI P-36. It focused that despite the increase in numbers, the joint venture banks are concentrated in urban centers, especially in major cities, with will all their headquarters in Kathmandu. This trend has resulted two ways effect on the operation of the government owned commercial banks in Nepal. First, the comparatively attractive interest rate and service promptness of these private banks have drawn the public deposit’s to their side there by reducing financial liabilities of the former, Second, as a result of reduction in financial liabilities government operated commercial banks have been forced to shut down some of their branches in remote area of the country. Nevertheless, look at the activities of these joint venture banks provide a boost into the tremendous aid they provide to the national economy. They have been instrumental in mobilizing capital more efficiently and to be a larger extent especially, and they have been more helpful in funding the private sectors.

A speech state on R. K. Tamrakar (2000), “The government has called up on foreign investors to explore the unique business opportunities lying in the Himalayan Country. While addressing at business meeting at Hanover, Germany on September 9th 2000, he states that government is committed to encourage every type of investment, which can ultimately contribute for the industrial development of the country. Informing the gathering that various 37 investors of nations have invested 592 projects during last ten years industrial production, tourism and service sectors have been prime attraction of foreign investors.

Mr. Bhagat highlights on his article entitle “ Issue in Banking Reforms”, that the commercial banks generally registered under the company act but operated under the commercial bank act does not provide for the registration of the bank. Here commercial bank act should be a made independent from the provision of the company act. Further he mentions that banks capital adequacy guidelines prescribed under certain basic criteria or parameter. However, their should not be any discrimination between new and old commercial banks in meeting capital adequacy guidelines such as a minimum paid up capital and increasing paid up capital over the time period.

Another study conducted by Sunity Shrestha (2004), has analyzed the financial performance of the commercial banks using descriptive and diagnostic approach. In her study she has concluded the points as below;

- Per capita deposits as well as per capita credit in commercial banks have increased tremendously. The contribution of deposits on GDP has also been seen increasing. The assets holding of commercial banks are growing with 42.12% rate that is supposed to be higher for a developing country. It can be concluded that the commercial banks in Nepal are performing their function of collecting the domestic property.

- The structural ratio of commercial banks shows that banks invest on the average 75% of their total deposits on government securities and the shares of other financial institutions.

- The analysis of reserve position of commercial banks showed quite high percentage of deposit as cash reserve.

- The debt equity ratio of commercial banks is more that 100% in most of the time period under study period. It lead to conclude that the commercial banks are highly leverage and highly risky. Joint venture banks had higher capital adequacy ratio but has been declining every year.

- Return ratios of all banks show that most of the time foreign banks have higher return as well as higher risk that the government owned banks.

- In case of the analysis of management achievement, foreign banks were found to have comparatively higher risk than local banks.

According to the Banking Supervision report 2005 of NRB concludes that, the capital of the Nepalese banking industry has depicted a favorable trend during 2004/05. There are various reasons for this improvement. The banks, during the period, on an average have performed well and some of them have raised capital from the market, which improved the overall capital position of the industry. All banks, except for three private banks were able to post handsome profits. Some banks were able to distribute cash dividends and bonus shares to its shareholders. At the same time, some banks raised finance from the market through issue of right shares while Lumbini Bank raised equity capital through initial public offering during the year.

An Article published in 2005 concludes that, Banks are gradually starting to realize that, in today's competitive banking environment, exemplary customer service is one of the distinguishing characteristics that banks can exploit to establish a competitive edge. Since most banks offer comparable products and services, they should continually search for a competitive advantage that will attract new customers and help them retain existing ones. Banks are therefore, looking to develop innovative products and services to maintain superior customer service levels while at the same time remaining profitable. With the number of market players in the rise, the competition has been obviously growing in the banking industry. The most obvious effect of the rising competition can be seen in the interest rates offered by the banks. The banks, which some years ago, used to charge rates in the range of 15 to 20 percent, have dramatically reduced their interest rates to 8 to 12 percent, in order to remain competitive. Banks are now gradually shifting towards IT based solutions to enhance service delivery in order to address customer concerns. More and more banks are embracing E-banking and provision of ATMs to reduce long queues in banking hall. In addition, some of the banks have launched mobile phone banking services which facilitates several account enquiry tools, including account balances, thereby, minimizing the need for customers to visit banking halls. This drive towards IT based solutions will continue to gather momentum in the future as banks will find it be very difficult to survive in the ever growing competition without some form of competitive advantage. Another trend observed in banking industry in 2004/05 is the shift towards multiple banking relationships explored by large corporate houses. In order to remain competitive, Banks are seen to be increasingly encouraging business houses to transact with them. This has lead to a creation of large volume of unutilized limits with the bank and in order to get a large piece of the pie banks are increasingly accepting risks, which they otherwise would not have taken. The unyielding competition has also leaded the banks to accept collaterals that are more risky and unsecured. The volume of loans against the hypothecation of stocks, receivables and other assets are on the rise. In the absence of statute for registration of charges (hypothecation) in the current assets, the risk of over financing is eminent and banks are exposed to a higher degree of risk. (Banking Supervision Annual Report-2005:7)

2.7.2 REVIEW OF THESIS

In addition to financial performance analysis, there are various studies on financial aspects, which deal with the context on Nepalese commercial joint ventures banks. Previous studies relating to Nepalese banking sector have been the most relevant sources and assistants for this study. The major findings of the approach used in these important studies are reviewed briefly.

B. Shrestha (2003) had conducted a research on topic “A comparative Analysis of Financial Performance of Selected Joint Ventures Banks”. She had mainly focused her research on comparative examining the overall performance of NABIL, HBL and NB Bank through financial Analysis. She had collected necessary data and other information from the secondary sources of data. She had pointed out various findings of the research were;

- Liquidity analysis indicates better liquidity position of NB bank. Although positions of HBL & NABIL are lower, they were still able to meet their current obligation.

- Leverage/Capital Structure analysis indicated the long-term debt to net worth ratio of NB Bank was the highest NABIL was the lowest. An unbalanced capital structure was the common situation in all the commercial banks. The banks were unnecessary debt capital.

- Profitability of these banks were reflected by the determination of return on investment, return on shareholders’ equity, interest earned to total assets ratio, interest income to interest expenses ratio.

- Activity/Turnover ratio indicated that the loan and advance to total deposits and to saving deposit ratio of NB Bank was the highest with NABIL in the second place while that of HBL was the least. This implied NB Bank was efficiently utilizing its deposits on loan and advances.

Gupta (2004) had conducted a research on topic “Financial Performance Analysis of Everest Bank Ltd.” He had mainly focused his research in examining the technique of financial analysis such as liquidity, activity, profitability ratios of EBL. In his research he had pointed out various findings.

- The banks liquidity position is below the normal standard and also inconsistency in liquidity policy.

- The EBL should utilize its risky assets and shareholders fund to gain profit margin. Similarly it should reduce its expenses and should try to collect cheaper fund being more profitable.

- EBL should encourage the small depositors for promoting small investors.

- Return on equity is found satisfactory, as it has not efficiently utilized its equity capital.

A Study performed by Nitendra Singh, 2004 concludes that the both banks are in a better position to discharge current liabilities and utilization of deposits. Himalayan bank is utilizing deposits more efficiently in loan advances than NABIL. Both of the banks have highly geared capital structure. However both banks have maintained higher capital adequacy ratio than the required ratios. Comparatively both of the banks performances are satisfactory. The research suggests increasing equity base operational profit and liquidity position as per the new regulation of NRB.

Paudyal (2006) had conducted a research on topic, “A Comparative study on financial performance of NABIL Bank Ltd. and Nepal Bangladesh Bank Ltd.” On his study he concludes that overall liquidity position of NBBL was stronger than that of NABIL. It can be concluded that NBBL could discharge its depositor’s obligation more comfortably. Analyzing the activity or turnover of both banks, NBBL mobilized its deposits more on loan and advances where as NABIL mobilized its deposits more prudently and efficiently in generating income. Similarly, capital adequacy position of NABIL was found to be better than that if NBBL. Regarding to capital structure of the bank, NBBL was found to have adopted ‘high risk- high return’ strategy as suggested by it’s highly leveraged i.e. debt dominated capital structure. Under favorable condition, it could offer a handsome return to its owners. According to profitability analysis, NABIL was found sound profitability due to its higher ratio. Also, other indicators in terms of earning per share (EPS) and dividend per share (DPS) found sharply higher in NABIL which implies positive attitude of stakeholders toward NABIL.

Ghimire (2005) had conducted a research on a topic "Non Performing Assets of Commercial Banks: Cause and Effect." He had mainly focused his research in analyzing and identifying the impact, cause and consequences of NPA of Commercial banks namely NBBL Nepal SBI bank and BOK. Time period covered by the researcher was five years from fiscal year 1997/98 to 2001/02. Necessary data and other information were collected from secondary sources. He had pointed out various findings of the research were;

- There is positive growth of operating profit maintained by all the sample banks but the growth of net profit is negative due to increase in loan loss provisions.

- It is found that there is some relationship between credit expansion and increment of NPA. NBA (Non Banking Assets) is created due to having NPA. But it is not certain that NPA always creates NBA.

- In regard to the creation of high level of NPA, it has been found that relationship of borrowers with top management is the major determining factor in lending. Commercial banks are giving least weight on personal integrity of the borrower. Follow up of overdue loan and advances in commercial banks starts one month later after the maturity of the loan. It proves the poor loan recovery system in those banks.

- Bad intention of borrower, weak monitoring and mismanagement are the most responsible factor of NPA growth. Similarly, weak legal provision and credit concentration are found as the least preferred factor in turning good loan to bad loan. Lack of portfolio analysis, not being effective credit policy and shortfall on security were also identified as factors affectively in NPA growth.

- Supervision and monitoring system have been identified as average factor. It is also identified that banks give highest priority to trade found that the service sector is not given much priority

Awasthi (2003) had conducted a research on a topic "A Comparative Study on Financial Performance between HBL and Bank of Kathmandu Ltd." In his research he had pointed out various findings;

- The bank had not pay attention towards the improvement in investment by total deposit ratio.
- Profitability ratio in both banks such as return on investment and return on total assets were not satisfactory.
- Both banks seemed highly leveraged. Both banks had been able to earn high profit but not satisfactory. HBL was more success to generate more return on its shareholders fund than BOK
- HBL has been efficient in utilizing most part of its total assets in profit generating purpose than BOK during the period.
- The liquidity position of the both banks was not satisfactory

There are number of studies conducted in order to analyze the financial performance of the joint venture commercial banks, financial institutions and trading companies. This study on financial analysis of NABIL Bank Ltd. covers the data of last five fiscal years to analyze and identify the financial performance of the bank. Therefore, this study can be regarded as one of the useful study.

CHAPTER 3

3 RESEARCH METHODOLOGY

Research methodology is the technique to achieve the started objectives of the study. This chapter studies how research to be conducted, how the research is made effective and what are the steps of research so that the study and goal of the related study can be easily achieve. Especially research refer sequential step's to be followed by researcher at the time of solving problem or studying the concerned subject matter in detail that include following steps.

- Research design
- Sources and types of data
- Population and sample
- Data procedure
- Method of data analysis

3.1 RESEARCH DESIGN

A research design is the framework or plan that guides the computation and analysis of the data gathered for the study purpose. Basically, this study deals with the financial performance analysis of NABIL Bank. Hence, analytical as well as descriptive approach have been used to evaluate the financial performance of the bank and obtained stated objectives.

3.2 SOURCES AND TYPES OF DATA

To conduct this study, secondary data are taken from annual reports of related office and their websites. So the major sources and types of data include these published sources,

- Financial statement of NABIL Bank
- Annual report of the bank

- Different previous studies
- Related bulletins, reports, periodically published by various government bodies.

3.3 POPULATION AND SAMPLE

At present, there are 25 commercial banks are operating in Nepal. They constitute the population sample. Among of them, NABIL Bank is selected for the study of Financial Analysis. Five years data are taken to conduct the study from 2059/60 to 2063/64.

3.4 DATA PROCEDURE

Various data obtained through different sources can't be used directly for the analysis in their original form. So, they have been rechecked, re-evaluated, edited and tabulated to bring them into appropriate form for the analysis purpose. The researcher made the collected data trust worthier getting them form authorized sources.

Moreover, different graph charts are presented according to necessity to interpret visually. The data are tabulated according to subject matter and they are shown in table in sequential way. Similarly, the financial ratios are also used for the analysis and interpretation of the financial performance of selected sample.

3.5 METHOD OF DATA ANALYSIS

In order to ascertain actual financial position of any firm, various analytical tools can be used. It is true that suitable or appropriate tools, according to the nature of statement and data make the analysis more effective and significant for achieving these objective basically two sorts of tools can be used, financial and statistical the researcher has therefore, applied these tools extensively.

3.6 FINANCIAL TOOLS

As this study is related to financial performance analysis financial tools are more useful they help to identify the financial strength and weakness of the firm in spite of various financial tools available the research has primarily stressed on ration analysis assuming it the most suitable tools.

Lawrence J, (P-199), “A Ratio is simply a number expressed in terms of other number and it expressed the quantitative relation between any two Variables." Moreover, it is used as a technique to quantify the relationship between two sets of financial data taken from either profit and loss account or balance sheet. It provides information relation to strength and weaknesses of financial data in relation to others. However, the researcher has employed his utmost effort to use as many ratios as possible to reach the point of true financial position of the banks. These ratios include the following.

- Liquidity Ratios
- Activity Ratios
- Capital adequacy Ratios
- Capital Structure Ratios
- Profitability Ratios
- Invisibility Ratios

3.6.1 Liquidity Ratios

Liquidity Ratio measures the firm’s ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency. A very high degree of liquidity of liquidity is also bad, idle cash earn nothing. So, it is necessary to a firm to maintain optimum level of liquidity. A bank is subject to a minimum cash reserve requirements (CRR) imposed by central bank to ensure minimum amount of total assets to meet unexpected withdrawals. The following ratio has been applied to find out liquidity position of the banks.

- Current ratio
- Cash and bank balance to total deposit ratio.
- NRB balance to current and saving deposit ratio

- Cash and bank balance to current and saving deposits ratio
- Fixed deposit to total deposit ratio

3.6.1.1 Current Ratio

The current ratio is the ratio of total current assets to total current liabilities and measures the short-term solvency of a firm. It is calculated by dividing current assets by current liabilities.

$$\text{CurrentRatio} = \frac{\text{CurrentAssets}}{\text{CurrentLiabilities}}$$

Current assets include normally those assets of a firm, which are converted into cash within one year. These assets of a firm includes cash , bank balance, investment in treasury bills, discounts, overdrafts, short-term advance loans, foreign currency loan, bills for collection, customer acceptance, outstanding expenses, divided payable, provision for taxation. Although there is no hard and fast rule for measuring this ratio, conventionally a CR ratio of 2:1 is the considered satisfactory.

3.6.1.2 Cash and bank balance to total deposit ratio (CBBTDR)

This ratio is calculated by dividing cash bank balance by total deposits.

$$\text{CBBTDR} = \frac{\text{Cash and Bank Bakance}}{\text{Total Deposits}}$$

Total deposits consist of current deposits, saving deposit, fixed deposit money at call and short notice and other deposits. This ratio shows the proportion of total deposits held as compared to the most liquid assets. High ratio shows the strong liquidity position of the bank but very high ratio is not favorable the bank because doesn’t produce appropriate profit to bear the high interest.

3.6.1.3 NRB balance to current and saving deposit ratio (NRB-CSDR)

This ratio is computed by using this formula.

$$\text{NRB - CSDR} = \frac{\text{NRB Balance}}{\text{Current and Saving Deposits}}$$

Commercial Banks are required to hold certain proportion of current and saving deposits in NRB's account. It is to ensure the smooth functioning and sound liquidity position of the Bank. As per the directive of Nepal Rastra Bank, the required ratio of 8 percent must be kept as NRB balance. This means the ratio measures whether the bank is following the direction of NRB or not.

3.6.1.4 Cash and bank balance to current and saving deposits ratio (CBBCSDR)

This ratio is calculated by dividing cash and bank balance by current and saving deposits.

$$\text{CBBCSDR} = \frac{\text{Cash and Bank Balance}}{\text{Current and Saving Deposits}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, other cash items, balance with domestic bank and balance held in foreign banks. On the other hand current and saving deposits consist of all types of deposits excluding fixed deposits.

This ratio measures the ability of bank to meet its immediate obligation. High ratio normally indicates sound liquidity position of the bank but too high ratio is not good as it reveals the under utilization of fund.

3.6.1.5 Fixed deposit to total deposit ratio (FDTDR)

This ratio determined by dividing fixed deposits by total deposits.

$$\text{FDTDR} = \frac{\text{FIxed Deposit}}{\text{TotalDeposits}}$$

It indicates the percentage between total deposits. High ratio shows better opportunity available to the bank to invest in sufficient profit generating long-term loans but low ratio indicates vice versa.

3.6.2 Activity Ratios

Activity ratios are also known as assets management ratios. These ratios look at the amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels. Mostly, activity ratio is used to evaluate managerial efficiency and proper utilization of assets.

- Investment to total deposit ratio
- Loans and advances to total deposit ratio.
- Loan advances total assets ratio
- Total income generating assets to total assets ratio

3.6.2.1 Investment to total deposit ratio (ITDR)

This ratio is computed by dividing investment by total deposits. This can be stated as:

$$\text{ITDR} = \frac{\text{Investment}}{\text{Total Deposits}}$$

The numerator includes government's treasury bills, development bonds, company shares and other investments. This ratio presents how efficiently the resources the banks have been utilized. High ratio shows managerial efficiency regarding the utilization of deposits and vice-versa.

3.6.2.2 Loans and Advances to Total Deposits Ratios (LATDR)

This ratio is calculated by using following formula.

$$\text{LATDR} = \frac{\text{Loans \& Advances}}{\text{Total Deposits}}$$

Loans and advances consists of loans, advances cash credit overdrafts local and foreign bills purchased and discount. It indicates the proportion of total deposits invested in loan and advances. High ratio indicates greater use of deposits in loans and advances but low ratio may be the cause of ideal cash or use of fund in less productive sector. Very high ratio shows the poor liquidity position.

3.6.2.3 Loan advances total assets ratio (LATAR)

This ratio is obtained by dividing loans and advances by total assets.

$$\text{LATAR} = \frac{\text{Loans \& Advances}}{\text{Total Assets}}$$

Total Assets include total assets of balance sheet items.

This ratio indicates what proportion of total assets has been used in loans and advances. Higher ratio means effective of total assets in loans and advances.

3.6.2.4 Total income generating assets to total assets ratio (IGATAR)

$$\text{IGATAR} = \frac{\text{Total Income Generating Assets}}{\text{Total Assets}}$$

Income generating assets are those assets, which are invested for generally income. This includes loans, advances; bills purchased and discounted investment and money at call or short notice. This ratio shows what percentage of the total assets has been invested for income generation. High ratio indicates sound profitability position and greater utilization of assets.

3.6.3 Capital Adequacy Ratios

The ratio is important to every business firm. Similarly commercial banks must evaluate this ratio. Capital is important for an organization to maintain every facility. Holding excess capital that required may have higher holding cost and low return from investment, similarly holding too little capital may have inefficiency in paying liabilities of a firm.

So a firm should maintain an optimum level of cash. For maintaining optimum cash by the CBS NRB directs the commercial banks to increase or decrease or fix a certain percentage of capital funds out of total deposits.

- Total Net Worth to Total Assets Ratio
- Net Worth to Total Deposit Ratio

3.6.3.1 Net Worth to Total Assets Ratio (NWTAR)

This ratio is computed by dividing net worth by total assets.

$$\text{NWTAR} = \frac{\text{Net Worth}}{\text{Total Assets}}$$

This ratio measures the percentage of shareholder fund in relation total assets owned by banks. High ratio shows greater contribution of investors' fund and strong capital position.

3.6.3.2 Net Worth to Total Deposit Ratio (NWTDR)

This ratio is calculated by using the following formula.

$$\text{NWTDR} = \frac{\text{Net Worth}}{\text{Total Deposit}}$$

It indicates the percentage of net worth in relations to the total deposits collected in the bank. The direction of the central bank has maintained or not by the bank, is the yardstick to measure the position.

3.6.4 Capital Structure Ratios

Capital structure ratio also known as leverage ratios are the measures of long-term solvency of a bank. Capital structure generally refers to the composition of debt and equity component of overall capital of a firm. These ratios are calculated to measure the long-term financial position of the bank.

Specially, structure ratio and coverage ratio have been calculated and interpreted under capital structure ratio. The first ratio deals with the composition of debt and equity capital where as to second show the relationship between shareholders' fund and total assets of the banks. These two categories of ratio, particularly, include the following.

- Debt to Equity Ratio
- Total Debt to Total Assets Ratio &
- Interest Coverage Ratio.

3.6.4.1 Debt to Equity Ratio (DER)

This ratio can be calculated in this way.

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

This ratio shows the relationship between debt capital and equity capital. High debt equity ratio indicates greater financing by debt holders than those of equity holders. From the creditor's view-point, high debt-equity ratio of the banks is more risky to them. It means the bank may fail to satisfy creditors.

3.6.4.2 Total Debt to Total Assets Ratio (TDTAR)

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

This ratio can be denotes the relationship between total debt and total assets of the banks. The higher ratio indicates the greater portion of the outsiders' and investment in term of the bank's assets.

3.6.4.3 Interest Coverage Ratio (ICR)

This ratio is computed by dividing earning before income and tax by interest. This ratio evaluates the debt serving capacity of the banks.

$$\text{ICR} = \frac{\text{EBIT}}{\text{Interest}}$$

The higher ratio shows that the bank can pay the interest easily.

3.6.5 Profitability Ratios

Profitability ratio is one of the main indicators to analyzing the financial performance of a firm. It calculates to measure the earning performance and operational efficiency of the bank. A bank should be able to produce adequate profit on each rupee of investment, if investments do not generate sufficient profits, it would be very difficult for the bank to cover operating expenses and interest charges. The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return of investment, its survival is threatened.

Under this category the researcher has calculated the following ratios to obtain the stated objectives of the study.

- Return on Total Assets Ratio
- Return On Equity Ratio
- Interest Earned to Total Assets Ratio
- Total Interest Expenses to Total Interest Income Ratio
- Return on Total Deposits Ratio

3.6.5.1 Return on Total Assets Ratio (ROTA)

This ratio is related to net profit after tax (NPAT) and total assets. How efficiently is the assets of a firm able to generate more profit are measured by this ratio is calculated by dividing NPAT by Total Assets. This ratio provides the foundation necessary for a company to deliver a good return on equity.

$$\text{ROTA} = \frac{\text{NPAT}}{\text{Total Assets}}$$

The increasing Ratio shows favorable situation for the banks. The higher ratio is also shows that the bank could manage their overall operations, but the lower ratio shows vice-versa.

3.6.5.2 Return on Equity Ratio (ROE)

This ratio measures, how much profit is earned by utilizing funds of total equity by the firm. As the commercial bank, the objectives of joint venture bank are to earn profit so as to provide a reasonable return to the owners. Total shareholders' equity consists of preference share capital, ordinary share capital, share premium and reserve and surplus less accumulated losses. This ratio can be computed as Net profit after tax (NPAT) divided by average total shareholders' equity.

$$\text{ROE} = \frac{\text{NPAT}}{\text{Total Equity}}$$

3.6.5.3 Interest Earned to Total Assets Ratio (IETAR)

The ratio indicates how much interest mobilizing the assets in the bank has generated. Interest is the main source of income of banks' interest received from generally loan and advances overdraft and investment in securities. This ratio can be computed as interest earned divided by total assets.

$$\text{IETAR} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

3.6.5.4 Total Interest Expenses to Total Interest Income Ratio (TIETIIR)

This ratio can be computed by using the following formula.

$$\text{TIETIIR} = \frac{\text{Total Interest Expenses}}{\text{Total Interest Income}}$$

The numerators consist of total interest paid on deposits liabilities, loan and advances and other deposits. The denominator comprises total interest earned or retained from loan and advances, cash credit and overdraft, government securities, inter bank and other investment. This ratio indicates how much interest expenses have been made in relation to interest income received. The higher ratio shows unfavorable profitability situation of the bank.

3.6.5.5 Return on Total Deposits Ratio (RTDR)

This ratio measures the level of NPAT by using total deposits. It measures the relationship between NPAT and total deposits with an ability of a firm to utilize maximum of deposits to earn much profit. This ratio is computed by dividing NPAT by Total Deposits.

$$\text{RTDR} = \frac{\text{NPAT}}{\text{Total Deposits}}$$

3.6.6 Invisibility Ratios

An analysis of ratio helps the investors to know about the performance of the banks. Therefore, following ratio have been calculated to test earning capacity of the banks to last earning capacity of the bank.

- Earning Per Share (EPS)
- Dividend Per Share (DPS)
- Tax Per Share (TPS)
- Dividend Pay Out Ratio (DPR)

3.6.6.1 Earning Per Share (EPS)

This ratio is calculated by dividing earning available to common stockholders by number of outstanding share of common stock.

$$\text{EPS} = \frac{\text{EBIT}}{\text{No. of outstanding share of common stock}}$$

High ratio shows the sound profitability position of the bank. It is favorable for the investor too.

3.6.6.2 Dividend Per Share (DPS)

This ratio can be obtained by using following formula.

$$\text{DPS} = \frac{\text{Earning Paid to the shareholders}}{\text{No. of outstanding share of common stock}}$$

This ratio shows per rupee earning actually distributed to common stock holders per share held by them. High ratio is favorable for the shareholders.

3.6.6.3 Tax Per Share (TPS)

Tax Per Share is obtained by dividing tax paid to government by number of common share outstanding.

$$\text{TPS} = \frac{\text{Tax Paid to Goverment}}{\text{No. of outstanding share of common stock}}$$

This ratio shows the contribution of shareholders for the economic development. Higher TPS indicates the better profitability position of the bank.

3.6.6.4 Dividend Pay Out Ratio (DPR)

It measures the relationship between the earning belonging to the ordinary shareholders and the dividend paid to them. This ratio can be calculated by dividing the total dividend paid to the owners by the total profit/earning available to them.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}} \text{X}(100\%)$$

3.6.7 Income and Expenditure Analysis

There are so many items in debit and credit side in income and expenditure or profit and loss account. This tool has been used to separate the income and expenditure in to main sub headings. So this helps to compare nature of income and expenditure. Different proportions of the income and expenses have been separated according to their homogenous nature. Under the income analysis there will four headings, interest incomes, commission & discount, foreign exchange income & other income. In expenses analysis it is divided into major four sub-headings, i.e. interest expenses, staff expenses, office operation expenses and bonus facilities.

3.6.8 Statistical Tools

Although various statistical tools are available to analyze the obtained data, the researcher has selected the most suitable and commonly usable tools to extract trustworthy financial decision.

- Arithmetic mean
- Least square liner trend
- Karl Pearson's co-efficient of correlation
- Probable error

3.6.8.1 Arithmetic Mean

Arithmetic mean of a given set of observation is their sum divided by the number of observation. In general, if x1, x2, x3, ……………….……..,xn are the given number of observation, their arithmetic mean can be obtained by

$$\overline{X} = \frac{X1 + X2 + X3 + \ldots\ldots\ldots\ldots\ldots + Xn}{n}$$

Where, $\overline{X}$ denotes arithmetic mean

n denotes the no. of periods

and X1, X2 and Xn are the individual observations.

3.6.8.2 Least Square Linear Trend

The straight line trend implies that irrespective of the seasonal and cyclical swings and irregular functions, the values increases of decreases by absolute amount per unit of time. The linear trend values from a series in arithmetic progression.

It combines by following notations.

Y= a + bx

Where,

Y= the value of dependent variable

a= intercept of trend line

b=slope of trend line

x= value of the independent variable i.e. time

where they are put in normal equation, these equations can be developed

$\sum Y = Na + b\sum X$

$\sum XY = a \sum X + b \sum X$

Since $\sum X=0$,

$$a = \frac{\Sigma Y}{n} \text{ and } b = \frac{\Sigma XY}{\Sigma X^2}$$

The constant 'a' is simply equal to the mean of y value and constant 'b' given the rate of change.

This is s mathematical method, which is widely used in practice. It is applied for finding out a trend line for those series, which change periodically in absolute amount.

3.6.8.3 Karl Pearson's Co-efficient of Correlation.

Out of several mathematical method of measuring correlation, the Karl Pearson's coefficient of Correlation is most widely used in practice to measure the degree of relationship between two variables. So, is measured by following formula using two variables or series X and Y.

$$r = \frac{\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

Where. r= the coefficient of correlation

ΣXY = sum of product of observations in two series

ΣX = Sum of observation in X series

ΣY = Sum of observation in Y Series

ΣX^2 = Sum of square of observations in X series

ΣY^2 = Sum of square of observations in Y series

The value of this coefficient (r) can never be more than 1 or less than -1. Thus +1 and -1 are limits of the coefficient. Here, r= +1 implies that there is perfect positive correlation between the two variables. But r= -1 implies that there is perfect negative correlation between the variables. If it has a Zero Value (r = 0), it denotes no correlation between the variables. If the obtained value lies outside the limit ±1, this implies that there is some mistake in calculation.

3.6.8.4 Probable Error of Correlation

Probable error of correlation is an old testing the reliably of an observed value of correlation coefficient. It is calculated to find the extend to which correlation coefficient is dependable as it depends upon the condition of random sampling probable error of correlation coefficient denoted by P.E (r) is obtained as

$$\text{P.E. (r)} = 0.6745 \text{ X } \frac{1-r^2}{\sqrt{n}}$$

Where, $\frac{1-r^2}{\sqrt{n}}$ = standard error reason for taking 0.6745 is that in a normal distribution 5 % of observation lie in range « ±10.675 ± Where « and± denotes the population mean and standard deviation.

P.E. (r) is used to test it an observed value of sample correlation coefficient is significant of any correlation in population.

If r is less than its P.E (r < P.E) it is not all significant correlation.

If r is more than its P.E (r <6 P.E) there is correlation.

If r is more than 6 times it's P.E and greater than ±0.5, than it is considered correlation.

CHAPTER 4

4 DATA ANALYSIS AND PRESENTATION

In this chapter, the data have been analyzed and interpreted using financial and statistical tools following the research methodology dealt in the third chapter. In the part of analysis, various tables have been used to present the data collected from various sources have been inserted in the required tables according to their homogenous nature. The outcomes of the analysis have been compared with conventional standard with respect to ratio analysis, directives of NRB and other factors. Further more, many suitable graphs, and diagrams have also been used to clarify the actual position and performance of the bank.

4.1 RATIO ANALYSIS

Ratio analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The basic input to ratio analysis is the firm's income and expenditure statement and balance sheet for the periods to be examined. The study consists of the following ratios to analyze the financial performance of the NABIL Bank.

4.2 LIQUIDITY RATIOS

Liquidity Ratio measures the firm’s ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency. The following ratio has been applied to find out liquidity position of the banks.

- Current ratio
- Cash and bank balance to total deposit ratio.
- NRB balance to current and saving deposit ratio
- Cash and bank balance to current and saving deposits ratio
- Fixed deposit to total deposit ratio

4.2.1 Current Ratio

The current ratio is the ratio of total current assets to total current liabilities and measures the short-term solvency of a firm. It is calculated by dividing current assets by current liabilities.

Table 4.01
Current Ratio of NABIL Bank Limited

(Rs. In Thousands)

Year	Current Assets	Current Liabilities	Current Ratio (in terms of times)
2059/60	16,391,614	14,286,976	1.15
2060/61	16,407,360	15,034,145	1.09
2061/62	16,825,095	15,511,629	1.08
2062/63	22,010,088	20,281,774	1.09
2063/64	26,966,497	24,313,770	1.11
Average	**19,720,130**	**17,885,658**	**1.10**

(Source:- Appendix i)

Analysis of table 4.01 shows that the current assets of NABIL Bank Ltd. have always exceeded the current liabilities for the study period of five Years from 059/60 to 063/64. The bank has the highest current ratio of 1.15 in 2059/60 and the lowest current of 1.08 in 061/62 with an average current ratio of 1.10 during the study period. In general terms, the bank has been able to meet its short-term obligations. The above analysis indicates that the bank is in sound liquidity position.

4.2.2 Cash and bank balance to total deposit ratio (CBBTDR)

This ratio is calculated by dividing cash bank balance by total deposits.

Table 4.02
Cash and Bank Balance to Total Deposit Ratio

(Rs. In Thousands)

Year	Cash and Bank Balance	Total Deposits	Ratio %
2059/60	1,144,767	13,447,661	8.51
2060/61	970,486	14,119,032	6.87
2061/62	559,381	14,586,609	3.83
2062/63	630,238	19,347,399	3.26
2063/64	1,399,825	23,345,285	6.00
Average	**940,939**	**16,969,197**	**5.54**

(Source:- Appendix i)

The analysis of table 4.02 shows that cash reserve ratio of the NABIL differs from maximum of 8.51% in the year 2059/60 to the minimum of 3.26% in the year 2062/63 with an average of 5.54% during the study period. The analysis specifies that the bank is volatile to maintain cash reserve ratio as per NRB directives.

4.2.3 NRB balance to current and saving deposit ratio (NRB-BCSDR)

This ratio is computed by using this formula.

Table 4.03
NRB Balance to Current and Saving Deposit Ratio

(Rs. In Thousands)

Year	Nepal Rastra Bank Balance	Current & Saving Deposits	Ratio (in Percentage)
2059/60	892,747	8,263,726	10.80
2060/61	606,695	8,683,088	6.99
2061/62	389,705	9,825,519	3.97
2062/63	318,358	11,681,349	2.73
2063/64	1,113,415	13,582,593	8.20
Average	**664,184**	**10,407,255**	**6.38**

(Source:- Appendix i)

Table 4.03 exposed that the ratios of NABIL were 10.80%, 6.99%, 3.97%, 2.73%, and 8.20% with mean ratio of 6.38%. Commercial Banks are required to hold certain proportion of current and saving deposits in NRB's account. It is to ensure the smooth functioning and sound liquidity position of the Bank. NABIL Bank is failed to maintain minimum deposit liabilities of 8% as cash reserve with Nepal Rastra Bank except in the fiscal year 059/60 and 063/64.

4.2.4 Cash and bank balance to current and saving deposits ratio (CBBCSDR)

This ratio is calculated by dividing cash and bank balance by current and saving deposits.

Table 4.04
Cash and Bank Balance to Current and Saving Deposits Ratio

(Rs. In Thousands)

Year	Cash and Bank Balance	Current & Saving Deposits	Ratio (Percentage)
2059/60	1,144,767	8,263,726	13.85
2060/61	970,486	8,683,088	11.18
2061/62	559,381	9,825,519	5.69
2062/63	630,238	11,681,349	5.40
2063/64	1,399,825	13,582,593	10.31
Average	**940,939**	**10,407,255**	**9.04**

(Source:- Appendix i)

The Above Calculated table shows that the Cash and Bank Balance to current & saving deposits of NABIL Bank Ltd. have always is in good condition except in the fiscal year 061/62 with ratio of 5.69 and in the fiscal year 5.4 percentage. The bank has the highest ratio of 13.85 in 2059/60 and the lowest ratio of 5.40 percentages in the fiscal year 062/63 with an average ratio of 9.04 during the study period. In general terms, the bank has been able to meet its short-term obligations. The above analysis indicates that the bank is in sound liquidity position. High ratio normally indicates sound liquidity position of the bank but too high ratio is not good as it reveals the under utilization of fund.

4.2.5 Fixed deposit to total deposit ratio (FDTDR)

This ratio determined by dividing fixed deposits by total deposits.

Table 4.05
Fixed Deposit to Total Deposit Ratio

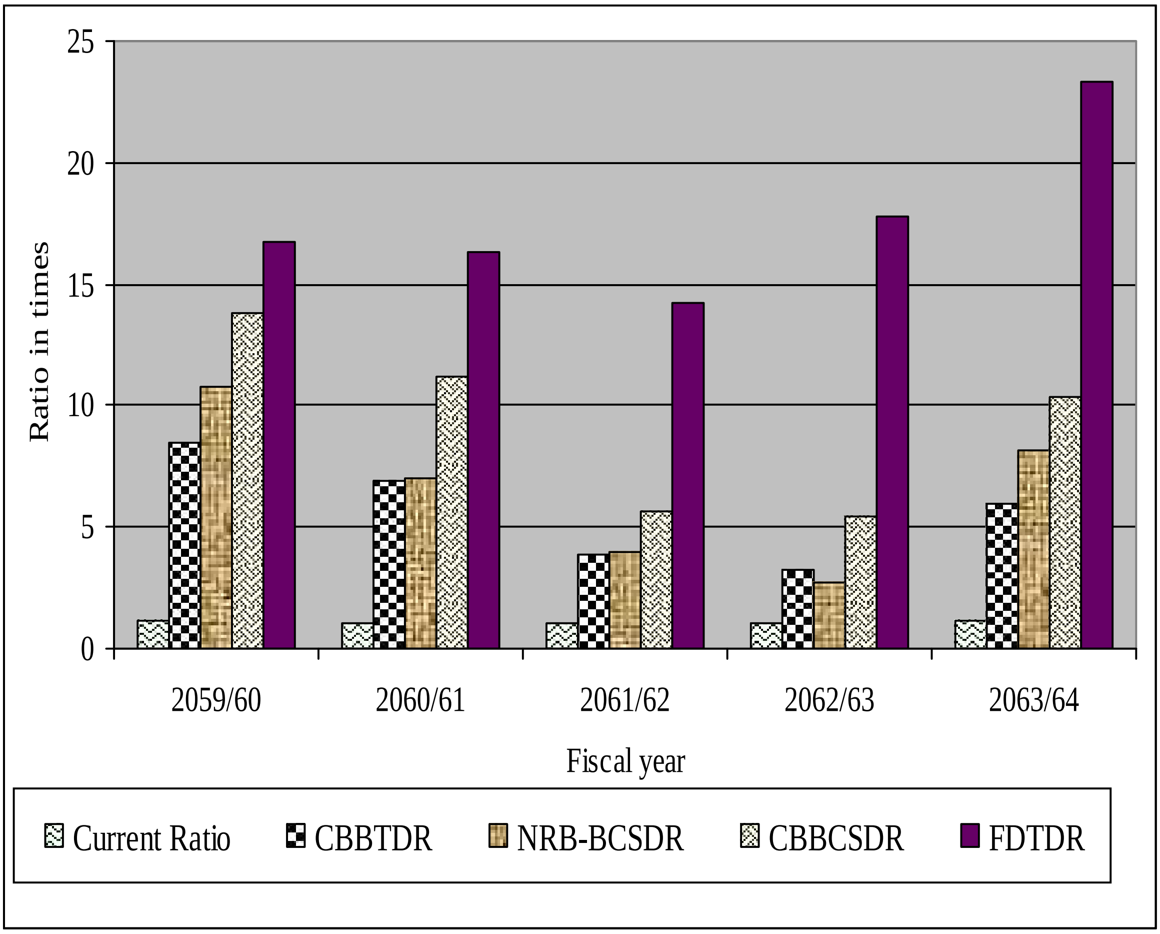
(Rs. In Thousands)

Year	Fixed Deposits	Total Deposits	Ratio (Percentage)
2059/60	2,252,545	13,447,661	16.75
2060/61	2,310,572	14,119,032	16.36
2061/62	2,078,535	14,586,609	14.25
2062/63	3,449,094	19,347,399	17.83
2063/64	5,435,189	23,345,285	23.28
Average	**3,105,187**	**16,969,197**	**18.30**

(Source:- Appendix i)

Fixed deposit is the high interest bearing deposit which can be withdrawn only after its maturity. The above table shows that the fixed deposit to total deposit ratio of the NABIL Bank differ from maximum of 23.28 %in the year 2063/64 to the minimum of 14.25% in the year 2061/62 with an average of 18.30% during the study period of five years. The analysis indicates that the portion of fixed deposit in the total deposit is fluctuating.

Figure 4.01
Liquidity Ratio of NABIL Bank Ltd.



4.3 ACTIVITY RATIOS

Activity ratio has been used to evaluate managerial efficiency and proper utilization of assets. This includes investment to total deposit ratio, loans and advances to total deposit ratio, loans and advances to saving deposit ratio and total income generating assets to total deposit ratio.

4.3.1 Investment to total deposit ratio (ITDR)

This ratio is computed by dividing investment by total deposits. This can be stated as:

Table 4.06

Investment to Total Deposit Ratio

(Rs. In Thousands)

Year	Investment	Total Deposits	Ratio (Percentage)
2059/60	6,031,176	13,447,661	44.85
2060/61	5,835,948	14,119,032	41.33
2061/62	4,267,233	14,586,609	29.25
2062/63	6,178,533	19,347,399	31.93
2063/64	8,945,310	23,345,285	38.32
Average	**6,251,640**	**16,969,197**	**36.84**

(Source:- Appendix ii)

Table 4.06 shows that investment to total deposit ratios of NABIL remained 44.85, 41.33, 29.25, 31.93 and 38.32 in the respective years with the average of 36.84 in the study period. The higher average shows that NABIL is successful in managerial efficiency regarding the utilization of deposits.

4.3.2 Loans and Advances to Total Deposits Ratios (LATDR)

This ratio is calculated by using following formula.

Table 4.07
Loans and Advances to Total Deposits Ratios

(Rs. In Thousands)

Year	Loan & Advances	Total Deposits	Ratio (Percentage)
2059/60	7,755,952	13,447,661	57.68
2060/61	8,189,993	14,119,032	58.01
2061/62	10,586,170	14,586,609	72.57
2062/63	12,922,543	19,347,399	66.79
2063/64	15,545,778	23,345,285	66.59
Average	**11,000,087**	**16,969,197**	**64.82**

(Source:- Appendix ii)

The above calculated shows that loans and advances to total deposits of the NABIL Bank fluctuates from maximum of 72.57 percent in the fiscal year 2061/62 to the minimum of 58.01 percentage in the year 2060/61 with an average of 64.82 percent. The analysis shows that the bank is mobilizing its total deposits in loan and advances adequately and it has efficiently utilized its total deposits for loan and advances. Higher ratio reveals that it is efficient to utilize the financial resources in productive sectors.

4.3.3 Loan Advances Total Assets Ratio (LATAR)

Table 4.08
Loan Advances Total Assets Ratio

(Rs. In Thousands)

Year	Loan & Advances	Total assets	Ratio (Percentage)
2059/60	7,755,952	16,562,625	46.83
2060/61	8,189,993	16,745,486	48.91
2061/62	10,586,170	17,186,331	61.60
2062/63	12,922,543	22,329,971	57.87
2063/64	15,545,778	27,253,393	57.04
Average	**11,000,087**	**20,015,561**	**54.96**

(Source:- Appendix ii)

Table 4.08 shows that the ratios of NABIL were 46.83%, 48.91%, 61.60%, 57.87%, and 57.04% with an average of 54.96% in the respective years of study period. The higher average ratio indicates that NABIL is efficient in utilization of total assets in profitable sector. It can be determined that ratios of NABIL fluctuate to a greater extent in the study period.

4.3.4 Total income generating assets to total assets ratio (TIGATAR)

Table 4.09
Total Income Generating Assets to Total Assets Ratio

(Rs. In Thousands)

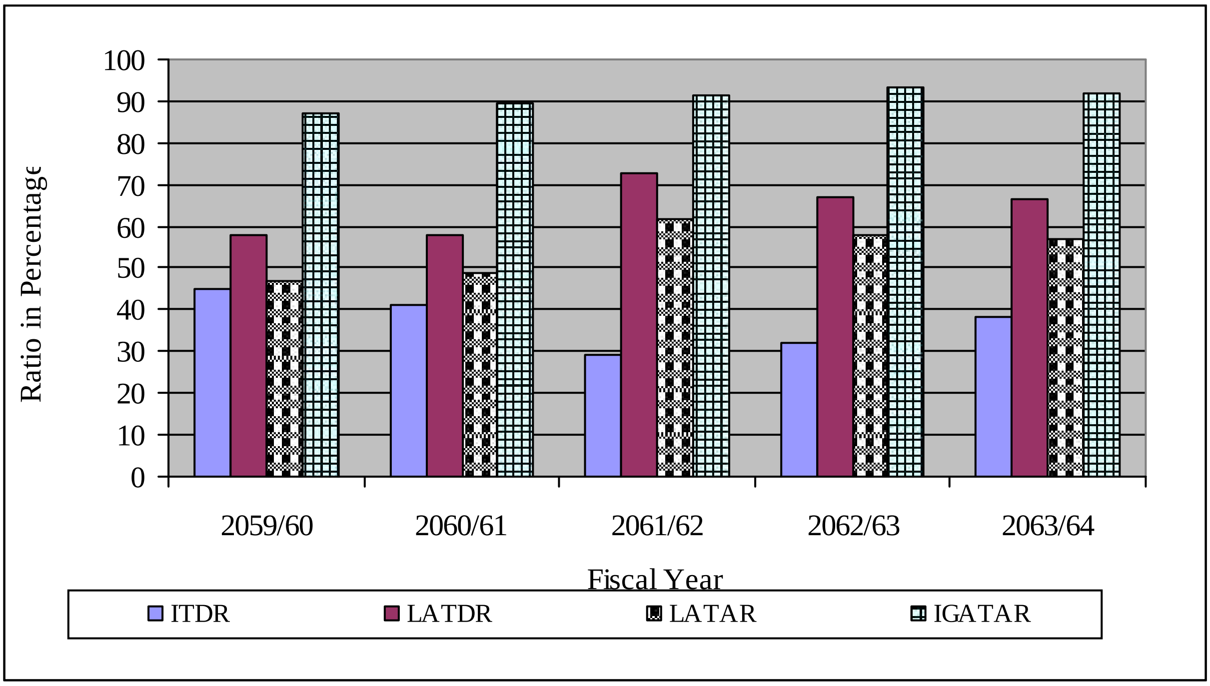
Year	Total Income Generating Assets	Total assets	Ratio (Percentage)
2059/60	14,457,332	16,562,625	87.29
2060/61	14,944,674	16,745,486	89.25
2061/62	15,721,813	17,186,331	91.48
2062/63	20,835,978	22,329,971	93.31
2063/64	25,054,621	27,253,393	91.93
Average	**18,202,884**	**20,015,561**	**90.94**

(Source:- Appendix ii)

Table 4.09 depicts that the ratios of NABIL were 87.29%, 89.25%, 91.48%, 93.31% and 91.93%, in the respective years of study period with the mean of 90.94%. This higher ratio shows that NABIL has sound profitability position and greater utilization of its assets.

Figure 4.02

Activity Ratio of NABIL Bank Ltd.



4.4 CAPITAL ADEQUACY RATIO

The ratio is important to every business firm. Similarly commercial banks must evaluate this ratio. Capital is important for an organization to maintain every facility. Holding excess capital that required may have higher holding cost and low return from investment, similarly holding too little capital may have inefficiency in paying liabilities of a firm.

4.4.1 Net Worth to Total Assets Ratio (NWTAR)

This ratio is computed by dividing net worth by total assets.

Table 4.10

Net Worth to Total Assets Ratio

(Rs. In Thousands)

Year	Net worth	Total Assets	Ratio (Percentage)
2059/60	1,314,187	16,562,625	7.93
2060/61	1,481,682	16,745,486	8.85
2061/62	1,657,638	17,186,331	9.65
2062/63	1,874,994	22,329,971	8.40
2063/64	2,057,049	27,253,393	7.55
Average	**1,677,110**	**20,015,561**	**8.38**

(Source:- Appendix iii)

The table 10 displays that the ratios of NABIL remained 7.93%, 8.85%, 9.65%, 8.40%, and 7.55% in the respective years of study period with the average of 8.38%. The greater ratio indicates that NABIL has greater contribution to investors fund and strong capital adequacy position. This ratio measures the percentage of shareholder fund in relation total assets owned by banks.

4.4.2 Net Worth to Total Deposit Ratio (NWTDR)

This ratio is calculated by using the following formula.

Table 4.11
Net Worth to Total Deposit Ratio

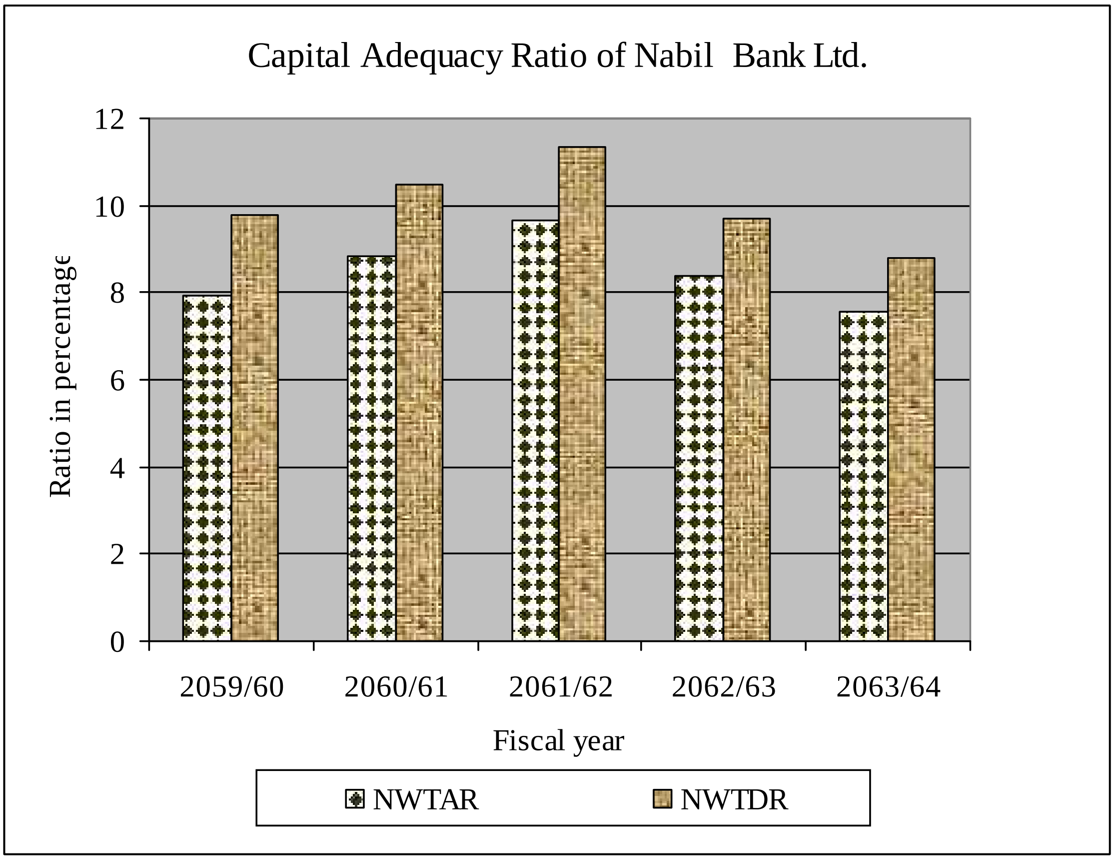
(Rs. In Thousands)

Year	Net worth	Total Deposits	Ratio (Percentage)
2059/60	1,314,187	13,447,661	9.77
2060/61	1,481,682	14,119,032	10.49
2061/62	1,657,638	14,586,609	11.36
2062/63	1,874,994	19,347,399	9.69
2063/64	2,057,049	23,345,285	8.81
Average	**1,677,110**	**16,969,197**	**9.88**

(Source:- Appendix iii)

The above calculated shows that Net Worth to Total Deposits ratio Nabil Bank fluctuating from maximum of 11.36 percentage in the fiscal year 2061/62 to the minimum of 8.81 percentage in the year 2063/64 with an average of 9.88 percentage. According to the NRB directives to the capital adequacy ratio 11 percent NABIL fails to be maintained the ratio as prescribed by the Central Bank except in the fiscal year 2060/61.

Figure 4.03



4.5 CAPITAL STRUCTURE RATIOS

Capital structure ratio also known as leverage ratios are the measures of long-term solvency of a bank. Capital structure generally refers to the composition of debt and equity component of overall capital of a firm.

4.5.1 Debt to Equity Ratio (DER)

Table 4.12
Debt to Equity Ratio

(Rs. In Thousands)

Year	Total Debt	Shareholders' Equity	Ratio (Times)
2059/60	15,248,437	1,314,187	11.60
2060/61	15,263,805	1,481,682	10.30
2061/62	15,528,692	1,657,638	9.37
2062/63	20,454,976	1,874,994	10.91
2063/64	25,196,343	2,057,049	12.25
Average	**18,338,451**	**1,677,110**	**10.93**

(Source:- Appendix iv)

The above calculated table shows that debt to equity ratio of the NABIL bank differ 12.25 times in the year 2063/64 to the minimum of 9.37 times in the year 2061/62 with an average of 10.93 times during the study period. The analysis indicates that the bank has the high debt ratio, which indicates that the creditors have invested more in the bank than the owners.

4.5.2 Total Debt to Total Assets Ratio (TDTAR)

Table 4.13
Total Debt to Total Assets Ratio

(Rs. In Thousands)

Year	Total Debt	Total Assets	Ratio (Percentage)
2059/60	15,248,437	16,562,625	92.07
2060/61	15,263,805	16,745,486	91.15
2061/62	15,528,692	17,186,331	90.35
2062/63	20,454,976	22,329,971	91.60
2063/64	25,196,343	27,253,393	92.45
Average	**18,338,451**	**20,015,561**	**91.62**

(Source:- Appendix iv)

The above calculated table shows that Debt to Total Assets of the NABIL Bank differs from maximum of 92.45% in the year 2063/64 to the minimum of 90.35% in the year 2061/62 with an average of 91.62% during the study period. This analysis indicates that the bank has the high debt equity ratio, which means creditors have invested more in the bank than the owners. So this shows role of creditors in the bank is high than the owners in investing sector of Bank.

4.5.3 Interest Coverage Ratio (ICR)

This ratio is computed by dividing earning before income and tax by interest. This ratio evaluates the debt serving capacity of the banks.

Table 4.14
Interest Coverage Ratio

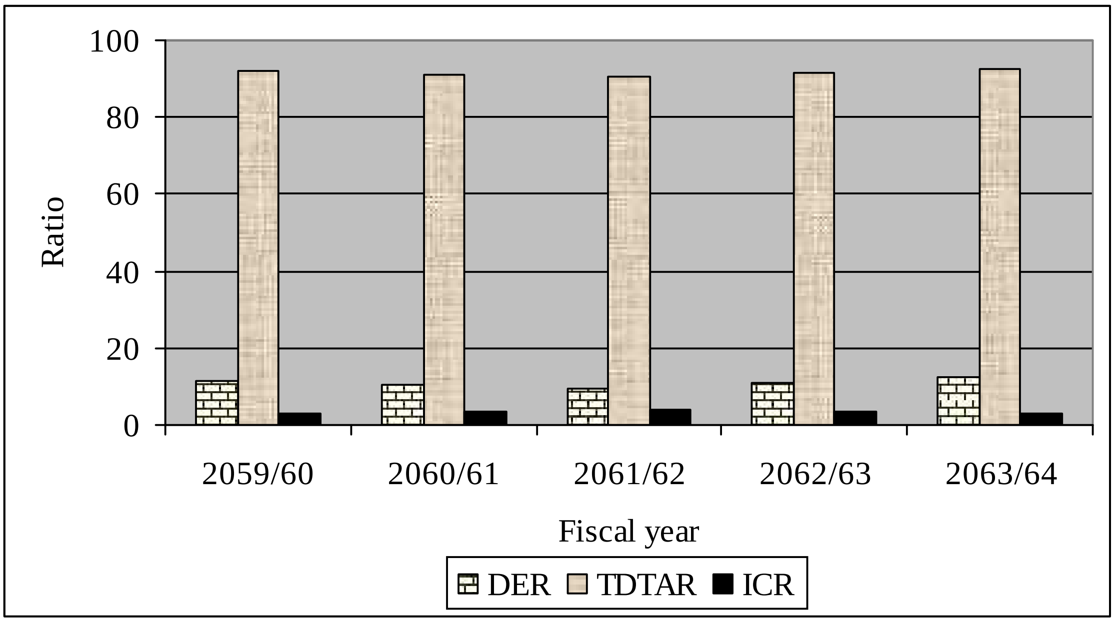
(Rs. In Thousands)

Year	EBIT	Interest Expenses	Ratio (times)
2059/60	932,729	317,348	2.94
2060/61	940,022	282,948	3.32
2061/62	1,001,330	243,545	4.11
2062/63	1,255,165	357,161	3.51
2063/64	1,544,196	555,710	2.78
Average	**1,134,688**	**351,342**	**3.23**

(Source:- Appendix iv)

The above calculated table shows that the ratios of NABIL Bank remained 2.94, 3.32, 4.11, 3.51 and 2.78 respectively during the study period. The ratio differs from maximum of 4.11 times in the year 2061/62 to the minimum of 2.78 times in the year 2063/64 with an average of 3.23 times during the study period. This analysis indicates that the bank has sufficient operation of debt and can pay interest easily.

Figure 4.04
Capital Structure Ratio



4.6 PROFITABILITY RATIOS

Profitability ratio is one of the main indicators to analyzing the financial performance of a firm. It calculates to measure the earning performance and operational efficiency of the bank. A bank should be able to produce adequate profit on each rupee of investment, if investments do not generate sufficient profits, it would be very difficult for the bank to cover operating expenses and interest charges. The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return of investment, its survival is threatened.

4.6.1 Return on Total Assets Ratio (ROTA)

This ratio is related to net profit after tax (NPAT) and total assets. How efficiently is the assets of a firm able to generate more profit are measured by this ratio is calculated by dividing NPAT by Total Assets. This ratio provides the foundation necessary for a company to deliver a good return on equity. Return on total assets ratio of Nabil Bank Ltd. for the period of 2059/60 to 2063/64 is presented in the Table-4.15 below.

Table 4.15
Return on Total Assets Ratio

(Rs. In Thousands)

Year	Net Profit	Total Assets	Ratio (Percentage)
2059/60	416,236	16,562,625	2.51
2060/61	455,311	16,745,486	2.72
2061/62	518,636	17,186,331	3.02
2062/63	635,262	22,329,971	2.84
2063/64	673,960	27,253,393	2.47
Average	**539,881**	**20,015,561**	**2.70**

(Source:- Appendix v)

The above table shows that the Return on Total Assets of the NABIL Bank differ from maximum of 3.02% in the year 2061/62 to the minimum of 2.47% in the year 2063/64 with an average of 2.70% during the study period of five years from 2059/60 to 2063/64. This analysis indicates that the net profit earned in comparison to the total assets is in fluctuating trend which means the ratio is decreasing and increasing trend during the study period.

4.6.2 Return on Equity Ratio (ROE)

Total shareholders' equity consists of preference share capital, ordinary share capital, share premium and reserve and surplus less accumulated losses. This ratio can be computed as Net profit after tax (NPAT) divided by average total shareholders' equity.

Table 4.16
Return on Equity Ratio

(Rs. In Thousands)

Year	Net Profit	Total Equity	Ratio (Percentage)
2059/60	416,236	1,314,187	31.67
2060/61	455,311	1,481,682	30.73
2061/62	518,636	1,657,638	31.29
2062/63	635,262	1,874,994	33.88
2063/64	673,960	2,057,049	32.76
Average	**539,881**	**1,677,110**	**32.19**

(Source:- Appendix v)

The above table shows that the Return on Total Equity of the NABIL Bank differ from maximum of 33.88% in the year 2062/63 to the minimum of 30.73% in the year 2060/61 with an average of 32.19% during the study period of five years from 2059/60 to 2063/64. This analysis indicates that the net profit earned in comparison to the total Equity is in fluctuating trend which means the ratio is decreasing and increasing trend during the study period. NABIL Bank is earning reasonable profit by utilizing its funds of total equity.

4.6.3 Interest Earned to Total Assets Ratio (IETAR)

This ratio is calculated by using following formula.

Table 4.17
Interest Earned to Total Assets Ratio

(Rs. In Thousands)

Year	Interest Earned	Total Assets	Ratio (Percentage)
2059/60	1,017,872	16,562,625	6.15
2060/61	1,001,617	16,745,486	5.98
2061/62	1,068,747	17,186,331	6.22
2062/63	1,309,999	22,329,971	5.87
2063/64	1,587,759	27,253,393	5.83
Average	**1,197,199**	**20,015,561**	**5.98**

(Source:- Appendix v)

The above table shows that interest earned to Total Assets of the bank varies from maximum of 6.22% in the year 2061/62 to the minimum of 5.83% in the year 2063/64 with an average of 5.98% during the study period of five years. The analysis indicates that the interest earned in comparison to total assets is fluctuating during the study period.

4.6.4 Total Interest Expenses to Total Interest Income Ratio (TIETIIR)

This ratio can be computed by using the following formula.

Table 4.18

Total Interest Expenses to Total Interest Income Ratio

(Rs. In Thousands)

Year	Interest Expenses	Interest Earned	Ratio (Percentage)
2059/60	317,348	1,017,872	31.18
2060/61	282,947	1,001,617	28.25
2061/62	243,544	1,068,747	22.79
2062/63	357,161	1,309,999	27.26
2063/64	555,710	1,587,759	35.00
Average	**351,342**	**1,197,199**	**29.35**

(Source:- Appendix v)

The above table shows that interest expenses to interest expenses ratio of the NABIL bank varies from maximum 35% in the fiscal year 2063/64 to the minimum of 22.79% in the year 2061/62 with an average of 29.35% during the study period. The analysis indicates that the interest expense in comparison to interest income is fluctuating during the study period. The higher ratio shows unfavorable profitability situation of the bank.

4.6.5 Return on Total Deposits Ratio (RTDR)

This ratio is computed by dividing NPAT by Total Deposits.

Table 4.19

Return on Total Deposits Ratio

(Rs. In Thousands)

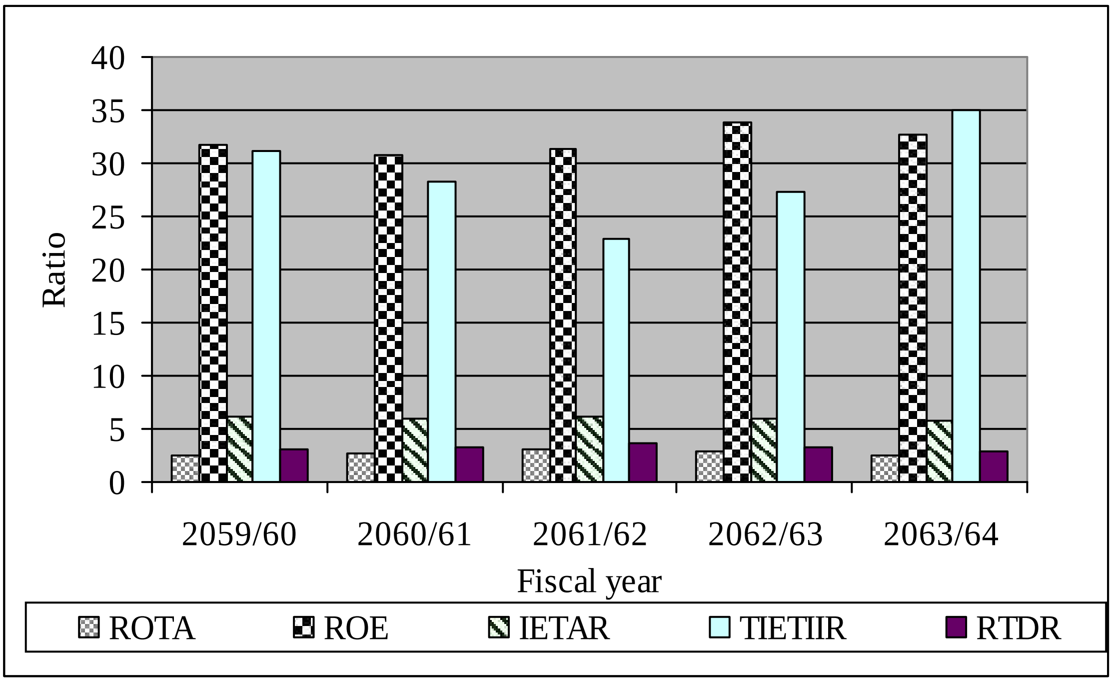
Year	NPAT	Total Deposits	Ratio (Percentage)
2059/60	416,236	13,447,661	3.10
2060/61	455,311	14,119,032	3.22
2061/62	518,636	14,586,609	3.56
2062/63	635,262	19,347,399	3.28
2063/64	673,960	23,345,285	2.89
Average	**539,881**	**16,969,197**	**3.18**

(Source:- Appendix v)

The above table shows that the return on total deposits of the NABIL Bank varies from maximum of 3.56% in the year 2061/62 to the minimum of 2.89% in the fiscal year 2063/64 with an average of 3.18% during the study period. The analysis indicates that the net profit earned in comparison with the total deposits are in increasing trend during the fiscal year 2061/62 but are in decreasing trend after fiscal year 2061/62. In general, the average return ratio shows that NABIL is successful to earn constant profit over the study period.

Figure 4..05

Profitability Ratio of NABIL Bank



4.7. INVISIBILITY RATIOS

An analysis of ratio helps the investors to know about the performance of the banks. Therefore, following ratio have been calculated to test earning capacity of the banks to last earning capacity of the bank.

4.7.1 Earning Per Share (EPS)

This ratio is calculated by dividing earning available to common stockholders by number of outstanding share of common stock.

Table 4.20
Earning Per Share

(Rs. In Thousands)

Year	EAC	No. of Common Stock	Ratio (Rs.)
2059/60	416,236	4,917	84.65
2060/61	455,311	4,917	92.60
2061/62	518,635	4,917	105.48
2062/63	635,262	4,917	129.20
2063/64	673,960	4,917	137.07
Average	**539,881**	**4,917**	**109.80**

(Source:- Appendix vi)

The above table shows that the earning available to the common shareholders is in increasing trend during the study period of five fiscal years. Earning per Share of the NABIL Bank varies from maximum of 137.07 per share in the year 2063/64 from 84.65 per share in the year 2059/60 with an average of 109.80 per share. The above analysis indicates that the EPS of NABIL Bank Ltd. is good in overall years.

4.7.2 Dividend Per Share (DPS)

This ratio can be obtained by using following formula.

Table 4.21
Dividend Per Share

(Rs. In Thousands)

Year	Earning Paid to the share holders	No. of Common Stock	Ratio (Rs.)
2059/60	245,827	4,917	50.00
2060/61	319,575	4,917	65.00
2061/62	344,158	4,917	70.00
2062/63	435,084	4,917	88.49
2063/64	509,418	4,917	103.60
Average	**370,812**	**4,917**	**75.41**

(Source:- Appendix vi)

The above table shows that the Dividend paid to the common shareholders is in increasing trend during the study period of five fiscal years. Dividend Per Share of the NABIL Bank varies from maximum of Rs. 103.60 Per share in the year 2063/64 from Rs. 50 per share in the year 2059/60 with an average of Rs. 75.41 per share. The above analysis indicates that the DPS of NABIL Bank Ltd. is good in overall years.

4.7.3 Tax Per Share (TPS)

Tax Per Share is obtained by dividing tax paid to government by number of common share outstanding.

Table 4.22
Tax Per Share

(Rs. In Thousands)

Year	Tax Paid to the Govt.	No. of Common Stock	Ratio (Rs.)
2059/60	344,158	4,917	70.00
2060/61	201,763	4,917	41.03
2061/62	239,149	4,917	48.64
2062/63	262,562	4,917	53.40
2063/64	314,527	4,917	63.97
Average	**272,432**	**4,917**	**55.41**

(Source:- Appendix vi)

The above table shows that the Tax per share paid to the government by common shareholders is in fluctuating trend during the study period of five fiscal years. Tax Per Share of the NABIL Bank varies from maximum of Rs. 70.00 Per share in the year 2059/60 from Rs. 41.03 per share in the year 2060/61 with an average of Rs. 55.41 per share. The above analysis indicates that the TPS of NABIL Bank Ltd. is good in overall years.

4.7.4 Dividend Pay Out Ratio (DPR)

It measures the relationship between the earning belonging to the ordinary shareholders and the dividend paid to them. This ratio can be calculated by dividing the total dividend paid to the owners by the total profit/earning available to them.

Table 4.23
Dividend Pay Out Ratio

(Rs. In Thousands)

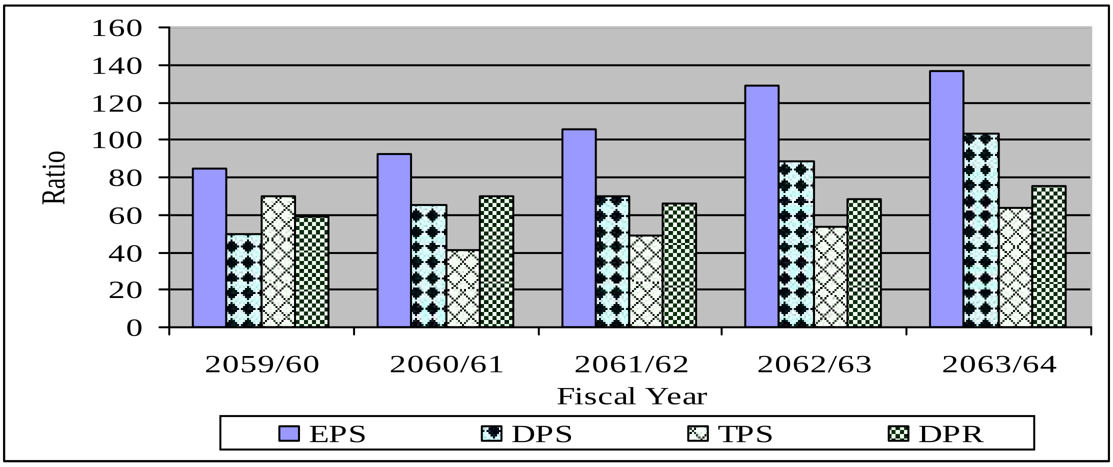
Year	DPS	EPS	Ratio (Percentage)
2059/60	50.00	84.65	59.07
2060/61	65.00	92.60	70.19
2061/62	70.00	105.48	66.36
2062/63	88.49	129.20	68.49
2063/64	103.60	137.07	75.58
Average	**75.42**	**109.80**	**68.69**

(Source:- Appendix vi)

The above calculated table shows that dividend payout ratio of the NABIL Bank Ltd varies from maximum of 75.58% in the year 2063/64 to the minimum of 59.07 in the year 2059/60 with an average of 68.69 during the study period. From above analysis NABIL was successfully and consistently providing higher percentage of dividend to investors.

Figure 4.06

Invisibility Ratio of NABIL Bank



4.8 INCOME AND EXPENDITURE ANALYSIS

Income and expenses analysis shows the trend of income and expenditure. So this analysis has been evaluated investment and their return and different expenditure of sample bank. This analysis includes;

- Income Analysis
- Expenditure Analysis

4.8.1 Income Analysis

Especially, the main work of the commercial banks is the transaction of money. They provide interest and dividend to the debtors and depositors in term of their cash deposits and investment. Therefore, the banks generate income through investment in returnable sectors as well as loan and advances. Among various sources of income, the main heading have been divided as,

- Interest Income
- Commission & Discount
- Foreign Exchange Income
- Other Income

Different incomes of NABIL Bank for different sampled years have been presented in the table 4.24.

Table 4.24
Income Analysis of NABIL Bank Ltd.

(Rs. In Thousands)

Year	Interest Income		Commission & Discount		Exchange Income		Other Income	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%
2059/60	1,017,872	71.36	144,406	10.12	144,075	10.10	34,151	2.39
2060/61	1,001,617	70.09	135,958	9.51	157,324	11.01	38,755	2.71
2061/62	1,068,747	70.75	128,377	8.50	184,879	12.24	55,934	3.70
2062/63	1,309,999	76.28	138,294	8.05	185,484	10.80	82,898	4.83
2063/64	1,587,759	77.79	150,609	7.38	209,926	10.28	87,575	4.29
Average	**1197199**	**73.25**	**139,529**	**8.71**	**176,338**	**10.89**	**59,863**	**3.59**

➢ Interest Income

Commercial bank generates income through their investment i.e. loans and advances, government securities, debenture etc. Interest is the main source of the income for the commercial banks by which the bank operates their operation regularly.

Table 4.24 shows that the interest incomes in NABIL were 71.36%, 70.09%, 70.75%, 76.28% and 77.79% in the respective years of the review period with an average of 73.25%. As compared to the previous year’s interest income values and percentage NABIL was succeeded in increasing its interest income throughout the study period of five years.

➢ Commission & Discount

Commission and discount is also one of the major sources of income for the commercial banks. The above calculated table shows that the income from commission and discount of the NABIL Bank Ltd varies from maximum of 10.12% in the year 2059/60 to the minimum of 7.38% the year 2063/64 with an average of 8.71% during the study period. From above analysis, it is cleared that income from commission and discount NABIL is in decreasing trend throughout the study period.

➢ Foreign Exchange Income

Generally, commercial banks purchase and sell foreign currency from the customers under laws, rules and regulations of NRB because of its fluctuation of exchange rate. This kind of income has been included in this heading.

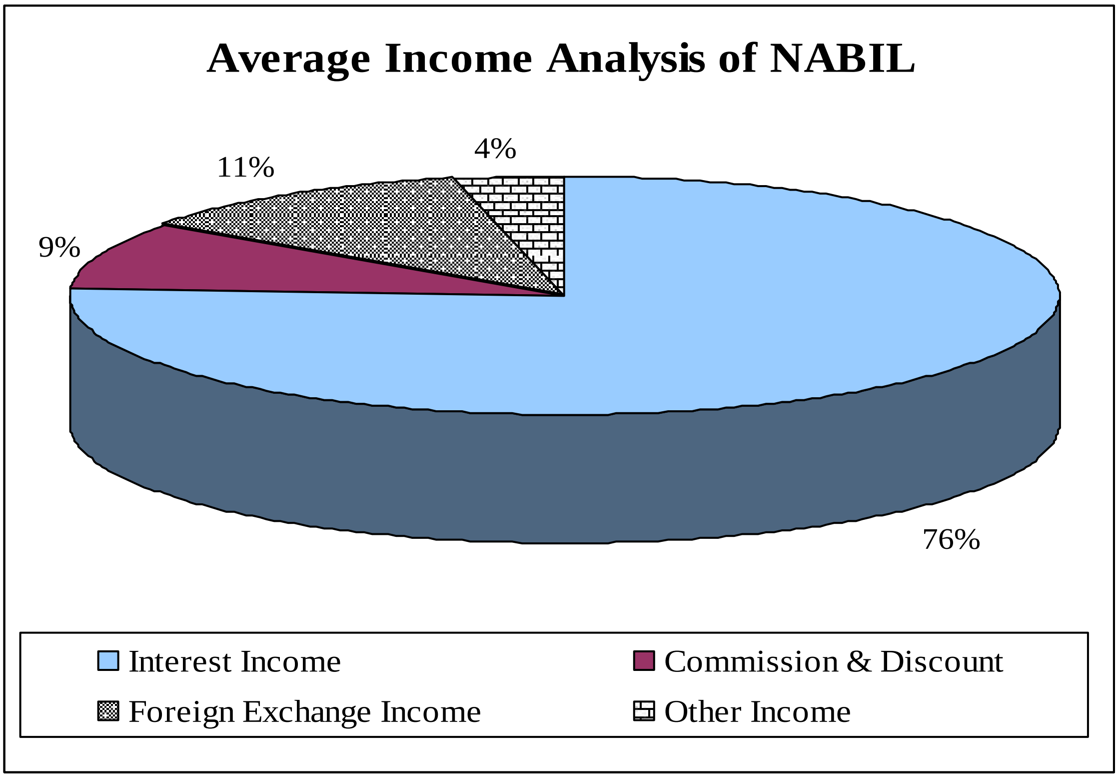
Table 4.24 exposes that the foreign exchange income NABIL Bank Ltd varies from maximum of 12.24% in the year 2061/62 to the minimum of 10.10% the year 2059/60 with an average of 10.89% during the study period. From above analysis, it is cleared that income from Foreign Exchange Income of NABIL Bank is in decreasing trend throughout the study period

➢ Other Income

Besides above incomes, non–operating i.e. sale of investment and assets, subsidies from NRB etc. have been included in this heading. Commission and discount is also one of the major sources of income for the commercial banks.

The above calculated table shows that the income from commission and discount of the NABIL Bank Ltd varies from maximum of 10.12% in the year 2059/60 to the minimum of 7.38% the year 2063/64 with an average of 8.71% during the study period. From above analysis, it is cleared that income from commission and discount NABIL is in decreasing trend throughout the study period.

Figure 4.07



4.8.2 EXPENDITURE ANALYSIS

Basically, commercial banks extend money in daily office operation, salary and other facilities. They also pay interest and dividend to depositors and investors. Among these various sources of expenses, following headings have been analyzed for this study purposes;

- Interest Expenses
- Staff Expenses
- Office Operation Expenses
- Bonus Expenses

Expenditure analysis of NABIL Bank for different sampled years has been presented in table 25.

Table 4.25

Expenditure Analysis of NABIL Bank Ltd.

(Rs. In Thousands)

Year	Interest Expenses		Staff Expenses		Office Operating Exp.		Bonus Facility	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%
2059/60	317348	41.7	210583	27.7	166,200	21.85	66364	8.73
2060/61	282948	41.1	180840	26.2	153,375	22.26	71941	10.44
2061/62	243545	33.9	199516	27.8	190,299	26.52	84198	11.73
2062/63	357161	42.0	219781	25.9	182,696	21.51	89800	10.57
2063/64	555710	51.3	240161	22.2	188,183	17.37	99505	9.18
Average	**351342**	**42.0**	**210176.2**	**26.0**	**176150.6**	**21.9**	**82361.6**	**10.1**

➢ Interest Expenses

An interest expense is one of the main expenses among various expenses made by the commercial banks. Especially, commercial bank pays interest in various deposits and loan advances. These all have been included in this expense. Table no. 4.25 reveals that the interest expense ratios of NABIL were 41.7, 41.1, 33.9, 42.0 and 51.3 percentage in the respective years of study period with the mean ratio of 42.0 percent.

➢ Staff Expenses

Banks need sufficient personnel to continue office and other operation. They pay salaries and other different forms of allowance to their staff in terms of services. Moreover, the banks expend uniform, libraries and other various related field. These all have been included in staff expenses.

Table 4.25 exposes that the staff expenses of NABIL Bank Ltd varies from maximum of 27.7% in the year 2059/60 to the minimum of 22.2% the year 2063/64 with an average of 26.0% during the study period. From above analysis, it is cleared that income from Foreign Exchange Income of NABIL Bank is in decreasing trend throughout the study period

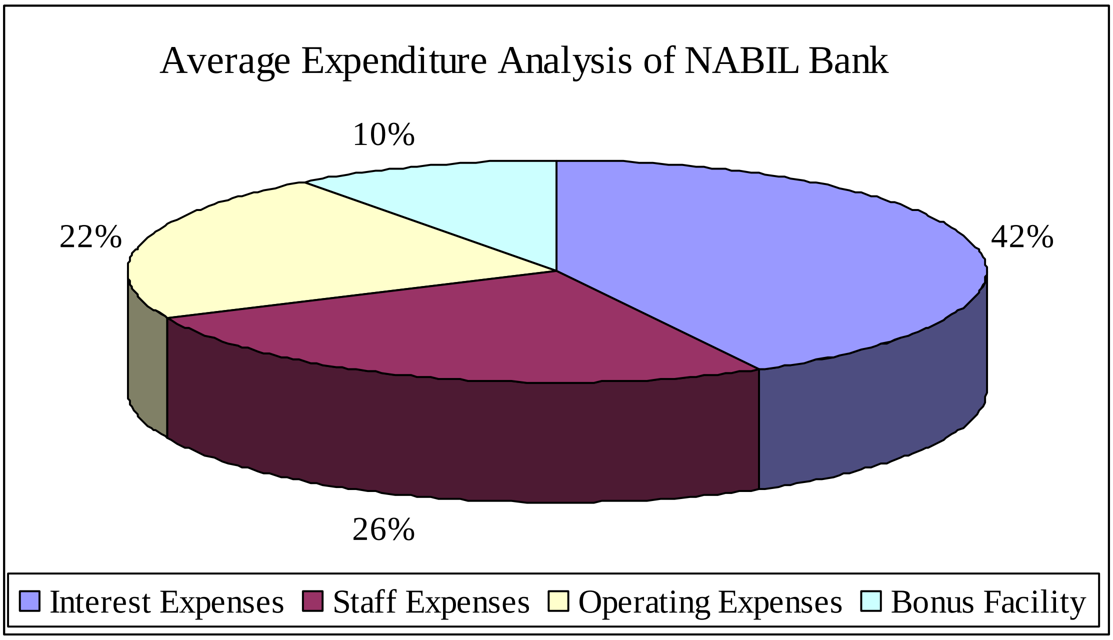
➢ Office Operating Expenses

These are various expenses made by commercial banks in terms of office operation. These expenses consist of rent, electricity and telephone charges, administrative expenses promotion expense etc. Table 4.25 exposes that the office operating expenses of NABIL Bank Ltd varies from maximum of 26.52% in the year 2061/62 to the minimum of 17.37% the year 2063/64 with an average of 21.9% during the study period.

- **Bonus Facility**

When banks are capable to earn appropriate profit, they provide dividend to the shareholders and pay extra bonus to their staffs to motivate them. Those all expense have been included in under this heading. Table 4.25 exposes that the bonus facility expenses of NABIL Bank Ltd varies from maximum of 11.73% in the year 2061/62 to the minimum of 8.63% the year 2059/60 with an average of 10.1% during the study period.

Figure 4.08



4.9 CORRELATIONS ANALYSIS

Karl Pearsons's coefficient of correlation is most widely used in practice to measure the degree of relationship between two variables of the banks. So, it is measured by understanding the following formula.

$$r = \frac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

Where, r = the coefficient of correlation

n = no. of observations

Σ XY = sum of the product of observations in two series

Σ X = sum of observation in the series X

Σ Y = sum of observation in the series Y

ΣX^2 = sum of squared observation in X-Series

ΣY^2 = sum of squared observation in Y-Series

The relationship between these two categories of variables has been developed for study purpose.

- Total Deposit (X) and Investment (Y)
- Total Deposit (X) and Loan and Advance (Y)
- Total Deposit (X) and Net Profit (Y)

4.9.1 Correlation between Total Deposit and Investment

Total deposit and investment variables of NABIL Bank for different sampled years have been presented below.

Table 4.26

Correlation between Total Deposit and Investment

Rs. In Million

Year	Total Deposit X	Investment Y	ΣXY	ΣX2	ΣY2
2059/60	13,448	6,031	81,104,888	180,848,704	36,372,961
2060/61	14,119	5,836	82,398,484	199,346,161	34,058,896
2061/62	14,587	4,267	62,242,729	212,780,569	18,207,289
2062/63	19,347	6,179	119,545,113	374,306,409	38,180,041
2063/64	23,345	8,945	208,821,025	544,989,025	80,013,025
SUM	**84,846**	**31,258**	**554,112,239**	**1,512,270,868**	**206,832,212**

$$r = \frac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

$$= \frac{5 \times 554112239 - 84846 \times 31258}{\sqrt{5 \times 1512270868 - (84846)^2}\sqrt{5 \times 206832212 - (31258)^2}}$$

$$= \frac{2770561195 - 2652116268}{\sqrt{5 \times 1512270868 - (84846)^2}\sqrt{5 \times 206832212 - (31258)^2}}$$

r = 0.823272788

Calculation of Probable Error

$$\text{P.E.(r)} = 0.6745 \text{ X } \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \text{ X } \frac{1 - 0.8233^2}{\sqrt{5}}$$

= 0.0972

Correlation coefficient came higher than six times than the probable error 0.82 > 6 X 0.097. It shows high degree of positive correlation. According to the above calculation, it is cleared that there is a significant correlation between deposit and investment in NABIL. NABIL is successful to raise the volume of investment with rise in the volume of total deposit.

4.9.2 Correlation between Total Deposit & Loan & Advances

Total Deposit and loan and advances for different sampled years have been presented below.

Table 4.27

Correlation between Total Deposit & Loan & Advances

Rs. In Million

Year	Total Deposit X	Loan & Advances Y	ΣXY	ΣX^2	ΣY^2
2059/60	13,448	7,756	104,302,688	180,848,704	60,155,536
2060/61	14,119	8,190	115,634,610	199,346,161	67,076,100
2061/62	14,587	10,586	154,417,982	212,780,569	112,063,396
2062/63	19,347	12,923	250,021,281	374,306,409	167,003,929
2063/64	23,345	15,546	362,921,370	544,989,025	241,678,116
Sum	**84,846**	**55,001**	**987,297,931**	**1,512,270,868**	**647,977,077**

$$r = \frac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

$$= \frac{5\,X\,987{,}297{,}931 - 84{,}846\,X\,55{,}001}{\sqrt{5\,X\,1512270868 - (84{,}846)^2}\sqrt{5\,X\,647{,}977{,}077 - (55{,}001)^2}}$$

$= 0.9672$

Calculation of Probable Error,

$$\text{P.E.(r)} = 0.6745 \text{ X } \frac{1-r^2}{\sqrt{n}}$$

$$= 0.6745 \text{ X } \frac{1-0.9672^2}{\sqrt{5}}$$

$= 0.029$

Significant of r

= 6 X 0.029

= 0.174

Since r is much greater than 6 x P.E, (r), the value of r is highly significant. On the basis of above calculation, the value of r (0.9672) shows the high degree of positive correlation between total deposit and loan and advances. Therefore we can say that the change in total deposit highly effects loan and advances policy of NABIL bank Ltd.

4.9.3 Correlation between Loan & Advances & Net Profit

Total Deposit and loan and advances for different sampled years have been presented below.

Table 4.28

Correlation between Loan Advance and Net Profit

Rs. In million

Year	Loan & Advances X	Net Profit Y	ΣXY	ΣX^2	ΣY^2
2059/60	7,756	416	3,226,496	60,155,536	173,056
2060/61	8,190	455	3,726,450	67,076,100	207,025
2061/62	10,586	519	5,494,134	112,063,396	269,361
2062/63	12,923	635	8,206,105	167,003,929	403,225
2063/64	15,546	674	10,478,004	241,678,116	454,276
Sum	**55,001**	**2,699**	**31,131,189**	**647,977,077**	**1,506,943**

$$r = \frac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

$$= \frac{5\,\text{X}\,31{,}131{,}189 - 55{,}001\ \text{X}\ 2{,}699}{\sqrt{5\,\text{X}\,647{,}977{,}077 - (55{,}001)^2}\sqrt{5\,\text{X}\,1{,}506{,}943 - (2{,}699)^2}}$$

= 0.983

Calculation of Probable error

$$\text{P.E.(r)} = 0.6745 \text{ X } \frac{1-r^2}{\sqrt{n}}$$

$$= 0.6745 \text{ X } \frac{1-0.983^2}{\sqrt{5}}$$

$$= 0.010$$

Significant of

r = 6 X 0.010

= 0.061

Since r is much greater than 6 X P.E, (r), the value of r is highly significant. On the basis of above calculation, the value of r (0.983) shows the high degree of positive correlation between Loan and Advances and Net Profit. Therefore we can say that the change in Loan Advances highly affects Net Profit Earned by NABIL bank Ltd.

4.10 Least Square Linear Trend Analysis

Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative items. On the basis of tendencies in the dependent variables in the past periods, the future trend is predicted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variables are repeated in the future or past events the future events significantly.

The future trend is forecasted by using the following formula,

Y = a + bX

Where,

Yc = the dependent Variable

a = the origin i.e. arithmetic mean

b = the slope coefficient i.e. rate of change

Hence, future value of coming years have been analyzed and forecasted with the help of trend analysis. They are;

- Total Deposits
- Loan & Advances
- Investment
- Net Profit

4.10.1 Least Square of Linear Trend of Total Deposits

Table 4.29

Least Square of Linear Trend of Total Deposits

Rs. In Thousand

Fiscal Year X	Total Deposits y	x = X - 2061	x2	xy
2059	13,447,661	-2	4	-26895322
2060	14,119,032	-1	1	-14119032
2061	14,586,609	0	0	0
2062	19,347,399	1	1	19347399
2063	23,345,285	2	4	46690570
Sum p	**84,845,986**	**0**	**10**	**25,023,615**

Since,

$\Sigma x = 0$

$$a = \frac{\Sigma y}{5}$$

$$= \frac{84,845,986}{5}$$

= Rs. 16,969,197.2

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

$$= \frac{25,023,615}{10}$$

$$= 2,502,361.5$$

Substituting these values in the following formula,

$$Y = a + bx$$

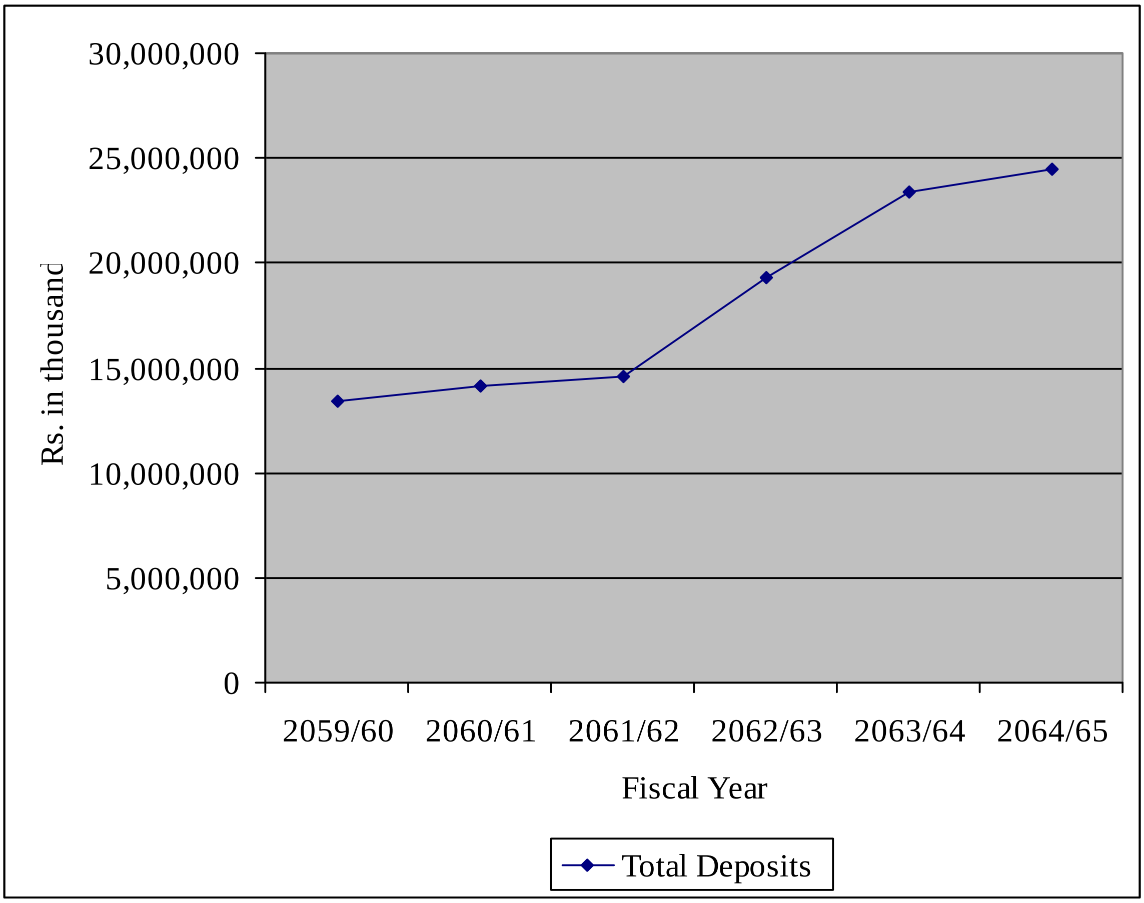
$$= 16,969,197.2 + 2502361.5 \text{ X } 3$$

$$= \text{Rs. } 24,476,281.7$$

Hence, estimated Total Deposit of NABIL for the year 2064 would be Rs. 24,476,282 thousand.

Figure 4.09

Total Deposit Trend of NABIL Bank Ltd.



4.10.2 Least Square of Linear Trend of Loan & Advances

Table 4.30

Least Square of Linear Trend of Loan & Advances

Rs. In Thousand

Fiscal Year X	Loan & Advances y	x = X - 2061	x^2	xy
2059	7,755,952	-2	4	-15511904
2060	8,189,993	-1	1	-8189993
2061	10,586,170	0	0	0
2062	12,922,543	1	1	12922543
2063	15,545,778	2	4	31091556
Sum	**55,000,436**	**0**	**10**	**20,312,202**

Since x = 0,

$$a = \frac{\sum y}{5}$$

$$= \frac{55,000,436}{5}$$

= Rs. 11,000,087.2

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

$$= \frac{20,312,202}{10}$$

= 2031220.2

Substituting these values in the following formula,

Y = a + bx

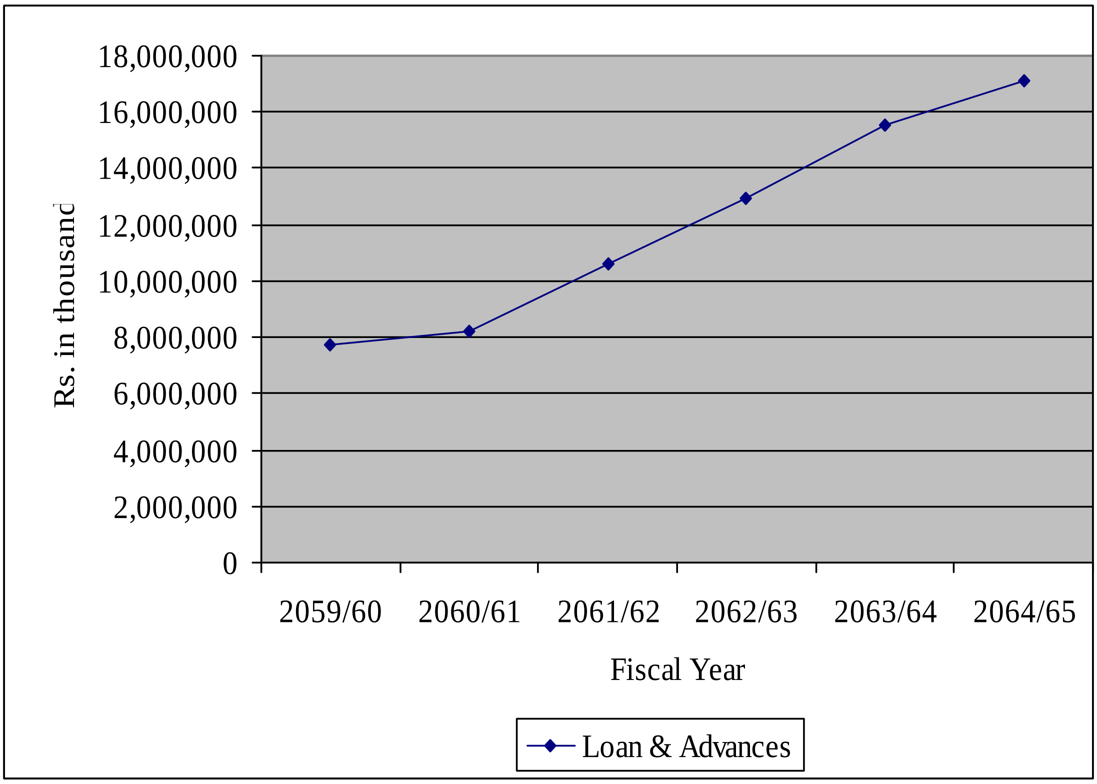
= 11,000,087.2 + 2,031,220.2 X 3

= Rs. 17,093,747.8

Hence, estimated Total Deposit of NABIL for the year 2064 would be Rs. 17,093,747.8 thousand.

Figure 4.10

Loan & Advances Trend of NABIL Bank Ltd.



4.10.3 Least Square of Linear Trend of Investment

Table 4.31

Least Square of Linear Trend of Investment

Rs. In Thousand

Fiscal Year X	Investment Y	x = X - 2061	x^2	xy
2059	6,031,176	-2	4	-12062352
2060	5,835,948	-1	1	-5835948
2061	4,267,233	0	0	0
2062	6,178,533	1	1	6178533
2063	8,945,310	2	4	17890620
Sum	**31,258,200**	**0**	**10**	**6,170,853**

Since x = 0,

$$a = \frac{\sum y}{5}$$

$$= \frac{31,258,200}{5}$$

$$= \text{Rs. } 6,251,640$$

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

$$= \frac{6,170,853}{10}$$

$$= 617,085.3$$

Substituting these values in the following formula,

$$Y = a + bx$$

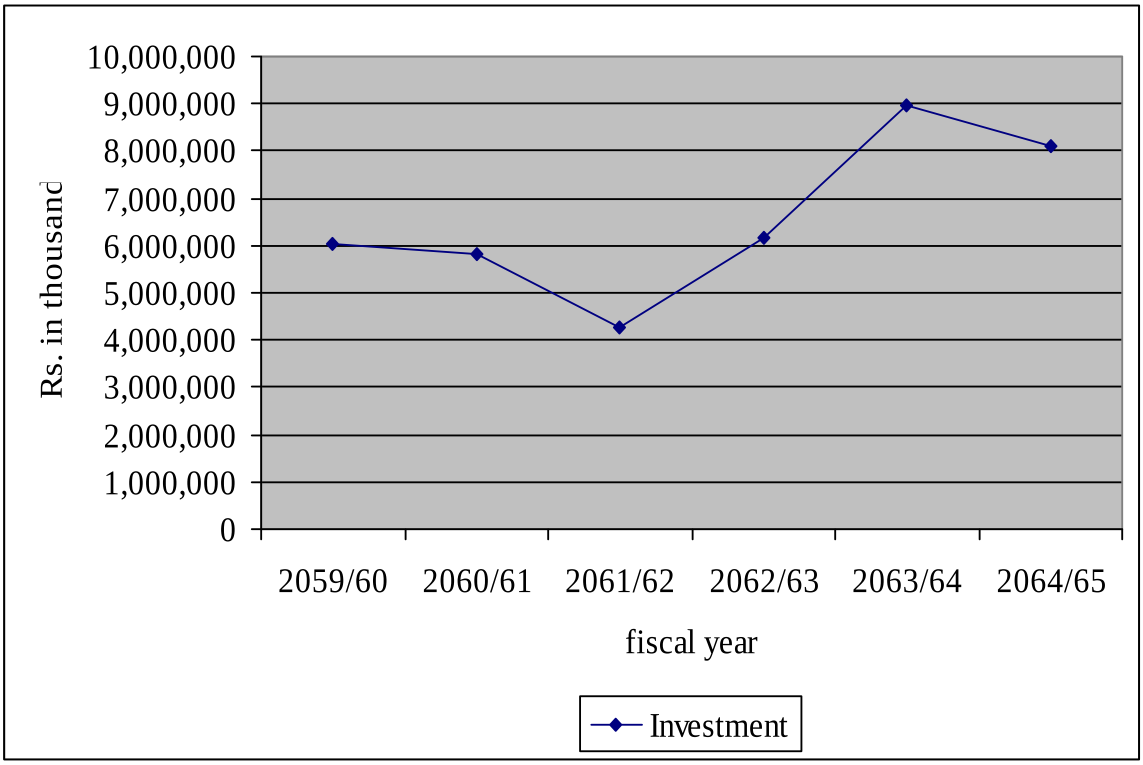
$$= 6,251,640 + 617,085.3 \text{ X } 3$$

$$= \text{Rs. } 8,102,895.9$$

Hence, estimated Investment of NABIL for the year 2064 would be Rs. 8,102,895.9 thousand.

Figure 4.11

Investment Trend of NABIL Bank Ltd.



4.10.4 Least Square of Linear Trend of Net Profit

Table 4.32

Least Square of Linear Trend of Net Profit

Rs. In Thousand

Fiscal Year X	Net Profit Y	x = X - 2061	x^2	xy
2059	416,236	-2	4	-832472
2060	455,311	-1	1	-455311
2061	518,636	0	0	0
2062	635,262	1	1	635262
2063	673,960	2	4	1347920
Sum	**2,699,405**	**0**	**10**	**695,399**

Since x = 0,

$$a = \frac{\sum y}{5}$$

$$= \frac{2,699,405}{5}$$

= Rs. 539,881

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

$$= \frac{695,399}{10}$$

= 69,539.9

Substituting these values in the following formula,

Y = a + bx

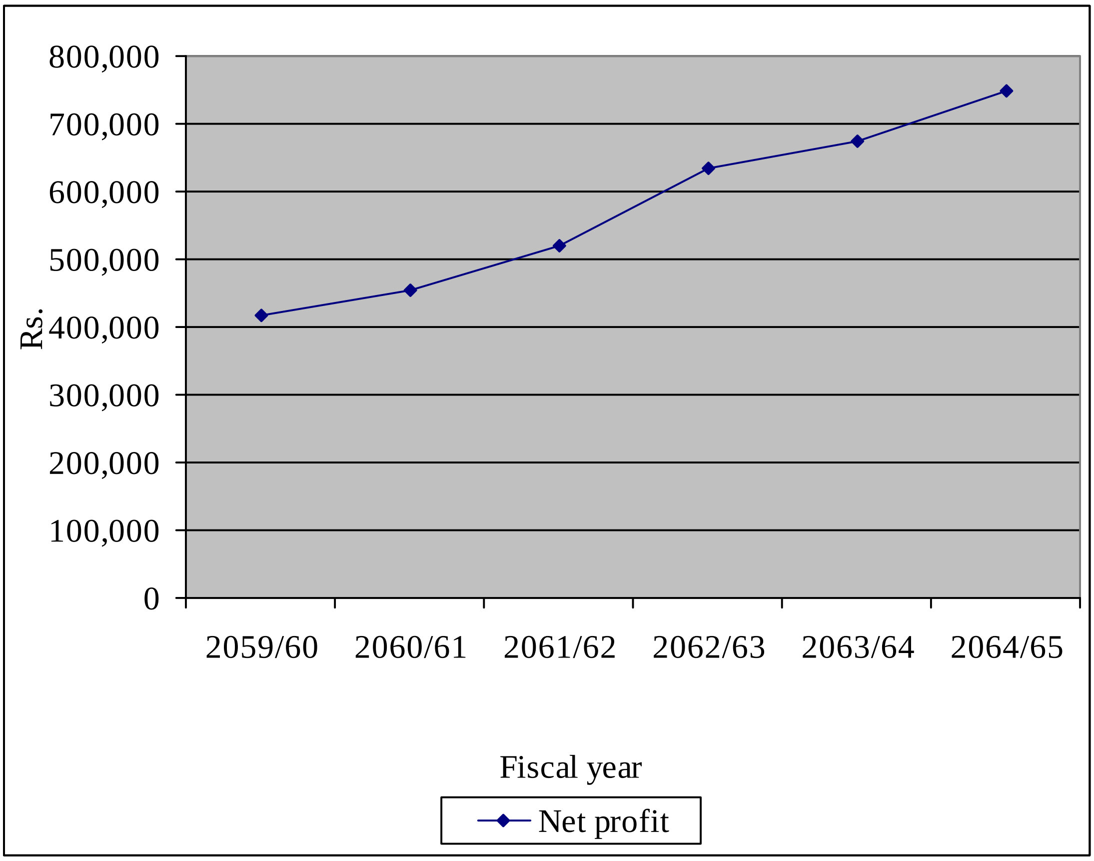
= 539,881 + 69,539.9 X 3

= Rs. 748,500.7

Hence, estimated Net Profit of NABIL for the year 2064 would be Rs. 748,500.7 thousand.

Figure 4.12

Net Profit Trend of NABIL Bank Ltd.



4.10 Findings of the Study

The following findings have been derived from the analysis and interpretation of the data, during the study period.

Findings From the Ratio Analysis

Ratio Analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The following are the findings from the ratio analysis;

- NABIL Bank Ltd. has highest current ratio current ratio of 1.15 in 2059/60 and the lowest current of 1.08 in 061/62 with an average current ratio of 1.10 during the study period. The current ratio analysis of the bank over the five year period indicates that the bank has been able to meet its short-term obligations and is in sound liquidity position.

- The cash and bank balance to total deposit ratio of NABIL Bank Ltd. differs from maximum of 8.51% in the year 2059/60 to the minimum of 3.26% in the year 2062/63 with an average of 5.54% during the study period. The analysis specifies that the bank is volatile to maintain cash reserve ratio as per NRB directives. The analysis indicates the decreasing trend of the ratios.

- NRB balance to current and saving deposit ratios of NABIL were 10.80%, 6.99%, 3.97%, 2.73%, and 8.20% with mean ratio of 6.38%. Commercial Banks are required to hold certain proportion of current and saving deposits in NRB’s account. It is to ensure the smooth functioning and sound liquidity position of the Bank. But in an average, NABIL Bank is failed to maintain minimum deposit liabilities of 8% as cash reserve with Nepal Rastra Bank.

- The bank has the highest ratio of 13.85 in 2059/60 and the lowest ratio of 5.40 percentages in the fiscal year 062/63 with an average ratio of 9.04 during the study period. In general terms, the bank has been able to meet its short-term obligations. The above analysis indicates that the bank is in sound liquidity position. High ratio of NABIL indicates sound liquidity position of the bank but too high ratio is not good as it reveals the under utilization of fund.

- Fixed deposit is the high interest bearing deposit which can be withdrawn only after its maturity. The above table shows that the fixed deposit to total deposit ratio of the NABIL Bank differ from maximum of 23.28 %in the year 2063/64 to the minimum of 14.25% in the year 2061/62 with an average of 18.30% during the study period of five years. The analysis indicates that the portion of fixed deposit in the total deposit is in fluctuating trend.

- Investment to total deposit ratios of NABIL remained 44.85, 41.33, 29.25, 31.93 and 38.32 in the respective years with the average of 36.84 in the study period. NABIL seems successful to utilize the depositor's fund in investment. The higher average shows that NABIL is successful in managerial efficiency regarding the utilization of deposits.

- Loan and advances to total deposit ratio measures the extent to which the bank is successful to utilize the outsiders fund (Total Deposit). Loans and advances to total deposits of the NABIL Bank fluctuates from maximum of 72.57 percentage in the fiscal year 2061/62 to the minimum of 58.01 percentage in the year 2060/61 with an average of 64.82 percentage. The analysis shows that the bank is mobilizing its total deposits in loan and advances adequately and it has efficiently utilized its total deposits for loan and advances. Higher ratio reveals that it is efficient to utilize the financial resources in productive sectors.

- The ratios of NABIL were 46.83%, 48.91%, 61.60%, 57.87%, and 57.04% with an average of 54.96% in the respective years of study period. The higher average ratio indicates that NABIL is efficient in utilization of total assets in profitable sector. It can be determined that ratios of NABIL fluctuate to a greater extent in the study period.

- Total income generating assets to total assets ratio was higher in NABIL which indicates the sound profitability position i.e. the utilization of assets returnable sector. Ratios of NABIL were 87.29%, 89.25%, 91.48%, 93.31% and 91.93%, in the respective years of study period with the mean of 90.94%.

- Net worth or Shareholders Equity Ratios refers to the owner's claim on the assets of the bank. Net worth to total assets ratio of NABIL remained

7.93%, 8.85%, 9.65%, 8.40%, and 7.55% in the respective years of study period with the average of 8.38%. The greater ratio indicates that NABIL has greater contribution to investors fund and strong capital adequacy position. This ratio measures the percentage of shareholder fund in relation total assets owned by banks. High ratio shows greater contribution of investors' fund and strong capital position.

- Net Worth to Total Deposits ratio Nabil Bank fluctuating from maximum of 11.36 percentage in the fiscal year 2061/62 to the minimum of 8.81 percentage in the year 2063/64 with an average of 9.88 percentage. According to the NRB directives to the capital adequacy ratio 11 percent NABIL fails to be maintained the ratio as prescribed by the Central Bank except in the fiscal year 2060/61.

- Debt to equity ratio indicates the relationship between the long-term funds provided by creditors and those provided by the firm's owners. Debt to equity ratio of NABIL bank differ from maximum of 12.25 times in the year 2063/64 to the minimum of 9.37 times in the year 2061/62 with an average of 10.93 times during the study period. The analysis indicates that the bank has the high debt ratio, which indicates that the creditors have invested more in the bank than the owners.

- Total debt to Total Assets ratio exhibits the relationship between creditor's funds and owners' capital. This ratio shows the proportion of outsider's fund used in financing total assets. The Debt to Total Assets of the NABIL Bank differs from maximum of 92.45% in the year 2063/64 to the minimum of 90.35% in the year 2061/62 with an average of 91.62% during the study period. This analysis indicates that the bank has the high debt equity ratio, which means creditors have invested more in the bank than the owners. So this shows role of creditors in the bank is higher than the owners in investing sector of Bank.

- The interest coverage ratios of NABIL Bank remained 2.94, 3.32, 4.11, 3.51 and 2.78 respectively during the study period. The ratio differs from maximum of 4.11 times in the year 2061/62 to the minimum of 2.78 times in the year 2063/64 with an average of 3.23 times during the study period. This analysis indicates that the bank has sufficient operation of debt and can pay interest easily.

- The Return on Total Assets or Net profit to Total Assets ratio is a useful measurement of the profitability of all financial resources invested in the assets. The analysis reveals the Return on Total Assets of the NABIL Bank differ from maximum of 3.02% in the year 2061/62 to the minimum of 2.47% in the year 2063/64 with an average of 2.70% during the study period of five years from 2059/60 to 2063/64. This analysis indicates that the net profit earned in comparison to the total assets is in fluctuating trend which means the ratio is decreasing and increasing trend during the study period.

- The Net profit to Net Worth or the Return on Equity (ROE) measures the income on the owner's investment. This ratio indicates how well the bank has used the resources of the owners. The return on equity of the Bank varies from maximum of 33.88% in the year 2062/63 to the minimum of 30.73% in the year 2060/61 with an average of 32.19% during the study period of five years from 2059/60 to 2063/64. This analysis indicates that the net profit earned in comparison to the total Equity is in fluctuating trend which means the ratio is decreasing and increasing trend during the study period. NABIL Bank is earning reasonable profit by utilizing its funds of total equity.

- Interest earning is the major source of income of a commercial bank. Interest earned to total assets ratio reflects the proportion of interest earned by the bank from total deposit. The interest earned to Total Assets of the bank varies from maximum of 6.22% in the year 2061/62 to the minimum of 5.83% in the year 2063/64 with an average of 5.98% during the study period of five years. The analysis indicates that the interest earned in comparison to total assets is in fluctuating trend during the study period.

- The interest expenses to interest expenses ratio of the NABIL bank varies from maximum 35% in the fiscal year 2063/64 to the minimum of 22.79% in the year 2061/62 with an average of 29.35% during the study period. The analysis indicates that the interest expense in comparison to interest income is fluctuating during the study period. The higher ratio shows unfavorable profitability situation of the bank.

- Net profit to total deposits ratio indicates the percentage of profit earned by using the total deposit. The net profit to total deposit of the NABIL Bank varies from maximum of 3.56% in the year 2061/62 to the minimum of 2.89% in the fiscal year 2063/64 with an average of 3.18% during the study period. The analysis indicates that the net profit earned in comparison with the total deposits are in increasing trend during the fiscal year 2061/62 but are in decreasing trend after fiscal year 2061/62. In general, the average return ratio shows that NABIL is successful to earn constant profit over the study period.

- The EPS represents the amount earned on behalf of each outstanding share of common stock. The EPS of the NABIL Bank varies from maximum of 137.07 per share in the year 2063/64 from 84.65 per share in the year 2059/60 with an average of 109.80 per share. The above analysis indicates that the EPS of NABIL Bank Ltd. is good in overall years.

- Dividend per share is calculated to know proportion of the earnings distributed to the shareholder per share. The DPS of the NABIL Bank varies from maximum of Rs. 103.60 per share in the year 2063/64 from Rs. 50 per share in the year 2059/60 with an average of Rs. 75.41 per share. The above analysis indicates that the DPS of NABIL Bank Ltd. is good in overall years.

- The analysis shows the Tax per share paid to the government by common shareholders is in fluctuating trend during the study period of five fiscal years. Tax per Share of the NABIL Bank varies from maximum of Rs. 70.00 per share in the year 2059/60 from Rs. 41.03 per share in the year 2060/61 with an average of Rs. 55.41 per share. The average TPS in NABIL appeared sharply high which shows that it succeeded to contribute more in the government revenue.

Findings from Income & Expenditure Analysis

- Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating result during the period specified. The interest earning is the main source of income of the bank. The average of 73.25 % of the total operating income is covered by the interest earned. The high rate of income from the interest received indicates the better operation efficiency of the bank. The second main income source is from foreign exchange income earnings. The average of 10.89% of the total operating income comes from the exchange earnings. The incomes from commission earnings represent the third highest income source of the bank. The average earnings from commission and discount is 8.71% of the total operating income. The income from other sources constitutes an average of 3.59 % of the total operating income of the bank. This concludes that bank is providing efficient and effective services to its clients.

- The expenditure head of the bank are interest expenses, personnel expense and other expenses. The interest expense is the main major source of expense of the bank. The interest expense is 42 % of the total operating expenditure on an average. The high rate of expenditure in interest indicates that the bank has collected more deposits. The second main expenditure heading of the bank is staff expenses. The office personnel expense constitutes 26% of the total Operating Expenses. The third important heading of the operating expenditure is office operating expneses. The office operating expenses remains 21.9% in an average during the study period. Bonus facility remains 10.1 % in an average during the study period.

Findings from Correlation Analysis

- Correlation coefficient came higher than six times than the probable error 0.82 > 6 X 0.097. It shows high degree of positive correlation. According to the above calculation, it is cleared that there is a significant correlation between deposit and investment in NABIL. NABIL is successful to raise the volume of investment with rise in the volume of total deposit.

- The value of r (0.9672) shows the high degree of positive correlation between total deposit and loan and advances. Therefore we can say that the change in total deposit highly effects loan and advances policy of NABIL bank Ltd.

- On the basis of calculation of correlation coefficient of loan and advances, the value of r (0.983) shows the high degree of positive correlation between Loan and Advances and Net Profit. Therefore we can say that the change in Loan Advances highly affects Net Profit Earned by NABIL bank Ltd.

- Trend analysis of Total Deposits, Loan & Advances, Investment and Net Profit gives the conclusion that total deposit, loan and advances and net profit were in increasing trend but trend of investment is in fluctuating trend.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF THE STUDY

In this chapter, summary of this thesis study is presented. The present study is a conclusion oriented study of financial analysis of NABIL Bank Ltd. The study had been undertaken to examine and evaluate the performance of NABIL Bank. The researcher had used the financial tools to make this study more effective and informative. This study has covered five years data from 2059/60 to 2063/64 of NABIL Bank Ltd. In this section, the researcher has tried to summarize the financial analysis of Nabil bank.

The bank has been able to maintain its position in the country as one of the leading joint venture commercial banks in the country. Moreover, competition in the financial sector is getting tougher day by day. Our own domestic unrest and threats have also suffered a seta setback due to these and many other reasons. However, in line with the current market trend, the bank is making all possible efforts to consolidate its business portfolio and cut down the cost in all operating areas to the extent possible, to maintain the profitability.

The principal activities of the bank in the past seven years continued to be consumer and corporate banking, trade and finance, credit card services and foreign exchange counters. The bank has successfully installed Automated Teller Machines (ATM). The number of different cards issued by the bank and the bank now has the critical mass in its account base. The bank continues to strive in order to maintain its position in the country as the market leader in the credit card arena. There are ongoing efforts and commitments in enhancing its products and services both, the issuance and acquiring business.

A very high debt to net worth ratio is unfavorable because debts are considered to be more risky than equity funds in the sense that the bank has a compulsory legal obligation to pay interest to the debt holders irrespective of the profit made or losses incurred. Therefore appropriate mix of debt and owners' fund is desired by the bank.

5.2 CONCLUSION

The major conclusion of the study is as follows:

- When current assets are comparing with current liabilities, it revels those current assets are sufficient to cover the current liabilities. The practice of holding large size of current assets is an expensive affair. On the other hand, too little liquidity may lead to serve cash problems, which can result in inability to pay short term obligations in time. The highest and the lowest ratio were observed to be 1.15 and 1.08 times in the fiscal year 2061/62 and 2059/60 respectively. The average ratio was observed to be 1.10 times during the study period.

- Similarly, cash and bank balance to total deposit ratio has also fluctuating trend. At the beginning of the fiscal year 2059/60, the ratio is 8.51 % where at the end of fiscal year 2063/64, the ratio is 6.00 %, the ratio decrease with 2.51 %. The highest ratio among five fiscal year is 8.51 percent in 2059/60. The average ratio of cash and bank balance to total deposit is 5.54 percent. Cash and bank balance has not been maintained according to total deposit.

- Fixed deposit to total deposit ratio is not favorable for the liquidity position of Nabil Bank. The lowest ratio is 14.25 percentage in 2061/62 and highest ratio 23.28 percentage in 2063/64 with an average of 18.30 percent within the study period.

- Investment to total deposit range from 44.85 to 29.25 percentages. The lowest ratio is in the fiscal year 2061/62 and highest ratio is in the fiscal year 2059/60. The average ratio has been observed 36.84 during the study period. Investment to total deposit ratio is in fluctuating trend.

- Loan and advances to total deposit ratio is in increasing trend. The average ratio of loan and advances to total deposit is 64.82 percent. It has increase a lot in fiscal year 2061/62 (72.57 percent) compare with 2059/60 (57.68 percent) which means it can diversified all the funds in different sector as loan and advances.

- Loan and advance to total assets range from 46.83 to 61.60 percent. The lowest ratio ranges in the fiscal year 2059/60 and the highest ratio is in the fiscal year 2061/62. The average ratio was observed to be 54.96 percent. Loan and advances to total assets is in increasing trend. More than 50 percent of a total asset has been lend to customers as loan and advances.

- Total liabilities to equity ratio are in fluctuating trend, which is not satisfactory. The average ratio is observed to be 10.93 percent which is below than fiscal year 2063/64 and 2059/60 (12.25, 11.60).

- Every fiscal year, Nabil Bank has increased the debt, which is not good sign for the bank. Because higher debt ratio indicates higher financial risk as well as increasing claims of outsiders in total assets and vice versa. The average of the ratio is 91.62 percent. The highest and lowest range is 92.45 and 90.35 percent in 2063/64 and 2061/62 respectively.

- Interest charge is properly covered which means it's according to margin or more than margin. Interest coverage ratio is in fluctuating trend every year. The ratio covers 2.78 percent in 2063/64 and 4.11 in 2061/62. The average of interest coverage ratio is 3.23 percent.

- The return on total assets of Nabil Bank shows good trend. The average ratio of ROE is 2.29 percent. The highest ratio occurred in 2061/62 with 3.02 percent and lowest fall in 2063/64 with 2.47 percent.

- The earning per share ratio of Nabil bank is satisfactory. It is in increasing trend with good percent every year. The low ratio is Rs. 84.65 percent in 2059/60 and high is Rs. 137.07 in 2063/64. Due to the high difference between the lowest and highest ratios of the period, the table shows an average of Rs. 109.80 EPS. So it can be concluded that on the basis of EPS ratio the profitability of the bank has been increasing.

In conclusion, financial condition of Nabil Bank is good enough which means it has good command in the market. Overall, the financial position of Nabil Bank is able to provide the general public and firm their amounts that have deposited their amount for security with full confidence of receiving back on demand.

5.3 RECOMMENDATION

In period of operation of 20 years, it has been successful to form a network of 28 branches up to fiscal year 2064/65 the bank is further planning to expand its network in the current fiscal year too. Effective and comparative banking activities have not been reached to different corners of country. In such a situation the banks network expansion plan is worth appreciation. This JVB has already established itself as a leading private bank in the country and the financial indicators shows that banks performance in the past is more than satisfactory and the future of Nabil Bank is positive and financially secured. The following further recommendations are made from the study made about the bank in this chapter.

- The fluctuation of ratio must be stabilized after proper diagnosis of the quality. Nabil Bank should focus in investing short-term marketable securities which yield more return than merely maintaining cash and bank balance.

- The decreasing ratio of investment to total deposit indicates that Nabil Bank has not been able to mobilize its available funds properly therefore, it is suggested to mobilize the funds properly in productive and profitable sectors.

- The bank should keep up the act of wealth maximization of the shareholders as they are true owners of the bank. The bank should always abide the directives given by NRB.

- The bank is advised to introduce new product lines and services to further attract the customers. It should keep in mind that it is competing with 25 other banks and more than 50 finance companies and other competitors, so the management should be alert to either comprehend customer philosophy or to manipulate them through introduction of new, efficient and convenient services.

- The bank should never forget that customer is a king of the market so its objectives should be to conduct more training, seminars, workshops and managerial development schemes to help the local bank compete with the foreign bank.

- Being the part of the society, it has a great responsibility in the social development, therefore it is recommended to Nabil Bank to participate in social events such as in education, health program, environment protection etc, so that more customers are attracted towards it.

- All imperfect practices inherent from the past mistakes should be avoided to re-orient the bank to new discuss of change and other further improvement.

Appendix i

Calculation of Current Ratio

Average of Current Assets $= \dfrac{\text{Sum of Current assets}}{\text{No. of Years}}$

$= \dfrac{9,86,00,654}{5}$

= Rs. 19,720,130

Average of Current Liabilities = $\dfrac{\text{Sum of Current Liabilities}}{\text{No. of Years}}$

$= \dfrac{89,428,294}{5}$

= Rs. 17,885,658

Average ratio of Current Ratio = $\dfrac{\text{Average of Current Assets}}{\text{Average of Current Liabilities}}$

$= \dfrac{19,720,130}{17,885,658}$

= 1.10 times

Average of Cash & Balance $= \dfrac{\text{Sum of Cash \& Bank Balance}}{\text{No. of Years}}$

$= \dfrac{4,704,697}{5}$

= 940939

Average of Total Deposit $= \dfrac{\text{Sum of Total Deposit}}{\text{No. of Years}}$

$= \dfrac{84,845,986}{5}$

= 16,969,197

Average ratio of CBBTDR = $\dfrac{\text{Average of Cash \& Bank Balance}}{\text{Average of Total Deposits}}$

$= \dfrac{940,939}{16,969,197}$

= 5.54 times

Average of NRB Balance $= \dfrac{\text{Sum of NRB Balance}}{\text{No. of Years}}$

$= \dfrac{3,320,920}{5}$

$= 664,184$

Average of Current & Saving Deposit $= \dfrac{\text{Sum of Current \& Saving Deposit}}{\text{No. of Years}}$

$= \text{Rs. } \dfrac{52,036,275}{5}$

= Rs. 10,407,255

Average Ratio of NRBBCSDR $= \dfrac{\text{Average of NRB Balance}}{\text{Average of current \& Saving Deposit}} \text{ X } 100$

$= \dfrac{664,184}{10,407,255} \text{ X } 100$

= 6.38 %

Average Ratio of NRBBCSDR $= \dfrac{\text{Average of Cash \& Bank Balance}}{\text{Average of Current \& Saving Deposit}} \text{ X } 100$

$= \dfrac{940939}{10,407,255} \text{ X } 100$

= 9.04 %

Average of Fixed Deposit $= \dfrac{\text{Sum of Fixed Deposit}}{\text{No. of Years}}$

$= \text{Rs. } \dfrac{15,525,935}{5}$

= Rs. 3,105,187

Average Ratio of FDTDR $= \dfrac{\text{Average of Fixed Deposit}}{\text{Average of Total Deposit}} \text{ X } 100$

$= \dfrac{3105187}{16969197} \text{ X } 100$

= 17.69 %

Appendix ii

Calculation of Activity Ratio

Average of Investment $= \dfrac{\text{Sum of Investment}}{\text{No. of Years}}$

$= \text{Rs. } \dfrac{31,258,200}{5}$

= Rs. 6,251,640

Average Ratio of ITDR $= \dfrac{\text{Average of Total Investmeat}}{\text{Average of Total Deposits}} \text{ X } 100$

$= \dfrac{6251640}{16969197} \text{ X } 100$

=36.84 %

Average of Loan & Advances $= \dfrac{\text{Sum of Loan \& Advances}}{\text{No. of Years}}$

$= \text{Rs. } \dfrac{55,000,436}{5}$

= Rs. 11,000,087

Average Ratio of LATDR $= \dfrac{\text{Average of Loan \& Advances}}{\text{Average of Total Deposits}} \text{ X } 100$

$= \dfrac{11000087}{16969197} \text{ X } 100$

=64.82 %

Average Ratio of LATAR $= \dfrac{\text{Average of Loan \& Advances}}{\text{Average of Total Assets}} \text{ X } 100$

$= \dfrac{11000087}{20015561} \text{ X } 100$

=54.96 %

Average of Total Assets $= \dfrac{\text{Sum of Total Assets}}{\text{No. of Years}}$

$= \text{Rs. } \dfrac{100,077,80\ \ 6}{5}$

= Rs. 20,015,561

Average of Total Income Generating Assets $= \frac{\text{Sum of TIGA}}{\text{No. of Years}}$

$= \text{Rs. } \frac{91{,}014{,}418}{5}$

= Rs. 18,202,884

Average Ratio of TIGATAR $= \frac{\text{Average of Total Income Generating Assets}}{\text{Average of Total Assets}}$ X 100

$= \frac{18202884}{20015561}$ X 100

=90.94 %

Appendix iii

Capital Adequacy Ratio

Average of Net Worth $= \frac{\text{Sum of Net Worth}}{\text{No. of Years}}$

$= \text{Rs. } \frac{8,385,550}{5}$

$= \text{Rs.}1,677,110$

Average of Total Debt $= \frac{\text{Sum of Total Debt}}{\text{No. of Years}}$

$= \text{Rs. } \frac{91,692,253}{5}$

$= \text{Rs. } 18,338,451$

Average Ratio of NWTAR $= \frac{\text{Average of Networth}}{\text{Average of Total Assets}} \text{ X } 100$

$= \frac{1677110}{20015561} \text{ X } 100$

$= 8.38\ \%$

Average Ratio of NWTDR $= \frac{\text{Average of Networth}}{\text{Average of Total Deposits}} \text{ X } 100$

$= \frac{1677110}{16969197} \text{ X } 100$

$= 9.88\ \%$

Appendix iv

Capital Structure Ratio

Average of Share Holders' Equity = $\frac{\text{Sum of Shareholders' Equity}}{\text{No. of Years}}$

$= \text{Rs. } \frac{8,385,550}{5}$

= Rs. 1,677,110

Average Ratio of NWTAR $= \frac{\text{Average of Networth}}{\text{Average of Total Assets}} \text{ X } 100$

$= \frac{1677110}{20015561} \text{ X } 100$

= 8.38 %

Average Ratio of DER $= \frac{\text{Average of Total Debt}}{\text{Average of Total Equity}}$

$= \frac{18338451}{1677110}$

= 10.93 times

Average Ratio of DER $= \frac{\text{Average of Total Debt}}{\text{Average of Total Assets}} \text{ X } 100$

$= \frac{18338451}{20015561} \text{ X } 100$

= 91.62 Percentage

Average of EBIT $= \frac{\text{Sum of EBIT}}{\text{No. of Years}}$

$= \text{Rs. } \frac{5,673,442}{5}$

= Rs. 1,134,688

Average of Interest Expenses $= \frac{\text{Sum of Interest Expenses}}{\text{No. of Years}}$

$= \text{Rs. } \frac{1,756,712}{5}$

= Rs. 351,342

Average Ratio of ICR $= \dfrac{\text{Average of EBIT}}{\text{Average of Interest Expenses}}$

$= \dfrac{1134688}{351342}$

$=$ 3.23 times

Appendix v

Calculation of Profitability Ratio

Average of Net Profit $= \dfrac{\text{Sum of Net profit}}{\text{No. of Years}}$

$=$ Rs. $\dfrac{2{,}699{,}405}{5}$

$=$ Rs. 539,881

Average Ratio of ROA $= \dfrac{\text{Average of Net Profit}}{\text{Average of Total Assets}} \times 100$

$= \dfrac{539881}{20015561} \times 100$

$=$ 2.70 %

Average of Interest Earned $= \dfrac{\text{Sum of Interest Earned}}{\text{No. of Years}}$

$=$ Rs. $\dfrac{5{,}985{,}994}{5}$

$=$ Rs 1,197,199

Average Ratio of ROE $= \dfrac{\text{Average of Net Profit}}{\text{Average of Total Equity}} \times 100$

$= \dfrac{539881}{1677110} \times 100$

$=$ 32.19 %

Average Ratio of IETAR $= \dfrac{\text{Average of Interest Earned}}{\text{Average of Total Assets}} \times 100$

$= \dfrac{1197199}{20015561} \times 100$

$=$ 5.98 %

Average Ratio of TIETIIR $= \dfrac{\text{Average of Interest Expense}}{\text{Average of Interest Earned}} \times 100$

$= \dfrac{351342}{1197199} \times 100$

= 29.35 %

Average Ratio of RTDR $= \dfrac{\text{Average of NPAT}}{\text{Average of Total Deposit}} \times 100$

$= \dfrac{539881}{16969197} \times 100$

= 3.18 %

Appendix vi

Calculation of Invisibility Ratio

Average of EPS $= \left(\dfrac{\text{Sum of EPS}}{\text{No. of Years}}\right) / \text{No. of Common Stock}$

$= \text{Rs. } \dfrac{2699401}{5} / (4917)$

= Rs. 109.80

Average of Dividend Paid $= \dfrac{\text{Sum of Earning Paid to the shareholders}}{\text{No. of Years}}$

$= \text{Rs. } \dfrac{1,854,062}{5}$

= Rs 370,812

Average of DPS $= \dfrac{\text{Sum of DPS}}{\text{No. Common Stock}}$

$= \text{Rs. } \dfrac{370812}{4917}$

= Rs 75.41

Average of Tax paid to the govt. $= \dfrac{\text{Sum of Tax paid}}{\text{No. of Years}}$

$= \text{Rs. } \dfrac{1362160}{5}$

= Rs 272,432

Average of TPS $= \dfrac{\text{Average of Tax Paid}}{\text{No. of Common Stock}}$

$= \text{Rs. } \dfrac{272432}{4917}$

= Rs 55.41

Average of DPR $= \frac{\text{Average of DPS}}{\text{EPS}} \text{ X } 100$

$= \text{Rs. } \frac{75.41}{109.80} \text{ X } 100$

$= 68.69\ \%$

Appendix vii

(Rs. In ’000)

Capital and Liabilities	2002-03	2003-04	2004-05	2005-06	2006-07
Capital	491,654	491,654	491,654	491,654	491,654
Reserves and Surplus	822,532	990,028	1,165,984	1,383,341	1,565,396
Deposit	13,447,661	14,119,033	14,586,609	19,347,399	23,342,285
Borrowing	961,461	229,660	17,062	173,202	882,573
Bills Payable	108,944	173,499	119,753	112,608	83,515
Other Liabilities	730,373	741,612	805,268	821,767	887,970
Total Liabilities	**16,562,625**	**16,745,486**	**17,186,330**	**22,329,971**	**27,253,393**
Assets					
Cash Balance	187,777	286,886	146,353	237,819	270,406
Bank Balance	956,991	683,600	413,028	392,420	1,129,419
Money At call	670,204	918,733	868,428	1,734,901	563,533
Investment	6,031,176	5,835,948	4,267,233	6,178,533	8,945,311
Loan and Advances	7,755,950	8,189,993	10,586,170	12,922,544	15,545,779
Fixed Assets	251,915	338,126	361,235	319,086	286,895
Other Assets	708,612	492,200	543,883	544,668	512,050
Total Assets	**16,562,625**	**16,745,486**	**17,186,330**	**22,329,971**	**27,253,393**
Expenses					
Interest Expenses	317,348	282,948	243,544	357,161	555,710
Staff Expenses	210,583	180,840	199,516	219,781	240,161
Office Expenses	166,200	150,759	190,299	182,696	188,183
Bad debts written off	51,574	81,821	31,133	0	0
Loan loss Provision	0	1,052	4,207	3770	14206
Prov. for Staff Bonus	66,364	71,941	84,198	89,800	99,505
Prov. for Income Tax	199,145	201,763	239,149	262,741	321,086
Total Expenses (A)	**1,011,214**	**971,124**	**992,046**	**1,115,949**	**1,418,851**
Income					
Interest Income	1,017,872	1,001,617	1,068,747	1,309,999	1,587,759
Commission and Discount	144,406	135,958	128,883	138,294	150,608
Exchange Income	144,075	157,324	184,879	185,484	209,926

Non-operating Income	86,946	92,781	72,241	34,537	56943
Other Income	34,151	38,755	55,934	82,898	87,575
Total Income (B)	**1,427,450**	**1,426,435**	**1,510,684**	**1,751,212**	**2,092,811**
Net Profit/(Loss) (B-A)	**416,236**	**455,311**	**518,638**	**635,263**	**673,960**

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