CHAPTER I

INTRODUCTION

1.1 General Background

"Finance is the life blood of the economy" as like as "bank is the back bone of the mobilization of fund". Bank is a resource mobilizing institution which accepts deposit from various sources and invest such accumulated resources in the fields of agriculture, trade, commerce, industry, tourism etc. Nepal is under developed and land lock country. Where the economic condition of people is unbalanced, there is always lack of finance. In this condition K.K. Dewelt says, "There is always lack of finance in undeveloped economy because natural resources are either under utilized or unutilized in productive sectors or even other purposes i.e. social welfare and so on likewise, underdeveloped countries are not deficient in land water mineral forest or power resources, though they may be untapped constituting only potential resources" (Dewelt, 1988).

In under developed country most people are illiterate. Illiterate people cannot move their mind with the situation of time and unknown of productive source to develop own economic condition. So, many productive resources like land, water, minerals forest going to untapped. Banking sector is that sector that collect unused fund by giving interest and invest such fund productive field. So, we can say bank is such sector which holds all economic progressive of whole economy. Banks help to improve personal economic condition, institutional economic condition and other. Nowadays banks are starting to use the banks fund easily. They (banks) provide house loan, vehicle loan, education loan, business loan etc with reasonable interest rate. So we can hearty say that where the bank is available, anyone should not loss their aim to improve own desire. Nowadays all banks are competent each other. So, all banks provide new technology to customers' service like: Electronic visa, debit card, ATM, mobile banking .There is many banks with different purposes. There are 25 commercial bank, 59 development banks, 12 regional rural micro finance development bank, 78 finance companies, 46 non- government organizations (limited banking activities) and 19 saving and credit co-operatives societies **(**according to listed companies of NRB). All banks are not success. In comparison, joint venture commercial banks are more success to achieve their aim than other banks. There are 7 joint venture banks.

Commercial bank is such bank who deposits spread unused fund and invest that fund with commercial view. “The commercial bank has its own role and contribution in the economic development. It is a source for economic development; it maintains economic confidence of various segments and extends credit to people” (Grywinshki, 1991). On the overview of commercial bank every one commenced different meaning of commercial bank. In the process of clarify the meaning of commercial bank.’ Commercial bank act 2031 B.S. says, “A commercial bank is one which exchange money deposits money accepts deposits grants loan and performs commercial banking functions and which is not a bank mean co-operative agriculture industries for a such specific purpose”(Commercial bank act,2031). Earlier banks were different from modern commercial banks in many respects. “the banks which operated in the past combined central banking functions such as issue of currency with commercial banking functions like accepting deposits and financing business”(mishra,p.262). Of course of time this practice was abandoned and specialized institutions for the central banking functions were created. Now a central bank can be easily distinguished from a commercial bank due to their objectives and unique functions.

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

Commercial bank plays vital role in the economic and financial life of the country. Commercial bank is most necessary for industrialist business man and other people who need financial support for their life. The bank gives the security of general public money. Every people and every place needs bank but unfortunately all modernize and commercial banks are concentrate only urban and semi urban sector. Rural sector is lack of any banks. Nepal is under developing country where many people live in rural area. The people of rural area have great dream at least one commercial bank but they are unable to take banking facility. There are many Commercial area of rural region is lack of bank in our country. To consider above condition, we know all banks are situated only urban area with using all facility. Any one can not establish one branch at rural area because of security problem. Now political and robber problem is most dangerous for bank. So bank can not spread all remote area. Using banking facility is human right of each people in that case anyhow government or private sectors should provide banking service to remote area. Then we can say the bank is great for customer service anywhere.

Banks are flexible for consumer financing such a way all banks were started to provide house loan, vehicle loan. Every bank have own ambition to attract more customer with providing unique service. In this process now Nepal Bangladesh banks expose. 'Grihini Bachat Khata' scheme targeting housewives. "This product is bounded with other features like medical and incident insurance free ATM card and monthly lucky draw" said Shovan Dev Pant. Chief executive Director of NB Bank, under the scheme account can be opened for Rs.1000 and annual interest rate is 4.75%. One can get medical insurance of Rs. 500000 states a press release issued here today" (Himalayan times). All commercial banks are trying to give more and more facilities so that more customers may attract with banks.

1.2 Commercial Banks in Nepal

"A commercial bank generally is a bank which accepts deposits, grant loan and executes banking activities. All commercial banks are authorized to transact various businesses which are considered main function of commercial bank. Principally, commercial bank accepts deposit and provide loans, primarily it business firm there by facilitating the transfer of funds in the economy. Ultimately commercial banks work for overall development of industries trade commerce and agriculture too. The banks, which perform all kinds of banking business, are known as commercial banks. Generally, commercial banks deal with finance, trade and commerce.

As it is commercial banks fulfill the dream of any level of people to use banking service. Followings are commercial banks in Nepal. -Which is shown in Table- 1.

Table-1

List of Licensed Commercial Banks in Nepal

S.N	COMMERCIAL BANKS	EST.DATE	OPT.DATE	HEAD OFFICE
1	Nepal Bank Ltd	30/7/1994	30/7/1994	Katmandu
2	Rastriya Banijya Bank	10/10/2022	10/10/2022	Katmandu
3	Nepal investment Bank	16/11/2041	29/3/2042	Katmandu
4	Standard Chartered Bank	16/10/2043	16/10/2043	Katmandu
5	Nepal Arab Bank	29/03/2041	29/03/2041	Katmandu
6	Himalayan Bank Ltd.	15/10/2049	15/10/2049	Katmandu
7	Nepal SBI Bank Ltd.	23/3/2050	23/3/2050	Katmandu
8	Nepal Bangladesh Bank	3/3/2050	3/2/2050	Katmandu
9	Everest Bank Ltd.	1/7/2051	1/7/2051	Katmandu
10	Bank of Katmandu Ltd.	28/11/2051	28/11/2051	Katmandu
11	Nepal Credit and Commerce Bank	28/6/2053	28/6/2053	Siddhartha Nagar
12	Lumbini Bank Ltd	1/4/2055	1/4/2055	Narayangadh
13	Nepal Industrial and Commercial Bank	5/4/2055	5/4/2055	Biratnagar
14	Kumari Bank Ltd.	24/8/2056	21/12/2057	Katmandu
15	Machapuchre Bank Ltd.	17/6/2057	17/6/2057	Pokhara
16	Laxmi Bank Ltd	11/6/2058	21/12/2058	Birgunj
17	Siddhartha Bank Ltd.	12/6/2058	9/9/2059	Katmandu
18	Global Bank	02/01/2063	02/6/2063	Birgunj, Parsa
19	Agriculture Development Bank Ltd.	16/03/2062	16/03/2062	Katmandu
20	Citizens Bank	20/4/2064	20/4/2064	Katmandu
21	Prime Commercial Bank	2/5/2064	2/5/2064	Katmandu
22	Sunrise Bank Ltd	25/06/2064	25/06/2064	Katmandu
23	Bank of Asia Nepal Ltd.	25/06/2064	25/06/2064	Katmandu
24	Development Credit Bank Ltd.	10/10/2057	10/10/2057	Katmandu
25	NMB Bank Ltd.	11/8/2053	11/8/2053	Katmandu

Source: NRB Samachar, 2065 (www.nrb.org.np)

1.2.1 Function of Commercial Banks

- The credit (loan) function
- The payments (transaction) function
- The insurance (risk management) function
- The security Banking (security underwriting) function
- The merchant banking (temporary stock in investment) function
- The thrift (saving) functions.
- The investment / financial planning functions
- The real estate and community development function
- The cash management functions.

1.3 History and Evolution of Banking Sector in Nepal

Today’s banking service is not introduced at once a time. This situation of banking sector in Nepal has own history. It has gone through the various stages of evolution and development since Vedic times (2000 to 1400 b.c.) some crude bank operations were in practice even in the incident times. In the Nepalese chronicle it was recorded that the new era known as Nepal Sambat as introduced by Shankhadhar Sakhwa, a sundar merchant of kritipur in 879 or 880 A.D. In the past Indigenous individuals, wealthy agriculturist landlords, merchants and traders conclude some banking activities along with their other business occupation .these activities were targeted and mostly localized installation of “Kaushi Tosha Khana” as a banking agency during the regime of King Prithvi Narayan shah in Nepal. But the establishment of “Tejarath Adda” around 1877 A.D. .During the prime minister ship of Ranodip Singh to provide credit facilities to public at a very low rate of interest could be regarded as a premier foundation of modern banking in Nepal. During the time of Chandra Shamsher (1901-1929) credit facilities of Tijarath were extended to some other parts of the country by opening its branches. It is believed that the so called well and well. To do persons used to take loans from private money lenders even at a higher rate of interest than those from the government institution, for they were not prepared to disclose in public anything that was likely to affect their prestige.

Tejarath add was set up to provide credit, it did not accept deposits from public so the concept of saving was non- existence in Nepal unless the establishment of Nepal Bank limited in 1937A.D. under Nepal bank Act.1936 as a first commercial bank of Nepal. This bank was inaugurated by the late King Tribhuvan Bir Bikram Shah Dev. At that time the authorized capital of Nepal bank limited (NBL) was Rs- 1 crore, divided into 1,00,000 shares of Rs. 100 each. Nepal Rastra Bank Act, 2012 B.S. as a central bank, like wise, Rastriya Banijya Bank was established in Magh 10, 2022 B.S. under full ownership of government as second commercial bank. Bank and banking activities accelerated only after adaption of liberal economic policy of financial reforms in mid 1980's .Liberal and market oriented economic policy attracted new investors, So many banks with joint venture of foreign banks were established .Nepal Arab Bank limited was established in 1984A.D(2041 B.S) as first joint venture commercial bank in Nepal . The footstep of this bank in 1986 A.D.(2043 B.S.) new renamed as Nepal investment Bank later Nepal standard chartered Bank new renamed as standard chartered bank was established in 1987 A.D. likewise nowadays other 5 joint venture banks are establish.

At present time the Nepal financial sector is growing at a fast pace. In comparison joint venture bank over lap the government commercial bank. So government bank are starting more service to public with new management teem. The Nepalese financial sector can be divided into two parts, namely banking sector non banking sector. The banking sector comprises of Nepal Rastra bank, the central bank, commercial banks, development banks, investments banks etc. where as non banking sector comprises of finance companies, co-operative institutions, non governmental organizations and postal saving banks. Since 1937 A.D. of establishment of Nepal bank limited to fill now, more than 100 financial institutes has been established but all are not success those banks are success that recognizes customer's behavior and demand of time.

1.4 Financial Efficiency

Efficiency means productive with minimum waste or effort. Financial efficiency measures profitability ratio. It is an indicator of efficiency of the business organization profitability ratio measures the managements overall efficiency as shown by the return generated from sales and investment. Higher the profitability ratio shows the efficiency of the management (Fago, Subedi and Gyawali, 2003).In the process of calculation of financial Efficiency, We must calculate profitability ratio, liquidity ratio and all ratios analysis. The institution can achieve their objectives and goals only when the management has its strategic mission, vision and objectives. In case of management of banks it can be seen that all banks have good management team backing the bank and taking it forward. In due course we can calculate to know management efficiency from management efficiency ratio.

Management efficiency ratio = Net profit after tax/total no of staff

For NIBL 2007 = $\frac{501398853}{514}$ = 975,484.15

For NABIL bank Ltd 2007 = $\frac{673959698}{427}$ = 1578359.95

From the analysis we get that management efficiency ratio of Nabil bank is more than NIBL. So NIBL should increase their MER by providing training, seminar to their employees.

1.5 Introduction of Banks under Study

1.5.1 Introduction of NABIL Bank Ltd.

NABIL Bank limited is first joint venture bank in Nepal which was in commenced its operation on 12 July 1984 as first partnership of Dubai Bank limited, Dubai (later acquired by Emirates Bank international limited, Dubai)currently NB (International limited Ireland) is the foreign partner. Nabil limited had the official name Nepal Arab Bank limited till 31St July December 2001. Hence 50% equity shares of Nabil bank ltd are held by N.B. International Limited and out of another 50% shares, 20%shares has been hold by financial institutions and remaining 30%shares were issued to general public of Nepal. Nabil is the pioneer in introducing many innovative products and marketing concept in banking sector in Nepal with 27 branches and 31 ATM counters in all major cities. It also was the first to introduce consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Tele Communications Corporation, Nepal electricity authority, Nepal Oil Corporation, Nepal television, water supply and the royal Nepalese Army. It is the only Bank having it's presence at Tribhuvan International Airport, only international airport of the country .Also, the number of out lets in the country is the highest among the joint venture and private banks operating in Nepal. The bank is major player in facilitating import export activities with modern and efficient Trade Finance and international trade support services, to large multinational as well as established business conglomerates in the private sector. Success of Nabil is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions.

Nabil is the sole banker to a multitude of international aid Agencies, Non government organization. Embassies and consulates in the kingdom, among the many ‘firsts’ to the credit of Nabil, the business of credit cards issuance and Acquiring is one. It introduce Master card to the market, In NRs and Us dollars and now also issues Visa card and is shortly to introduce Visa Electron . Nabil is the sole principal Agent Bank in Nepal of Western Union financial services and facilitates transfer of funds, through an on-line computer system, instantly to or from more than 170,000 locations in 196 countries and territories.

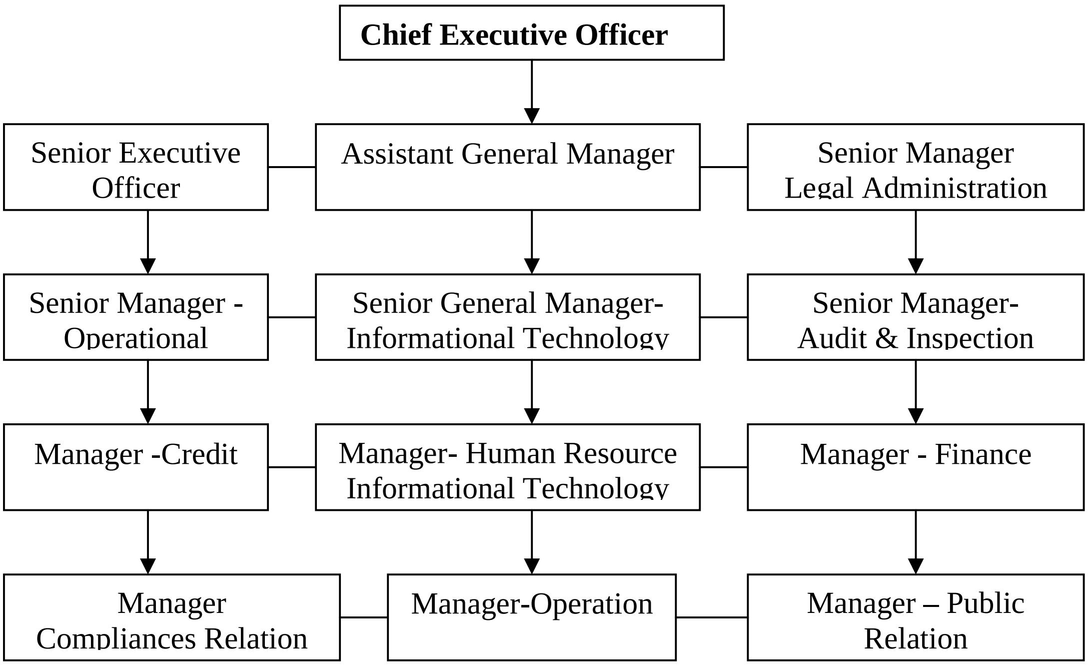
NABIL provides a full range of commercial banking services through its outlets spread across the nation and reputed correspondent banks across the globe. Moreover, Nabil has a good name in the market for its highly personalized services to the customers. It has following structure of capital.

Schedule of Capital Structure of Nabil Bank

Particular	Rs.
1.**Authorize capital** 5,000,000 ordinary shares of Rs 100 each	**500,000,000** 500,000,000
2.Issued capital 4916544 ordinary shares of Rs 100 each	**491,654,400** 491,654,400
3.Paid up capital 4,916,544 ordinary shares of Rs.100 each	**491,654,400** 491,654,400
4. Share Capital	**500,000,000**

Source: financial detail of www.nabilbank.com(2006/07)

Management Team of Nabil Bank Limited



The head office of Nabil bank is in Katmandu which was situated Nabil house Kamladi. This bank is grade ‘A’.

<u>Branch Network of NABIL Bank</u>

KATHMANDU HEAD OFFICE Kamaladi, Kathmandu		
KANTIPATH BRANCH Kantipath, Kathmandu	ITAHARI BRANCH Main Road, Itahari	BUTWAL BRANCH Main Road, Butwal
TRIPURESHWOR BRANCH UWTC, Tripureshwor, Kathmandu	DHARAN BRANCH Mahendrapath, Dharan	BHALWADI BRANCH Bhalwadi, Rupendehi
NEW ROAD BRANCH New Road, Kathmandu	BIRGUNJ BRANCH Adrash Nagar, Birgunj	BHAIRAHAWA BRANCH Narayanpath, Bhairahawa
JORPATI BRANCH Jorpati, Kathmandu	POWERHOUSE CHOWK BRANCH Shreepur, Birgunj	GHORAHI BRANCH Ghorahi, Dang
LALITPUR BRANCH Kupondole, Lalitpur	HETAUDA BRANCH BankRoad, Hetauda	TULSIPUR BRANCH Tulsipur, Dang
MAHARAJGUNJ BRANCH Maharajgunj, kathmandu	NARAYANGADH BRANCH Narayangadh, Chitwan	NEPALGUNJ BRANCH Dhamboji, Nepalgunj
BIRTAMOD BRANCH Birtamod, Jhapa	POKHARA BRANCH New Road, Pokhara	DHANGADHI BRANCH Main Road, Dhangadhi
DAMAK BRANCH Damak, Jhapa	LAKESIDE BRANCH Lakeside, Pokhara	MAHENDRANAGAR BRANCH Mahendranagar, Kanchanpur
BIRATNAGAR BRANCH Goswara Road, Biratnagar	BAGLUNG BRANCH Mahendrapath, Baglung	EXCAHNGE COUNTER Tribhuvan Int’l Airport

1.5.2 Introduction of Nepal Investment Bank (NIBL)

Nepal Investment bank Ltd. (NIBL) previously Nepal Indosuez Bank Ltd; was established in Nov, 20, 1985 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of credit Agricole Indosuez to divest a group of companies comparing of bankers, professionals industrials and businessman, has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd.Hence a group of companies holding 50% of the capital.Rastriya Banijya Bank holding 15% of the capital. Rastriya Beema sansthan holding 15% and the remaining 20% being held by the general public (which means that NIBL is a company listed on the Nepal stock Exchange).

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's annual general meeting. The head office of NIBL is situated on the Dubarmarg Katmandu. It has 23 branches besides head office and 12 ATM counters. This bank is not a joint venture bank .It is established the great aim of spread banking service all over the country by private sector. It consist the work inside the country and foreign country also with own aim .This bank have taken the authority of commercial banking activities from Nepal Rastra bank at B.S.2042, Magh 22.

NIBL has many aims or objectives some of them are as follows:

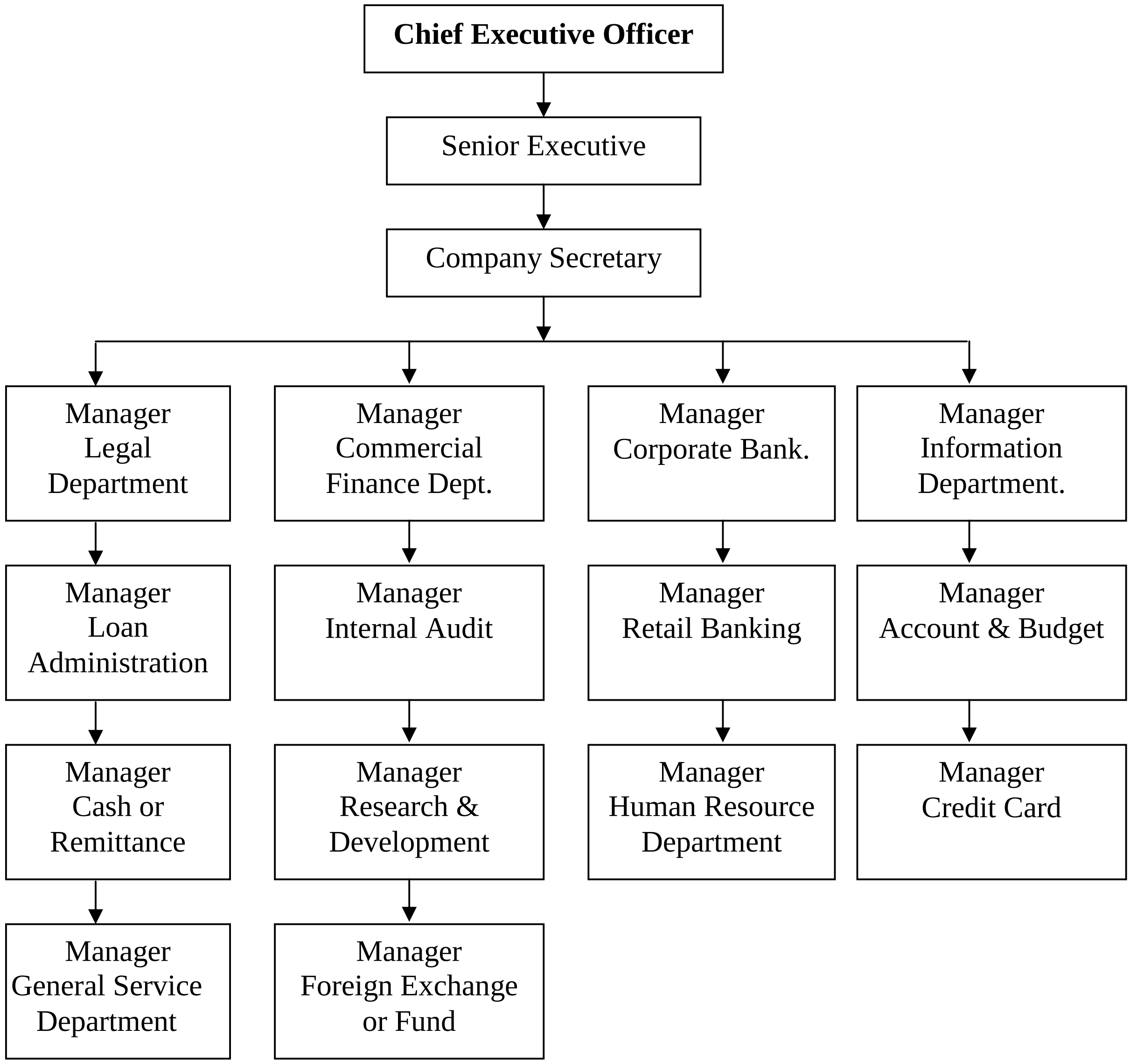
- Collect money by fixed account, saving account and moving account with interest or without interest.
- Provide loan to agriculture industries Business or any field with accepting collateral for bank.
- Help to issue share or debenture of organized firm besides managing agent.
- Purchase and sale of bond of issuing by his majesty government.
- To do other Banking Activities by direction of Nepal Rastra bank or Banijya bank act 2031(Bibaran Patra, 2006).

Schedule of Capital Structure of NIBL

Particular	Amount
1.Authorised capital 10,000,000 ordinary share @Rs. 100	**1000,000,000** 1000,000,000
2.Issued capital 5,905,860 ordinary share @Rs.100	**590,586,000** 590,586,000
3. Paid-up capital. 5,905,860 ordinary share @Rs.100	**590,586,000** 590,586,000

Source: financial details of www.nibl.com.np (2006/) 07)

Management Team of NIBL



Branch Network of NIBL

KATHMANDU HEAD OFFICE Durbar Marg, Katmandu		
SEEPADOLE BRANCH Suryabinayak, Bhaktapur	BIRGUNJ BRANCH Adarshanagar, Birgunj	PULCHOWK BRANCH Pulchowk , Lalitpuri
NEWROAD BRANCH New road, Kathmandu	BANEPA BRANCH Banepa, Kavre	JEETPUR BRANCH Jeetpur, Bara
BHAIRAHAWA BRANCH Maitri Road, Bhairahawa	BIRATNAGAR BRANCH Golcha Chowk, Biratnagar	BUTWAL BRANCH Traffic Chowk, Butwal

NARAYANGARH BRANCH Pulchowk, Narayangarh	POKHARA BRANCH Chiple Dunga, Pokhara	PUTALISADAK BRANCH Putalisadak, Kathmandu
THAMEL BRANCH Chaksibari, Thamel	JANAKPUR BRANCH Mills Area, Janakpur	NEPALGUNJ BRANCH Dhamboji, Nepalgunj
BATTISPUTALI BRANCH Battisputali, Kathmandu	KALIMATI BRANCH Kalimati Chowk, Kalimati	BIRTAMOD BRANCH Traffic Chowk, Birtamod
SURKHET BRANCH Neta Chowk, Surkhet	DHANGADI BRANCH Sauraha Chowk, Dhangadi	GONGABU BRANCH Gongabu Chowk, Kathmandu
SURKHET BRANCH Neta Chowk, Surkhet	BOUDHA BRANCH Boudha, Kathmandu	

1.6 Statement of the Problem

Among 20 commercial bank, performance limit banks are satisfactory .All banks are doing better and labour hard but why are they can not achieve their aim? Present situation NABIL bank and NIBL are competitor each other both are 'A' grade ranking of NEPSE and always comes NABIL in 1st position and NIBL in 2nd position of display of Nepal stock exchange limited .So the researcher has been interested to find out the efficiency of financial performance of these two banks. These two banks are slightly different each other .NABIL is joint venture bank and NIBL is private sector bank.

In the recent year's numbers of joint venture banks, finance companies, rural banks and co-operative societies came into existence bringing competition in the market. They have been facing neck-to-neck competition against one another. Government policy of economy i.e. liberalization has further intensified the competition which has ultimately affected the profitability of the banks .It was observed that all modern banks are concentrating their activities in urban areas like Katmandu, Biratnagar, Bhairahaw and pokhara. This tendency cannot contribute much to the socio economic development of the country like Nepal where 90% of population lives in the rural areas and 81% of the population depends on agriculture .To overcome this situation, Nepal Rastra Bank ha mended commercial banks to open branches in rural areas while opening branches in urban areas. However this arrangement is not much effective.

So, this study could conclude that performance & efficiency of NABIL &NIBL and profitability of these two banks or this study would be success to find answer of following question.

1. Is there any different in between NABIL and NIBL of their financial efficiency and their performance?
2. What is the capital mobilization rate of these banks?
3. Could this study provide good suggestion for them (NABIL & NIBL)?

1.7 Objective of the Study

The general objective of this study is to discus, examines and evaluates the financial operation and position of NABIL & NIBL Banks. Therefore, following objectives have been considered for the research purpose:

1 To compare financial efficiency between NABIL bank and NIBL.
2 To compare the financial performance of these selected two banks.
3 To compare capital mobilization rate of two banks.
4 To provide a package of suggestions and possible guideline to improve the banks and provide some new information about successful commercial bank.

1.8 Significance of the Study

The Researcher wants to make unique study of NABIL & NBIL. As a result financial efficiency of these two banks is derived. Any study cannot be found about efficiency without financial performance. So, this study have multidimensional Significance of all related person like academicians, professional, bankers , shareholders management and the general public. Beside this, other significance from this studies are as follows.

- With best knowledge of financial efficiency, banks will success to competition with other banks.
- This study will be helpful to make budget of banks (NABIL & NIBL)
- This study will provide transparency result to stock holders, customers and financing agencies, who are interested about these banks.

1.9 Limitation of the Study

Among the various modern banks the study focuses only on two banks namely Nabil Bank ltd and Nepal investment bank ltd. Every tasks have limitation as a like this study has some limitation. They are as follows:

1 The study covers the period of seven years only i.e. from 2000 /2001 to 2006/2007 A.D.
2 The study is based in secondary data therefore the results and findings are also based on the information provided by the related banks, magazine, newspaper and internet.
3 This study focuses only its objective rather than other information.
4 This study has been prepared limited resources and period for partial fulfillment of M.B.S.
5 This study followed recent news and data ignoring change after complete this study.

1.10 Research Methodology

As mentioned earlier this study is focused on comparative financial efficiency of two commercial banks in Nepal. When bank can offer prompt and qualitative services to customers in low cost, the producing a qualitative service in low cost is the sign of banking efficiency. The study is principally based on secondary data. For the propose of the study financial statements such as balance sheet and profit and loss account annual reports of banks brochures and document, redacted journal and publications are the basic data sources discussion with financial and other related officers and experts was held frequently.

Since the study is related with analyzing the past data, the tools and technique certainly includes financial analysis tools along with basic statistical tools. The statistical tools are only based for the purpose of analyzing the average and variances between the ratios. Thus the data collected and processed were analyzed by using relevant tools and techniques. They are various financial ratios such as profitability ratios, stability ratios, liquidity ratios, credit ratios, turnover ratios, structural ratios and so on. Along with the statically and mathematical tools like simple averages, trend analysis bar diagrams and well as simple percentage and condition of banks

1.11 Organization of the Study

This study has comprised five chapters they are as follows.

1.11.1 Introduction

The first chapter (Introduction) deals the whole study. This chapter consist general background of institutes (bank) or introduction of selected bank statement of the problem objective of the study etc from the first chapter reader easily understand that the perspective and detail information of coming chapter.

1.11.2 Review of Literature

The second chapter is literature review. It serves much important function like continuity of study progress of study. Without literature review anyone could not find result so in this chapter, review the related literature journal, previous study, magazine, newspaper etc.

1.11.3 Research Methodology

This chapter describes the method design of research and sequential steps that have been followed in conducting this study and materials used at each steps .like source of data gathering procedures, population and sample size of the study.

1.11.4 Presentation and Analysis of Data & Findings

This chapter is the body of the study from this chapter main task of the study has been done. In this chapter all data are presented, analyzed and interpreted using requires tools like financial & statistical.

1.11.5 Summary, Conclusion & Recommendation

This is final chapter of this study this chapter conclude its objective. It covers whole study with summarized and presentation of related findings. This chapter could be recommended to related person, organization or reader.

CHAPTER II

REVIEW OF LITERATURE

This chapter consists of relevant review of literature, which is very important as it provides valuable inputs to this study only by knowing what others have said; one can be realistic to make the study more useful and relevant. Mainly this chapter consists of following headings:

- Conceptual review of banks/ commercial banks and joint venture banks.
- Review of journals related to joint venture bank and public issue of securities bank.
- Review of related rules, regulations and acts.
- Financial performance and financial efficiency.
- Review of dissertation.

2.1 Conceptual Review of Bank/Commercial Bank /Joint Venture Bank & Public Issue Securities Bank

Banks are backbone of the economic condition of country and heart of finance system. It plays vital role in the whole economic condition of the country. Bank utilize public fund to productive field. Bank collect deposits from the public and use these funds to provide loan advances and overdraft as make investment on HMG securities, Ncm mutual fund and other companies' shares. In case of definition of bank many person organization and policy have different view. Here, some are demonstrate about definition of bank. "A bank is a business establishment that safeguards peoples money and uses it tom provide loans and investments" (World book encyclopedia, U.S.A., 1996:91). "A bank is business organization that receives and holds deposits of funds from others, makes loans or extends credit and transfer funds by written order of depositors" (The Encyclopedia America, 1984).In the view of Dr Mali Ram," banking means the accepting for the purpose of lending or investing, the deposits of money from the public repayable by cheque, drafts, and order or otherwise." (Dr. Mali Ram, 1969).

Commercial banks are the financial institutional which primarily think of profit making but which is not a sole objective and should not evaluate just on the ground of the profit it earns commercial banks provide short term debt necessary for trade and commerce .They take deposits from the public , which help in the capital formation ,grant loan in different forms .

They provide working capital to trade, to industry and even to agriculture. Commercial banks of developing country financial small and cottage industry under priority sector investment scheme to uplift the backward sector of the economy. Commercial bank has also different view of different persons .Some view are suitable to clear the meaning of commercial bank. In the definition of American institute of banking, “commercial bank is a corporation which accepts demand deposits subject to cheque and make short term loans to business enterprises regardless of the scope of it’s other services” (Principle of banking operation, U.S.A.,1972). According to commercial bank act , “ A commercial bank is one which exchanges money, deposit money ,accepts deposits ,grants loans and performs commercial banking functions and which is not a bank meant for co-operative agriculture, industries or for such specific purpose”(Commercial bank act Nepal ,1974). According to John Holland, “commercial banks are financial intermediaries that borrow money from savers in the form of deposit and re-lend them to ultimate borrowers by making loans on buying securities”(Holland: 67). All commercial banks are controlled and regulated by central banks. In Nepal, Nepal Rastra bank is the central bank that controls and regulates the commercial banks through Rastra Bank Act 2012 B.S.

Joint venture is corporate alliances in which two or more independent companies combine their resources to achieve a specific limited objective. Different person have different view about joint venture bank. Some views are defining here. A joint venture is defined as “The joining of forces between two or more enterprises for the purpose of carrying out a specific operation industrial or commercial investment production or trade”(Gupta,1994:15-24). Joint venture Banks are formed in Nepal as full-fledged commercial bank under the company act, 2012 B.S and operated under the commercial bank act 2013 B.S. They have joint venture schemes between Nepalese investors and their parent bank each supplying so percent of the total investment (except Himalayan Bank where foreign share is only 20%) financial and non-financial institutions as well as private investors have shared the domestic portion of investment .There has been substantial growth in the number of JVBS in Nepal since 1990’s due to governments deliberate policy of allowing foreign JVBS to operate in Nepal .Government’s liberalization policy also encourages the traditionally run commercial banks to enhance their competitiveness through modernization, mechanization via, computerization and prompt customer services by setting them to the exposure of JVBS(Shrestha ,2047:44-54)

2.2 Review of Journals Related to Joint Venture Bank and Public Issue of Securities Bank

Established of joint venture bank has two benefits. (1)That competition would force domestic banks. Nepal bank limited and Rastriya Banijya bank to improve their service and efficiency. (2) That introduction of new banking procedures, methods and technology would occur (Madlin and Snock, 1998:4). According to an article written by Radha Krishna poudel on the topics of 'banking challenge ahead', Focuses the potential areas where banks should invest to tight the prevailing economic recession. Currently growth in the profitability of JVBS has been mainly due to external factors such as the foreign exchange rate but not to the growth in the real sector of the economy. Therefore to sustain the current financial position in the long run Banks should enter new areas by marketing their credit in important sub-sectors such as hydro-electricity, tourism, irrigation etc.

Mr. Poudel further writes that, "Saving collection is another factor which is necessary for banks to their operations and generate sufficient surplus in their cash-flows. In recent years growth rate of banks deposits has decline to about 16% compared against 23% of the past. Mobilization of internal resources in the country demands that banks attract more financial resources from the public."

Another useful contribution made by Narayan pd. Poudel in his article called **'Financial Statement Analysis'** published in Nepal Rastra bank samachar on 2053(Poudel, annual report: 2053). Is reviewed. According to M. poudel, balance sheet, P/L account and the accompanying notes are the most useful aspect of the banks. We need to understand the major characteristics of bank's balance sheet and P/L account. The banks' balance sheet is composed of financial claims as liabilities in the form of loans. Fixed assets account forms a small portion of total assets. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items. Interest received on loans/ advances and investment and paid on deposits liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges.

The users of the financial statements of a bank need relevant, reliable and comparable information, which assist them in evaluating the financial position, and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of bank's financial statement has been expressly laid down in the concerned act. Commercial banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

According to poudel, the principal objectives of analyzing financial statements are to identify:

- Financial adaptability(liquidity)
- Financial performance (profitability) and
- Financial position of the bank (solvency).

Most of the users of financial statements are interested in assessing the overall performance i.e. profitability which is affected by following factors:

1. The structure of balance sheet and profit and loss account.
2. Operating efficiency and internal management system.
3. Managerial decisions taken by the top management regarding interest rate, exchange rate, lending policies etc.
4. Environmental changes (technology, government, competition, economy).

The joint venture banks are in a better position than local commercial banks in profit making on an average no foreign banks have suffered loss till now, but local banks have owned negative profit (Pradhan, 1991; 13). Deposit the increase in number the joint venture banks are concentrated in urban centers, especially in major cities, with al their headquarters in Katmandu alone except that of Nepal Srilanka bank, which is based in Rupandehi. This trend has resulted in a two way effects on the operation of the government owned commercial banks in Nepal. First the comparatively attractive interest rates and service promptness of these private banks have drawn the public deposit to their side there by reducing financial liabilities of the former. Second as a result of reduction in financial liabilities the government operated commercial banks have been forced to shut down some of their branches in the remote area of the country .Nevertheless, a look at the activities of these joint venture banks provide a fillip into the tremendous aid they provide to the national economy .They have been instrumental in mobilizing capital more effectively and to a larger extend. Especially, they have been more helpful in funding the private sector (fact about Nepalese society, 1998).

Another popular author of finance Dr. M. K. shrestha in his topic **'Commercial Banks Comparative Performance Evaluation'** stress on a proper risk management. He believes in the appropriate classification of loans under performing and non performing category. In this context he writes, "Adequate Provisioning is surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear-out criterion is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income." Regarding the risk management of the bank Dr. Shrestha's other suggestion include:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio relating to overdue loans.
- All credits including overdrafts should be given a maturity date should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before grating the loans.

The above journals focus in the various aspects of the economic environment of the bank. NRB press communiqué shows the current domestic market scenario, article by Radha Krishna poudel concentrates in the challenge of the banking sector; Narayan pd. Poudel's work stress in effective way of evaluating the financial performance and Dr. Shrestha's suggestions are focused towards proper risk management. Whatsoever, aspects of the bank the above journals target, they all have to be combined assessed and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy.

As per the provision of securities legislation, a company should issue its securities to the public with in two months after getting issue approval from SEBO. These types of company collect capital from issuing securities like ordinary share, right share and debenture. In the 2006/07 fiscal year, 31 companies consisting of six commercial banks, twelve development banks, 11 finance companies and two cooperatives issued their securities to the public. Among the six commercial banks one is Nepal investment bank limited. This study obtained such bank which applied debenture issue as a security issue in 2006/07 fiscal year. This bank issue 250 million debentures to the public.

2.3 Review of Related Rule, Regulation & Act

2.3.1 NRB Regulatory Issues for Operation of Commercial Banks

1. Banks are required to open one rural branch for every urban branch opened. The definition of rural includes some very small communities. Essentially this forces banks to operate in areas with limited profit potentials.
2. Banks are required to lend to priority sector and deprived sector as follows:
   Deprived sectors -2.5% of risk assets
   This is supposed to encourage the development of small business and rural industries. The investment in the rural branches can be counted towards the deprived sector target. Significant penalties are charged for failure to meet these targets.
3. The NRB (the central Bank) is committed to reduce the number of expatriates in the banks in order to create opportunities for local staff. By 2001 must reduce the number to two.
4. The Nepalese rupee is not freely convertible and the central bank must approve the repatriation of hard currency including dividends and the technical service fees to be reimbursed to foreign holding companies.
5. While the banks can set their own interest rates on loans/deposits, they are required to vary the rate more than + or – 1%. There is no prime rate or base rate in Nepal at any bank.(NRB regulatory issue)
6. The government has been actively encouraging the development of new banks. There are now 20 commercial banks in Nepal. This will lead to increased pressure on interest margins and deteriorating loan quality. Ultimately there will have to be some attrition in the financial services industry.

2.3.2 Company Act 2021 (Amended to Company Act 2053)

Commercial banks including JVBs in Nepal can be established only as a company with limited liability under the 2021 company Act on the recommendation of NRB. The provisions mentioned in the act strictly regulate the commercial banks in all the aspects, starting from the incorporation to the winding up of the banks.

2.3.3 Bank and Financial Institution Act - 2063

According to acts, the provision for establish of the banks and financial institutions are mentioned below:

- Establishment of bank and financial institutions

1. A bank shall be established under the company Act with the recommendation of NRB. For obtaining such recommendation, bank and financial institution are registered as a private limited company.
2. NRB may prescribe necessary condition while recommending the establishment of a bank under sub section 1, and it shall be the duty of the concerned bank to fulfill the condition so prescribed.
3. The company should be registered according to the company act under section (4).

- Approval for establishment of bank and financial institution

1. In case any foreign commercial banks desire to open a branch, representative office or liaison office in Nepal, a person, who is related, should fulfill certain condition for previous approval. He should apply an application with certain commission. If commission is not necessary, NRB should inform to Applicant about the reasons.
2. It may register such under the company act with the approval of NRB. NRB shall obtain the authorization of his majesty's government before granting approval under sub section 1.
3. While granting approval under sub section 1, the NRB may prescribe conditions according to the need, and the foreign bank shall comply with the conditions thus prescribed by NRB.

2.3.4 Implementation of Basel – II in our Context

Basel-II is a capital adequacy related standard framed by Basel committee. After the successful implementation of 1958 in more than 100 countries, the Basel committee on banking supervision reached an agreement on a number of important issues for promoting best and uniform banking practices as well as setting standards and guidelines for supervisory function. The Basel-II aims to replace Basel-I and to make the capital framework more risk sensitive. Basel – II has recommended major revision on the international standard on bank's capital adequacy which requires banks to implement risk management policies that align capital adequacy assessment with underlying credit risk, market risk and operational risk. The

Basel II has been introduced basically for the protection of depositor's interest by preserving the integrity of capital in Banks.

The Basel II is challengeable to supervisor as well as banking industry. The supervisory capacity building market discipline issue of poor governance in to the industry and market, poor data base, lack of credit rating agencies and adequate, accurate and reliable financial data are some of the challenges ahead for effective implementation of Basel II.

The Basel II is almost impracticable for the numbers of yrs in our context However the journey should be started and should keep in touch to the international developments and be prepared to capture the principle in full when the need is arises. It is encouraged by the different simplest options available in the framework. The simplest approaches are practicable and it is proposed to start from them. The destination to advance approaches is really a long one in our context.

On the context of NIBL and NABIL

With regard to Basel II implementation in Nepal Rastra Bank (NRB) has prescribed the approaches most suitable for Nepalese financial market. New capital adequacy framework prescribed by NRB based on new Capital Accord (Basel II) of Basel Committee on Banking Supervision is meant for parallel run in FY 2007/08 and shall come to force effective FY 2008/09. Nabil is privileged to be a part of new Capital Accord Implementation Group formed by NRB, the Central Bank of the country. Nabil regards Basel II as an instrument that helps banks constantly improve its risk management system resulting in protection of interest of all the stakeholders and has started measures to implement it in the Bank.

The Nepal Rastra Bank has announced that the Basel II Accord on Capital Adequacy will be implemented in Nepal from July 2007. It has issued draft guidelines on Basel II Framework that would be applied in Nepal. In the first phase, it will be mandatory for 'A Category' financial institutions (i.e. commercial banks) only. The Bank has already formed a Committee to study the requirements of the Basel II Framework to be adopted in Nepal and suggest ways and policy measures to exploit the opportunities and meet the challenges posed by Basel II. The Committee has undergone a Quantitative Impact Study (QIS) of Basel II and submitted its feedback to the Board of Directors.

However, considering the existing gap between the present policies, practices and systems as against those expected by Basel II, a lot needs to be done in the ensuing years to make the Bank's systems and procedures Basel II complaint. Nevertheless, NIBL is committed to undertake capacity building measures in time to ensure a smooth migration to Capital Measurement and Risk Management practices proposed by Basel II. From shrawan 1st 2065 Basel II is implemented in all commercial banks.

2.4 Financial Performance and Financial Efficiency

2.4.1 Financial Performance

Financial performance is related to financial activities of the firm. Finance is life blood of the firm so calculation of financial performance is necessary task performance is such activity which is shown by firm. The goal of performance analysis is to highlight strengths and weakness so that management can take appropriate action to strengthen the weak and maintain performance in the strong areas. "Financial analysis is the process of identifying the financial strength and weakness of firm by properly establishing relationship between the items of the balance sheet and the profit and loss account" (Pandey, 1997; 103).

To analyze the performance of a bank the returns and risk must be simultaneously considered. At any given time a bank may experience very large return on assets (ROA) and return on equity (ROE) measures, but these returns must be balances against the level of risk the bank has assumed. High performance banking is simply high profitability banking profit, is essential for an enterprises for its survival and growth and to maintain capital adequacy through profit retention. Some common characteristics of high performance banks were maximization of revenues, expenses control consisting good management.

Comparative performance analysis can be evaluated through financial statement analysis. It should be evaluated from the prospectus of liquidity, profitability, stability, activity, and possibility. Management itself can use those parameters to improve the organization performance in near future. Comparative performance analysis basically covers the financial analysis. Since it efficiency is measured by liquidity position in term of solvency, profitability from operations in term of earning power and cash flow generation ability, capital structure position, Judgment ability to meet fixed obligations, activity in term of turnover of assets and over all market value maximization determined by the company's track record of dividend paying ability, retained – earning for re-investment and growth etc. among various financial tools, the commonly used tool is ratios that have predictive value to project the success of failure of company by taking the combined effects of ratios. (Shrestha, 2004: 53)

Management is required to evaluate their performance compared to different periods of its own enterprise or with industry average or with same business nature of other enterprises. Management is interested to know and review about the productivity, profitability, activity, and growth possibility of its own enterprises that can help management to decide the course of action to take in future. (Dangol & Dangol, 2061:628) performance evaluation covers the entire operational areas of firm.

2.4.2 Financial Efficiency

Efficiency means productive with minimum waste or effort. Financial efficiency measures profitability ratio. It is an indicator of efficiency of the business organization profitability ratio measures the managements overall efficiency as shown by the return generated from sales and investment. Higher the profitability ratio shows the efficiency of the management (Fago, Subedi and Gyawali, 2003).In the process of calculation Efficiency, We must calculate profitability ratio, equity ratio and all ratio analysis. When bank can offer prompt and qualitative services to customers in low cost, or producing a qualitative service in low cost is the sign of banking efficiency. (Hriday Bir Singh, 2007). According to Singh, some techniques are help to find of banking efficiency.

- Average cost curve
- Areas of banking services
- Explanation and growth
- Technology
- Personnel benefit
- Competition
- Statistical mythology

2.5 Review of Dissertations

In the process of reviewing the important and relevant materials for this study, some of the financial studies of JVBs conducted by the students of MBS and MBA are reviewed. The researcher has been found various studies in the field of finance various topics like financial performance, capital structure management, working capital management etc. But there is not available in this topic 'Financial efficiency' so, the researcher tries to make unique report between NABIL bank and NIBL bank with combination result of previous study result. Thus here is necessary to review previous dissertation related to financial efficiency.

Mr. Bhoj Raj Bohara has conducted a research on **"comparative study of the financial performance of NABIL and NIBL(T.U 1994)".** He concluded both banks are adequate to discharge current liabilities and utilization of deposits is satisfactory. NIBL is utilizing deposits more efficiently on loans and advances than Nabil. Both the banks have highly geared capital structure. However, NIBL's capital structure is risky than NABIL. Both banks have maintained higher capital adequacy ratio than the required ratios. Comparatively both bank's performance is satisfactory. The research suggests increasing equity base operational profit and liquidity position as per the new regulation of NRB. He calculated many ratio analysis and come out with valuable suggestion to the selected banks. Besides his suggestion, he has emphasized in small entrepreneurs development program, branch expansion and mobilization of deposits in the production sectors transfer of expertise and skills and Enhancement of foreign Investment in the country.

Harilal Prasad in his title, "**comparative study on the financial performance of Nepal indo-Suez bank ltd. (NISBL) and Nepal Grind lays bank ltd. (NGBL) (T.U. 1999)".** Conclude that NGBL has been able to gain a higher market share in case of deposit or in compare to NISBL. The liquidity position of NGBL is too higher than NISBL. However, it should be noted that NGBL has more current deposits funds as a result its loan and advances to total deposit ratio are significantly lower than that of NISBL. NISBL's performance is comparatively better from both the point of views of profitability as well as investment.

D.R.Shakya, in his thesis study, **"Financial analysis of joint venture banks in Nepal (T.U., 1995)"** has given conclusion as NGBL is comparatively better in liquidity position than NABIL. NABIL is comparatively more successful in assets utilization than NGBL. NGBL's capital structure position is more risky than that of NBIL. NGBL's profitability position is better than the same of NABIL.

Another writer **Bindeshwar mahato** in his thesis entitled, **"A comparative study of financial performance of NABIL and NIBL, (shanker dev campus, 1993)"** conclude that

NABIL is more oriented toward discharging responsibility towards its shareholders than NIBL more than this NABIL is found paying more attention towards the attainment and national objectives. NABIL's participation in the task of economic development with liberal attitude towards the government and being more responsive to the national priorities like branch expansion more employment more resource mobilization etc. So, form the shareholder's and government point of view NABIL is performing much better than NIBL .However, it does not mean that NIBL is not performing well but relatively Nabil is doing better banking business.

R.Poudel has conducted study on **"A comparative Analysis of financial performance between NBL and NGBL (T.U., 1997)"** has concluded the following things: Although the liquidity position of these banks is different, but on the whole the current assets of these banks are adequate to meet the current liabilities. NGBL has better utilization of resources in short term investment but NBL has more non earning ideal assets as cash and bank balance than NGBL. Joint venture banks such as NGBL is fast growing the overall profitability is higher but government owned commercial banks such as NBL has higher expenditure and the profit making capacity is lower and gradually decreasing.

Restha Jha in her entitled**, "comparative analysis of financial performance of selected joint venture banks,(Nepal commerce campus, 1998)"** concluded that , joint venture banks must try to seek potential sector, Such as manufacturing utility , services , tourism, agriculture etc and an the same time abide by the economic obligation of investing in priority and deprived sectors. So as to make profits by being instrument in developing the country.

Deepak Joshi in his thesis entitled, **A study on commercial banks of Nepal with special reference to financial analysis of Rastriya Banijya bank (T.U., 1993)** has concluded the management of manpower seems unconfirmed with needs of the organization. Deposits and investment trends are fluctuating although positive. The performance of the bank showed ups and down in every next year which is the clear indication of unsound performance. The liquidity position of the bank is low. There has been a gradual increase in the amount of both funded debt and capitalization. Though RBB has met its social obligation it has failed to meet commercial sprit.

Another writer **Bikram Chandra Gurung** has pointed out in his study. **"A financial study of joint venture banks in Nepal, a comparatively study of NGBL and NIBL (T.U.,**

1996)” as the liquidity position of NGBL below normal standard current ratio of 2:1 indicates unsatisfactory position. The bank is efficient I utilizing most of its total assets. Profitability of the bank has been in increasing trend but yet to be fully satisfactory. The capital structure of the bank is extremely leveraged. The bank has maintaining sound capital adequacy ratio as directed by the central bank i.e. NRB.

Keshav Raj Joshi in his thesis entitled, **A study on financial performance of commercial banks (T.U., 1989)** has concluded the satisfactory liquidity position of the commercial banks. Local commercial banks have been found relatively high leverage compared to other JVBS. Loan and advance have been the main form of the investment. Two thirds of the assets have been used for the earning purpose profitability position of Nepal Arab bank Ltd is stronger than of the other commercial banks.

Brinda Shrestha in her study, **“A comparative analysis of financial performance of the selected joint venture banks (Shankar dev T.U., 2003.)”** concludes that analysis of liquidity ratio indicates better liquidity position of NB bank. Although liquidity position of NBL and NABIL are lower. Incase of activity or turn over ratio, NABIL is better than that of NB bank and HBL. After calculating all financial and statistical tools. Mrs. Shrestha concluded that the methods of earning by JVBS have very little or no return to the economy and results in a huge disparity between two classes of the people.

Luba Raj Upreti, on title **“A comparative study of capital structure and profitability between Himalayan bank and NABIL bank ltd” (Nepal commerce campus, 2005)** concludes, most of ratios are equally of both banks excepts HBL has higher position than NABIL in strength in share in market, growth rate of fixed deposits and average overall capitalization rate and NABIL has higher position in long term burrowed fund, financial leverage debt service capacity and almost all profitability ratios. Excepts these compare, he concludes some negative position of both banks such that cannot be ascertained to established the relationship that the capital structure decision strongly, increasing value of the firm is not sufficient to determine the overall capitalization rate.

Sabita Acharya, in her thesis in title “**A comparative study on financial performance of NABIL and standard chartered bank limited.”(Shanker Dev, T.U., 2004)** concludes liquidity position and profitability ratios are unsatisfactory. In this situation SCBNL has efficiency operated its long term fund, deposit to generate more profit and liquidity position of NABIL bank is more efficiently utilization the outsides funds in extending credit for profit generation. She implies and concludes the capitalization structure is high.

2.6 Research Gap

The study focuses on financial efficiency of two competitive banks. Previous study only focus performance of banks but this study focuses performance and efficiency of these banks efficiency means productive with minimum waste or effort. It measures profitability ratio. The study follows all ratio analysis to conclude effective result.

Up coming researcher is advice to conduct the study with considering above, gaps with this effect with application of tools like financial and statistical. This study will be fruitful to those interested people, parties, scholars, researchers, teachers, government and businessman for academically as well as policy perspectives.

CHAPTER III

RESEARCH METHODOLOGY

Evaluating and comparing the financial efficiency of selected two modern banks NABIL and NIBL with effective rule, method and formula. This chapter is outline of the calculation of study. It shows the way of calculate targeting objectives.

The researcher followed the following details of researcher mythology used in the analysis of the study.

3.1 Research Design

The Researcher makes design to complete the study more effective, information to readers by using financial and statistical tools. This study focuses to evaluated and comparative financial efficiency of two banks (NABIL and NIBL). For the research work, the analytical and descriptive research designs are applied.

3.2 Source of Data

For fulfill the purpose of the study this has been used secondary data they has been collecting following sources.

- Annual reports of NABIL and NIBL
- Various information of Security board of Nepal.
- Related Bulleting, reports and program from T.V. channel.
- Website of require banks and other organization.
- Economic survey of Nation
- Quarterly Economic Bulletin of NRB.
- previous dissertations
- Other related journal sand publication related to study.

Besides above sources the researcher collected through verbal communication with the staff of the related banks has also been used in the research.

3.3 Population and Sample

Among 7 joint venture banks, NABIL Bank has been selected and among a commercial bank of public issue security NIBL has been selected as a sample for the present study. Financial statements latest 7 years (2000/2001 to 2006/2007) have been taken as a sample for the comparative analysis of financial efficiency. So, the study is base on the sample study.

3.4 Methods of Data Analysis

For the ambition of the study, financial analysis of required banks, P/L account balance sheet of the banks have been analyzed. For analyze the study have been used financial and statistical tools. Those are outlined below:

Presentation of data:

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic for data analysis different items from the balance sheet and other statement are tabulated. Data has been presented tabular as well as graphical in order to sufficient results of financial efficiency of banks category.

3.5 Tools Used

3.5.1 Financial Tools

The considerable assistance of financial Ratios and income and expenditure analysis has been taken to measure the strengths and weakness of the selected banks. In addition, return on assets and cost of funds is also computed to analyze the gross spread of each banks selected for study. Financial ratios are calculated to ascertain the financial condition of the firm. It is the relationship between financial variables contained in the financial statements (i. e balance sheet profit and loss account and income statement) it helps the related parties to spot out the financial strength and weakness of the firm. There are several financial tools which can be applied in order to analyze the performance of commercial banks. The tools used in this study are as follows liquidity ratio, leverage ratio, profitability ratio etc.

3.5.1.1 Ratio Analysis

Ratio Analysis is one of the most commonly used techniques in the analysis of financial statement, financial performance and financial efficiency. In this situation one definition of ratio analysis is an essential. “Ratio analysis is one of the most frequency used tools to evaluate the financial health, operating results and growth financial ratios by themselves do not indicate position of the institutions. “A standard or normal is needed against which to judge them.” (Poudel Narayan, N.R.B. Samachar-2053).

The term ratio refers to the numerical or quantitative relationship between two terms of variables. A ratio is calculated by dividing one item of the relationship with the others. “Ratio analysis is used to compare a firm’s financial performance and status to that of other firms or to itself over time”. Lawrence J. Gitman, principle of managerial finance (San Diego State university: and Collins publishers, sixth edition (1988, p.275) .the ratios are designed to show the relationship between financial statement accounts within a firm and between firms. Translating accounting numbers into relative values or ratios, allows us to compare the financial position of one firm to another even if their size are significantly difference. “Financial ratios are the tools to analyze the financial conditions and performances. We calculate ratios because in this way we get a comparison that may prove useful than the raw numbers by themselves.” (James, C.Van Horne and John M.w. Achowiez (Fundamentals of financial management 9th edition).

For analysis of Ratio the following financial ratios are used in this study.

1. Liquidity Ratios
2. Leverage Ratios
3. Profitability Ratios
4. Valuation of Ratio.
5. Other indicators

1. Liquidity Ratios:

‘The ability of a firm to meet it’s obligation in the short term is known as liquidity.’(Dangol, R.M.) It reflects the short term financial strength of the business.

Commercial banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is needed also for the purpose of meeting cash reserve ratio (CRR) and statutory liquidity ratio (SCR) requirements prescribed by the central bank. The following ratios are calculated under the liquidity ratios.

i) Current Ratio:

Current ratio is the relationship between current assets and current liabilities of whole organization. Current ratio shows the banks short term (current) solvency. Current ratio is calculated from current assets and current liabilities. The formula is

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

The standard position of current Ratio is 2:1. Higher the current ratio better is the liquidity position and if the current ratio of a firm is less than 2:1 the solvency position of the firm is not good.

Except this ratio following ratios are calculated under liquidity Ratio.

i) Cash and bank balance to total deposit Ratio $= \dfrac{\text{Cash and bank balance}}{\text{Total deposit}}$

ii) Cash and bank balance to non-interest bearing deposit Ratio $= \dfrac{\text{Cash and bank balance}}{\text{Non-interest bearing deposit}}$

iii) Cash and bank balance to interest bearing (excluding fixed) Deposit Ratio $= \dfrac{\text{Cash and bank balance}}{\text{Interest bearing deposit}}$

iv) Fixed deposits to total deposits ratio $= \dfrac{\text{Fixed deposit}}{\text{Total deposit}}$

2. Leverage/ Capital Structure Ratio

To judge the long term financial position of the firm the leverage ratios are calculated. Leverage ratios measures the extend of the firms total debt burden they reflect the company's ability to meet its short and long-term debt obligation.

The following ratios are calculated under this group.

i) Debt-equity ratio:

This ratio is calculated by the relation between borrowed fund and owner's equity it is calculated by following formula.

$$\text{Debt-equity Ratio} = \frac{\text{Long term debt / Total debt}}{\text{Share holder's equity}}$$

A high Ratio shows the large share of financing by the creditors as compare to that of owners. So, creditors prefer low Debt-equity ratio.

ii) Debt to total capital ratio:

It is calculated by the relationship between long term debt and total capital. Total capital includes owner's equity as well as borrowed capital. So, it is calculated as follows.

$$\text{Debt to total capital ratio} = \frac{\text{Long Term debt}}{\text{Total capital}}$$

iii) Interest coverage ratio:

This ratio measures the debt servicing capacity of a firm. It is calculated with the relationship between net profit before interest and tax and interest. So, the formula is as below.

$$\text{Interest coverage ratio} = \frac{\text{Net profit before interest and tax}}{\text{Interest +preference dividend}}$$

A high ratio is a sign of low burden of borrowing o the business and lower utilization of borrowing capacity.

iv) Fixed-Coverage Ratio:

The fixed charges include interest as well as preference dividend. It is calculated by the relationship between Net profit before interest and taxes and fixed charges. So, the formula is as

$$\text{Fixed coverage ratio} = \frac{\text{Net profit before interest and taxes}}{\text{Fixed charge}}$$

Higher Fixed coverage ratio is better from the preference shareholders point of views.

3. Profitability ratio:

Profitability ratio shows the overall efficiency of the business concerns. Profitability is the measure of effiency and the search for it provides and incentive to achieve efficiency. Profitability also indicates public acceptance of the product and shows that the firm can produce completely. The following major profitability ratios are calculated to measures the efficiency of the banks.

i) Return on Investment ratio (ROI):

ROI is an appropriate base for assessing the effectiveness of the operating management. It is also called return u assets it is calculated by following formula.

$$\text{Return on investment ratio} = \frac{\text{Net operating income/EBIT}}{\text{Total assets}}$$

ii) Return on common equity ratio (ROCE)

ROCE also called investors Ratio, measures and the effectiveness of the management with respect to both it's operating and financial decisions formula of ROCE is as follows.

$$\text{Return on common Equity Ratio} = \frac{\text{Net profit after tax}}{\text{Net worth}}$$

iii) Interest earned to total assets ratio:

Bank has main two tasks, invest and deposit collection, bank earned interest by investing debenture, loans, advances and overdrafts. This ratio measures the effective use assets to earn through investment policies. This ratio is calculated using the following formula.

$$\text{Interest earned to total assets ratio} = \frac{\text{Total interest earned}}{\text{Total assets}}$$

iv) Commission and discount income to personnel expenses Ratio

This ratio measures the efficiency of the staff or cost paid for taking services from staff to earn income by providing service to the customer. This ratio is calculated using the following formula.

$$\text{Commission and discount income to Personnel expense ratio} = \frac{\text{Commission and discount income}}{\text{Personnel expenses}}$$

v) Interest income to interest expense ratio

This ratio measures the effective use of deposit to earn revenue in proportion of the expense accrued and collected deposits. Bank give interest to depositors and bank earn profit by investors. This ratio is calculated between these two types of interest, income interest and expense interest so, the formula is as below.

$$\text{Interest income to interest expense ratio} = \frac{\text{Interest income}}{\text{Interest expenses}}$$

4. Valuation ratio:

This ratio result the overall performance of the bank measuring the combined effect of risk and return. “The valuation ratios indicate the market value of the firm as compared to the book value and measure the stock price relative to earning” (Pradhan surendra,1996,p.36).

The following ratios are calculated under this ratio:

i) Price earning ratio (P/E ratio)

Price earning ratio reflects investor’s expectations about the firms growth in the firms earning. “It shows how much investors are writing to pay per dollar of reported profits” (Weston J. Fred, Brigham Eugene, 9th edition).

Formula of this ratio is as follows.

$$\text{Price earning ratio} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

$$\text{Earning per share} = \frac{\text{Profit after tax}}{\text{Total no. of common shareOutstanding}}$$

ii) Dividend payout ratio:

This ratio measures the relationship between earning belonging to the ordinary shareholders and dividend paid to them. This ratio is calculated using the following formula.

$$\text{Dividend payout ratio} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

$$\text{DPS} = \frac{\text{Earning paid to shareholders}}{\text{Total no. of common share outstanding}}$$

5. Other indicators:

Beside those analysis other indicator also use to analysis ratio. They are as follows:

$$\text{i) Earning per share (EPS)} = \frac{\text{Profit after tax}}{\text{Total number of share}}$$

$$\text{ii) Dividend per share (DPS)} = \frac{\text{Dividend}}{\text{No. of common share outstanding}}$$

3.5.1.2 Income and Expenditure Analysis

Income statement of bank helps to find out operating income, expenses and profit percentages. The main sources of income of commercial banks are interest, commission and discounts, dividend received and main source of expenses are interest to depositors, personnel expenses, operating expenses, maintenance expenses, provision for staff bonus and all other expenses. By calculation of this analysis banks could find out net profit.

3.5.2 Statistical Tools

To fulfill an analysis of this study, statistical tools must be used. To prove one theory many types of tools is necessary to use. "Statistical analysis is one particular language which describes the data and makes possible to talk about the relations and the difference of the variables without the adequate understanding of statistics the investigator in social science may frequently be like a blind man grouping in a dark closet for a bank cat that is not there. The method of statistics is useful in an ever widening range of human activities in any field of thought in which numerical data may be had."(Gupta S.P.1991, p.21).

For statistical analysis various bar diagrams pie chart and graph have been used to compare the financial results of banks for the period of five years. Under statistical tools following analysis is used.

3.5.2.1 Trend Analysis/ Least Square Method

Trend Analysis of ratios indicates the direction of change over a period of time. A widely and most commonly used method to describe the trend is the method of least square. Under this method, a trend line is titled to the data satisfying the following two conditions.

i) $\sum(y - y_c) = 0$ and

ii) $\sum(y - y_c)^2$

Is least where y is the actual value and y_c the compound value of y? as $\sum(y-y_c)^2$ is least hence the name method of least square. The line obtained by this method is known as the line of best fit.

Let the trend line between the dependent variably y and the independent variable

x (i.e. time) be represented by.

Y= a + bx-----------i

Then for any given value of independent variable x, the estimate value of y denoted by y_c given by above equation is $y_{c} =$ a + bx

Where, a = y intercept or value of y when x=0

b = Slope of the trend line or amount of change

That comes in y for a unit change in x.

To determine the straight line trend, we have to determine the values of a and b.

To find the value of a and b, we solve the following two equations:

∑y = Na + b∑x----------I

∑xy =a ∑x + b∑x-------ii

Where, N = Number of years.

But for simplification, if the time variable in measured as a deviation from its mean, i.e. mid point is taken as the origin the negative values in the first half of the series balance out the positive values in the second half so that ∑x=0. The values of constant a, and b. can easily be determined by using following formula.

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

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

3.5.2.2 Correlation Analysis

Except trend analysis we can sure our conclusion by calculating correlation analysis the Karl Pearson's method popularly known as Pearson's coefficient of correlation is most widely in practice. The formula for computing pearsonian correlation coefficient ® using direct method is following.

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

Here, N = number of pairs of x and y observed

X = value of earning per share

Y = value of dividend per share

R = pearsonian correlation coefficient.

Probable error:

The probable error of the coefficient of correlation helps in interpreting its value. It is obtaining using the following formula.

$$PEr = 0.6745\frac{1-r^{2}}{\sqrt{N}}$$

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

Testing of hypothesis:

The test of hypothesis is a process of testing of significance of correlation coefficient.

- Null hypothesis
- Alternative hypothesis
- T – Test

$$t = \frac{r\sqrt{n-2}}{\sqrt{(1-r)}}$$

- Critical value
- Decision: If the computed value of the test statistic is less than the critical value, the computed value lies in the acceptance region and null hypothesis is accepted. Otherwise null hypothesis is rejected.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals analyses and interprets the relevant and available data of NABIL bank and NIBL Bank which is given methodology previous chapter. This chapter is the heart of this study. This chapter will be great relevance for this study, as all the findings, conclusions and recommendations are going to be derived from the calculations done in this section. The analysis of data consists of organizing, tabulating and performing financial as well as statistical analysis.

4.1 Financial Analysis

Financial analysis is the most important tool of analysis. There are primarily four components of financial statement e.g. Balance sheet, income statement, statement of retained earnings, statement of cash flows. Financial statements provide information about a firm’s position as well as its operations over same period. However, the real value of financial statement uses in the fact that they can be used to predict the firm’s financial position in the future, and to determine expected earnings and dividends. From an investor’s stand point predicting the future is what financial statement analysis is all about, while managements stand points financial statement is useful to anticipate future conditions and for planning actions that will influence the future course of events.

4.1.1 Ratio Analysis

This analysis refers to the numerical or quantitative relationships between two variables. Most of ratios can be calculated from the balance sheet and profit and loss account of require banks. These ratios can perform financial analysis and it is used in analyzing the financial information to indicate the operating and financial efficiency and growth of the bank.

4.1.1.1. Liquidity Ratios

Liquidity ratio measures the ability of a firm to meet its short term obligations and reflects the short term financial solvency of a firm. To measure the bank's debt paying ability or the probability that cash will be continuously available to meet its maturing obligations various liquidity ratios are calculated as below.

a) Current Ratio:

Current ratio is the ratio between current assets and current liabilities. It measures in times and it measure of the bank's short term solvency.

Following table shows the current ratio to compare the financial efficiency of NABIL and Nepal investment bank.

Table – 2

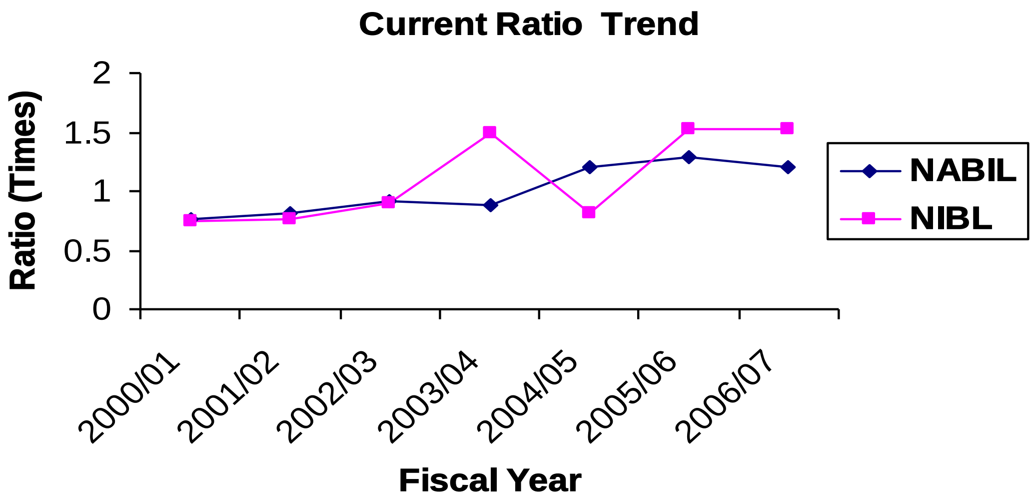
Current Ratio of NABIL & NIBL ***(Times)***

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL	0.76	0.81	0.92	0.88	1.21	1.28	1.21	1.01
NIBL	0.74	0.76	0.90	1.49	0.82	1.52	1.53	1.11

From the above table - 2, we can see that the average current ratios of all the two selected Banks are not the satisfactory level. NABIL highest rank is 1.28 times and minimum rank is 0.76times and the average ratio of NABIL is 1.01times.in the case of NIBL, maximum level is 1.28times and minimum level is 0.74 times. The average ratio of NIBL is 1.11times.

To above analysis helps to conclude that NIBL has little bit more margin of safety for its creditors and hence the liquidity position of NIBL is better than NABIL bank. This ratio only measures the quantity not the quality of assets. The banks will be able to meet its obligations despite of low ratio depending on quality of assets. Hence we can not conclude that the current ratio of the selected banks is satisfactory.

The trend of current ratio of selected banks is as below:



[Figure # 1]

b) Cash and Bank Balance to Total Deposit

Cash and bank balance are the most liquid assets. So the ratio measures the bank's ability to immediately fund the withdrawal of their depositors. This ratio is calculated by dividing cash and bank balance (including money at call) by deposits (current plus saving deposits) except fixed deposits. The ratio of NABIL and NIBL is as shown in table below.

Table - 3

Cash and Bank Balance to Total Deposit Ratio of Two Banks

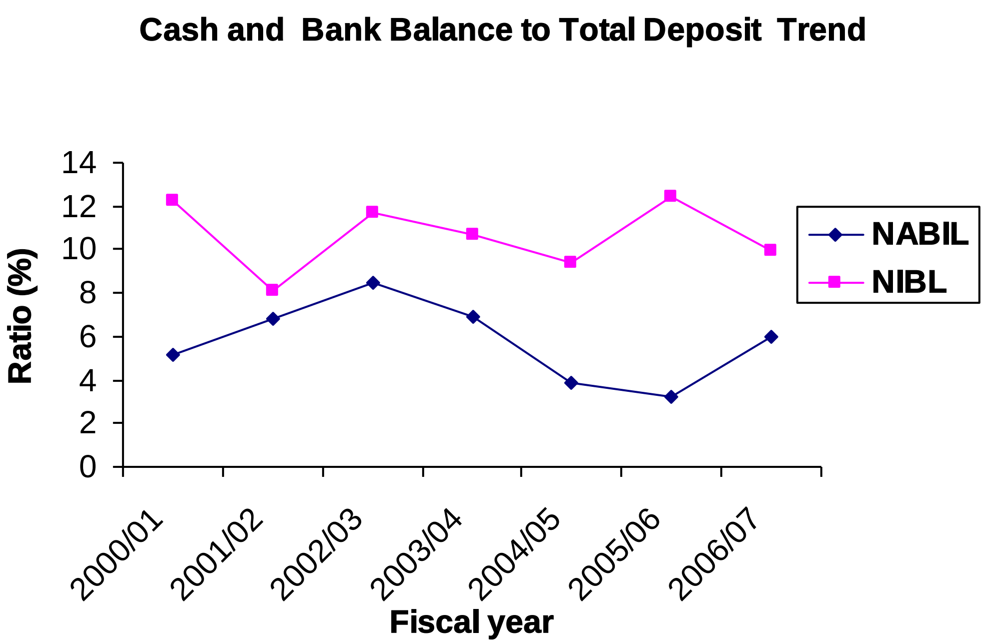
FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL(%)	5.12	6.78	8.51	6.87	3.83	3.26	6.00	5.77
NIBL (%)	12.28	8.12	11.69	10.65	9.40	12.34	9.97	10.64

The above table shows that the cash and bank balance to total deposit ratio of NABIL bank is moving in flexible trend increasing and decreasing the highest ratio is 8.51 in FY 2002/03 and minimum is 3.26 in FY 2005/06. And the average for the review period was 5.77%.

Similarly NIBL Bank is also next a systematically decrease or increase. This is also zigzag trend. The maximum ratio is 12.34 in FY 2005/06 and minimum ratio is 8.12% in Fy 2001/02. And average for the review period is 10.64%.

The above analysis helps to conclude that cash and bank position with respect to its total deposit of investment bank is better than NABIL Bank. The customer if investment Bank has more safety than NABIL the NIBL has high ability to immediately fund the withdrawals of its customers but on the other hand the fund of NIBL Bank is tied up in unproductive assets.

The trend of cash and bank balance to total deposit ratio of the two selected banks has been presented below.



[Figure # 2]

c) Cash and Bank Balance to Non Interest Bearing Deposits

This ratio is calculated by dividing non interest bearing deposit to cash and bank balance. It indicates the proportion of liquid assets to meet non interest bearing liabilities which are cost free source of fund of banks. The bank must maintain liquid assets to meet non interest bearing liabilities which are cost free source of fund of banks. The bank must maintain liquid assets to meet non interest bearing liabilities or deposits. A high ratio represents the solvency of the bank and vice versa.

The following table shows the cash and bank balance to non interest bearing deposits.

Table - 4

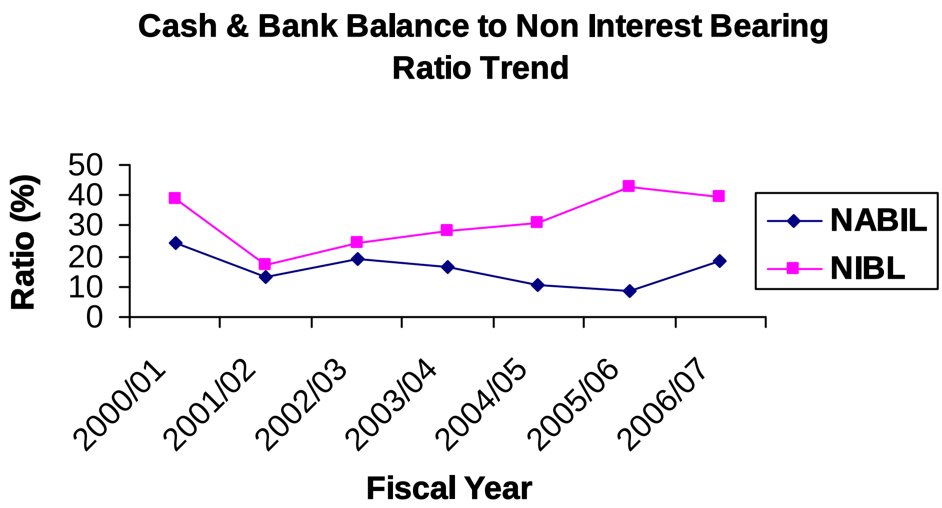
Cash & Bank Balance to Non Interest Bearing Deposits Ratio **(%)**

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL	24.50	13.00	19.19	16.69	10.20	8.84	18.13	15.79
NIBL ratio	39.08	17.08	24.28	28.24	30.90	43.01	39.19	31.68

Above table shows that the cash and bank balance to non interest bearing deposit ratio of NABIL bank is fluctuating throughout the review period. The ratio ranged between 8.84% to 24.50% the average ratio is 15.79%. In case of NIBL the ratio also fluctuating throughout the reviewing period. The ratio ranged between 17.08% to 43.01% and average ratio is 31.68%.

This calculation helps to conclude that NIBL is better in liquidity position for the payment of its current non interest bearing obligations. NIBL had enough liquidity to refund its whole non interest bearing at anytime on the other hand, NABIL is utilizing its cost deposit in profit generating purpose which yields high return as well as risk of insolvency for the bank.

Trend of cash and bank balance to non bearing deposit has been presented below.



[Figure # 3]

d) Cash and Bank Balance to Interest Bearing Deposit Ratio

This ratio is calculated by dividing cash and bank balance by interest bearing deposit. A bank must insure that it is liquid enough to face heavy deposit withdrawal interest bearing deposit consist if saving and fixed deposit. Since fixed deposits have fixed time to mature the obligation banks need not maintain liquid assets for the payment before maturity. So it is excluded while determining the ratio following table shows the cash and bank to interest bearing deposit.

Table - 5

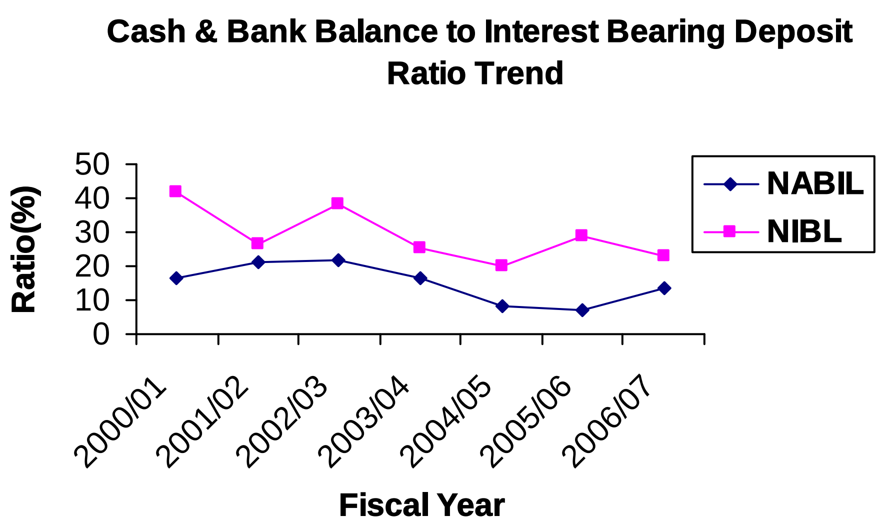
Cash & Bank Balance to Interest Bearing Ratio

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL(%)	16.53	21.16	21.89	16.19	7.96	7.19	13.74	14.95
NIBL (%)	41.51	26.50	38.07	25.11	20.00	28.91	22.73	28.97

The above table shows that the ratio of NABIL and NIBL. The ratio of NABIL is more zigzag unlimited. The ratio is ranged between 7.19% to 21.89% in reviewing period. Similarly the ratio of NIBL also fluctuated between 20.00 to 41.51 in reviewing period.

An average ratio of NIBL shows the higher ratio than NABIL. High ratio of NIBL indicated the unwise investment decision i.e. inability of the bank to invest in more productive sectors like government securities treasury bills etc to enhance its profitability. This analysis helps us to conclude that the depositors of NIBL have more margin of safety than NABIL.

Trend of cash and bank balance to interest bearing deposit ratio has been presented below.



[Figure # 4]

e) Fixed Deposits to Total Deposits Ratio

Among the total deposit, fixed deposit is one of the most important sources of bank. It is long term investment. It is calculated by dividing fixed deposits by total deposits which is shown below in the table.

Table - 6

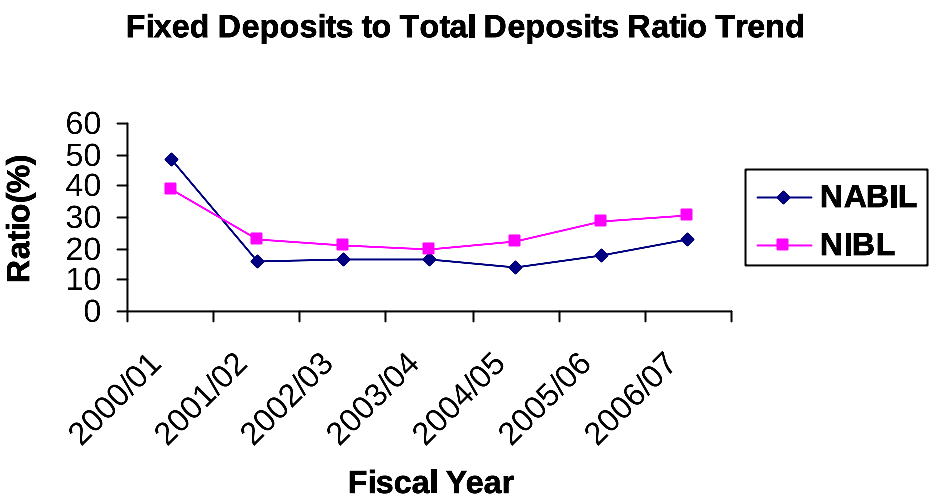
Fixed Deposits to Total Deposits Ratio

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL (%)	48.41	15.78	16.75	16.36	14.25	17.83	23.28	21.81
NIBL (%)	38.97	22.66	21.11	19.91	22.53	28.60	30.69	26.35

Above table shows the ratio of NABIL and NIBL which are fluctuated trend. The ratio ranged between 14.25 to 48.81 of NABIL and the ratio ranged 19.91 to 38.97 of NIBL on the reviewing period.

On average ratio, NABIL bank has 21.81% and NIBL has 26.35%. NIBL has little bit higher than NABIL. Considering this analysis, it is obvious that NIBL's liquidity position is better than that of NABIL. The higher proportion of fixed deposit indicated the stronger liquidity position.

Following trends denotes the ratio of fixed deposits to total deposit.



[Figure # 5]

4.1.1.2 Leverage/ Capital Structure Ratio:

The use of finance is refers by financial leverage. These ratios are also called solvency ratios or capital structure ratio by finding this ratio we can judge the long term financial position of the firm. This ratio can be calculated by following point.

a. Debt-equity Ratio:

Debt-equity Ratio is the relationship between borrowed fund and owner's equity. This is calculated by dividing Long term debt or total debt by shareholder's equity. The bank has not shown the actual debt that’s why there are used different liabilities like as bank’s debt. Following table shows the ratio of debt-equity.

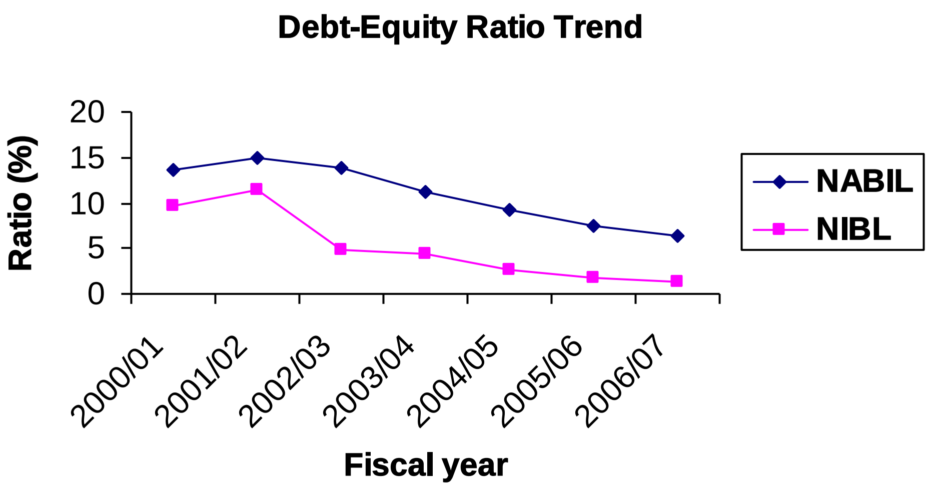
Table - 7

Debt - Equity Ratio **(%)**

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL Ratio	13.67	14.98	13.74	11.19	9.25	7.40	6.46	10.95
NIBL Ratio	9.78	11.38	4.73	4.50	2.64	1.68	1.26	5.14

Above table shows the Debt-equity Ratio of selected two banks. The Ratio of NABIL Bank has fluctuating every year. The highest ratio is 14.98% is Fy 2001/02 and lowest ratio is 6.46% in Fy 2006/07 and average ratio is 10.95%. In case of NIBL also fluctuating condition of Ratio highest ratio is 11.38% in FY 2001/02 and lowest ratio is 1.26 in Fy 2006/07 and average ratio is 5.14%.

NIBL has comparatively lower ratio than NABIL creditors prefer low debt-equity Ratio. So, creditors of NIBL are more satisfy than NABIL. We can see the real condition of ratio in the following figure.



[Figure # 6]

b. Debt to Total Capital Ratio:

This ratio is calculated by dividing long term debt to total capital. Selected two banks have not shown long term debt or they don't use long term debt. So, here is using only other differed liabilities. It shows the degree of relation and protection of total capital against long term or total debt. The ratio is shown below the table.

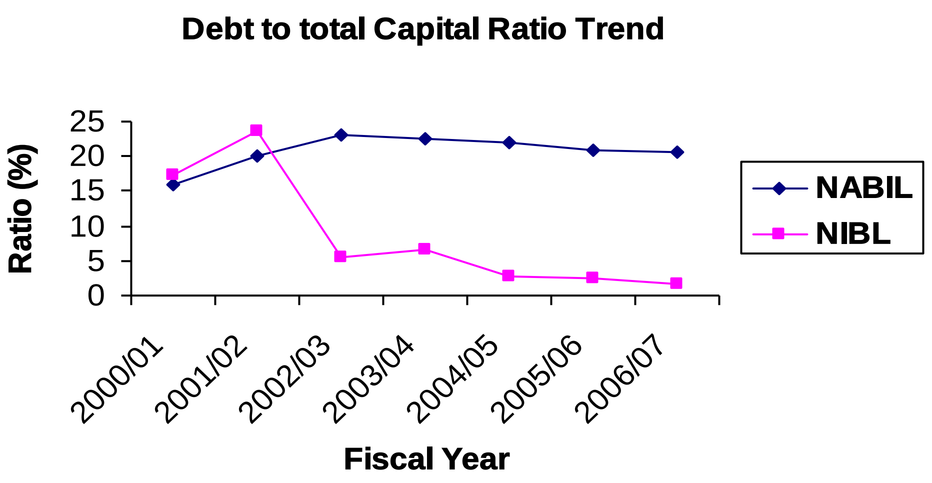
Table No. 8

Debt to Total Capital Ratio **(%)**

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL Ratio	15.89	19.95	22.99	22.54	21.94	20.83	20.55	20.67
NIBL Ratio	17.30	23.66	5.5	6.60	2.66	2.35	1.69	8.54

Above table shows the debt to total capital ratio of selected two banks, NABIL and NIBL. The ratio of NABIL is fluctuating trend. The average ratio is 20.67% and highest ratio is 22.99% in FY 2002/03 and the lowest ratio is 15.89% in FY 2000/01.

Similarly, NIBL has also shown the fluctuating trend the ratio is increasing trend in FY 2001/02 and highest ratio also is 23.66% in FY 2001/02 then diminishing with rapidly in FY 2002/03 to 2006/07 is 5.5% to 1.69%. With considering above analysis NIBL is little bit better than NABIL because it has lower ratio than NABIL. Creditors of banks prefer low ratio of debt to total capital ratio. Following figure can clarify the trend of ratio.



[Figure # 7]

c. Interest Coverage Ratio:

This ratio is calculated by dividing interest and preference dividend to Net profit before interest and tax. This ratio measures the debt servicing capacity of a firm. It is also called **time interest earned ratio.** This ratio informs us about interest expenses capacity. Following table shows the ratio of interest coverage ratio.

Table - 9

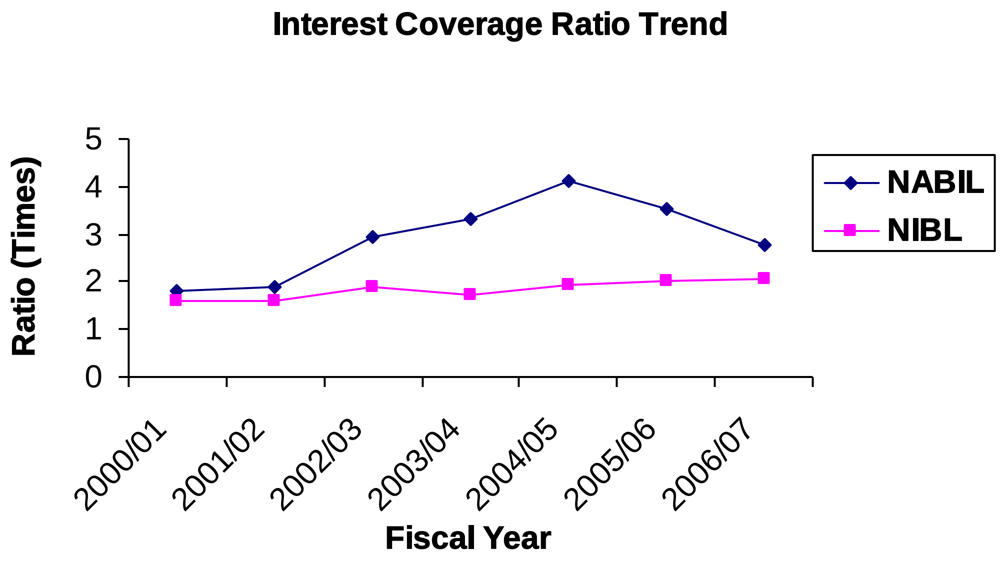
Interest Coverage Ratio **(times)**

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL	1.82	1.89	2.94	3.32	4.11	3.51	2.79	2.91
NIBL	1.58	1.60	1.90	1.71	1.94	2.03	2.06	1.83

Above table shows the Interest Coverage ratio of two selected banks (NIBIL & NIBL). Average ratio of NABIL is 2.91 times and NIBL is 1.83 times. The highest ratio of NABIL is 4.11 times in FY 2004/05 and lowest ratio is 1.82 times in FY 2000/01.Similarly NIBL has average ratio is 1.80 times and the highest ratio is 2.06 times in FY 2006/07 and the lowest ratio is 1.58 time in Fy 2000/01in studying period.

Above analysis conclude that NABIL Bank has the ability to make the payment of interest to creditors because NABIL has greater ratio in average than NIBL.

Following figure shows the accurate trend of ratio of two banks.



[Figure # 8]

d. Fixed Coverage Ratio:

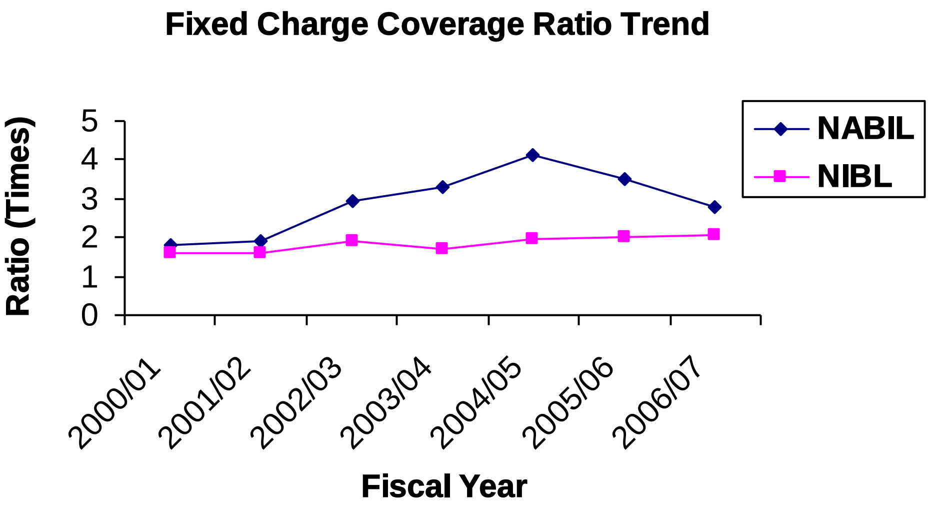
This ratio is calculated by dividing Net profit before interest and taxes by fixed charge. Fixed Charge is including interest paid, preference dividend and repayment of loan. These two banks have no preference dividend and repayment of loan. So, only interest paid is used the ratio is shown below the table.

Table - 10

Fixed Coverage Ratio **(%)**

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL Ratio	1.82	1.89	2.94	3.32	4.11	3.51	2.79	2.91
NIBL Ratio	1.58	1.60	1.90	1.71	1.94	2.03	2.06	1.83

Above table shows the Fixed Coverage ratio in absence of preference dividend and repayment of loan the ratio is same as Interest Coverage Ratio. Higher ratio shows the better performance of shareholder's point of view. So according to this ratio, NABIL Bank is able to perform better performance of its shareholders.



[Figure # 9]

4.1.1.3 Profitability Ratio

The primary objective of the company operating in Nepal is the maximization of the profit. To measure the results of operation which is the major contributes of cash and working capital. Various profitability ratios are calculated. Profitability ratio measures how effectively the two selected banks have managed their funds to earn profit. The following profitability ratios are computed to analyze the profitability of NABIL and NIBL.

a. Return on Investment (ROI)

This ratio is calculated by dividing net operating income by total assets. This ratio measures the profitability of all financial resources with respect to the total assets. It is used to determine how efficiently the total assets have been used by the management. It also evaluates the present return on the total assets as a guide for return expected on future purchase of assets. Higher ratio represents the utilization of overall resources efficiently. A higher ratio also indicated the lower volume of non performing assets employed by the bank. Non performing assets are very harmful for the bank so they should try to reduce their proportion in the asset structure. In the case of lower ratio shows the low efficient operating of management. It is also called Return on Assets. ROI Ratio of the selected two banks is tabulated below.

Table - 11

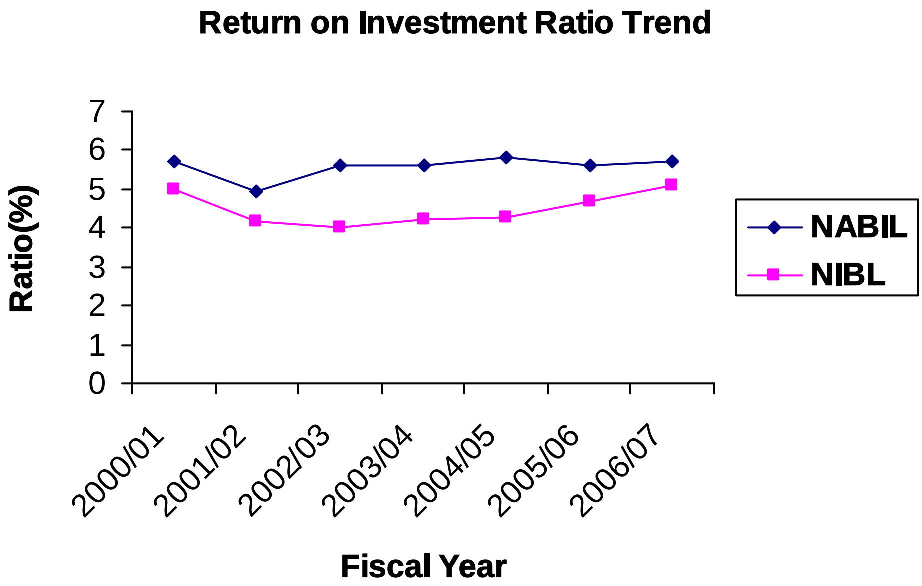
Return on Investment Ratio (ROI) **(%)**

FY / Bank	2000/01	20001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL Ratio	5.73	4.94	5.63	5.61	5.83	5.62	5.69	5.58
NIBL Ratio	5.01	4.19	3.99	4.21	4.28	4.67	5.11	4.49

The above table shows the Return on investment ratio of two selected banks (NABIL & NIBL) both banks have decreasing ratio of ROI. The average ratio of NABIL is 5.58% and NIBL is 4.49%. NABIL has higher than NIBL.

We can conclude from the above analysis is that the profitability with respect to the total investment assets of the banks has decreased with the span of time. NABIL has been able to utilize its asset more efficiently to generate profit than the remaining NIBL Bank. That's why we can say that NABIL has more efficient to generate profit per rupees of total assets than NIBL.

Following figure shows the trend of ROI of two banks.



[Figure # 10]

b. Return on Common Equity Ratio (ROCE):

This ratio is calculated by dividing net profit after tax by net worth. One of the main objectives of any bank is shareholder's wealth maximization. This is an important ratio because it judge whether the firm has earned a satisfactory return for its equity holder or not. This ratio expresses the capacity of the banks to utilize its owner's fund. Higher the ratio shows the more efficient the management and utilization of shareholder’s fund and lower the ratio shows the least efficient of the management for utilization of shareholder’s fund. Following table shows the ratio of Return on Common equity of reviewing period of selected banks.

Table -12

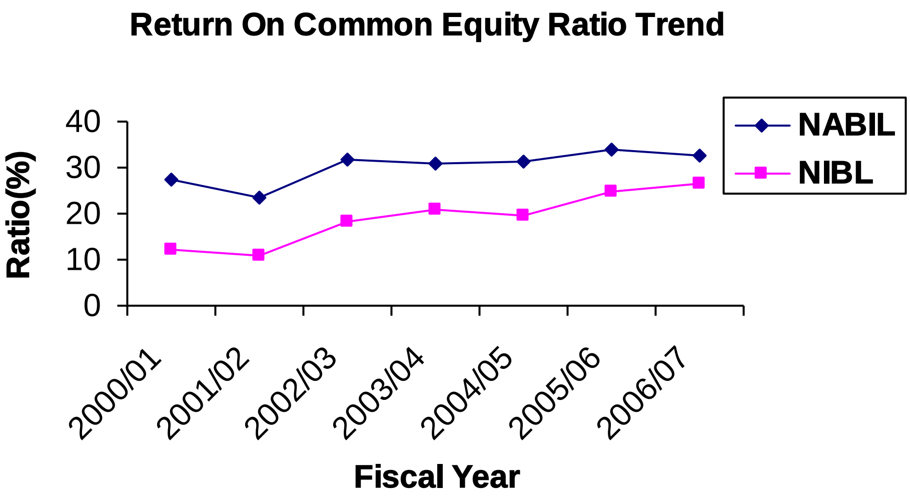
Return of Common Equity Ratio (ROCE)

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL Ratio	27.41	23.69	31.67	30.73	31.38	33.88	32.77	30.22
NIBL Ratio	12.02	10.91	18.30	20.94	19.67	24.77	26.70	19.04

The above table shows the Return of Common equity Ratio. The ratios are the ratio of NABIL is fluctuating trend and average ratio is 30.22% is reviewing period and the ratios of NIBL also fluctuating every year in reviewing period and average ratio is 19.04%.

This analysis, the conclusion is that the NABIL had been able to utilize the shareholder's fund more profitability and efficiency. NABIL Bank has earned more satisfactory return to its shareholders than NIBL.

We can see the real trend of Return on common equity ratio on following figure.



[Figure # 11]

c. Interest earned to total Asset Ratio:

This ratio is calculated by dividing interest income by total assets. To earn interest is major portion of every firm. Banks interest are earned from loan advances and investments hence higher proportion of risk assets and investment in the asset structure of the bank leads to higher interest earned to total assets ratio. The following table shows interest earned to total asset ratio of the selected two banks.

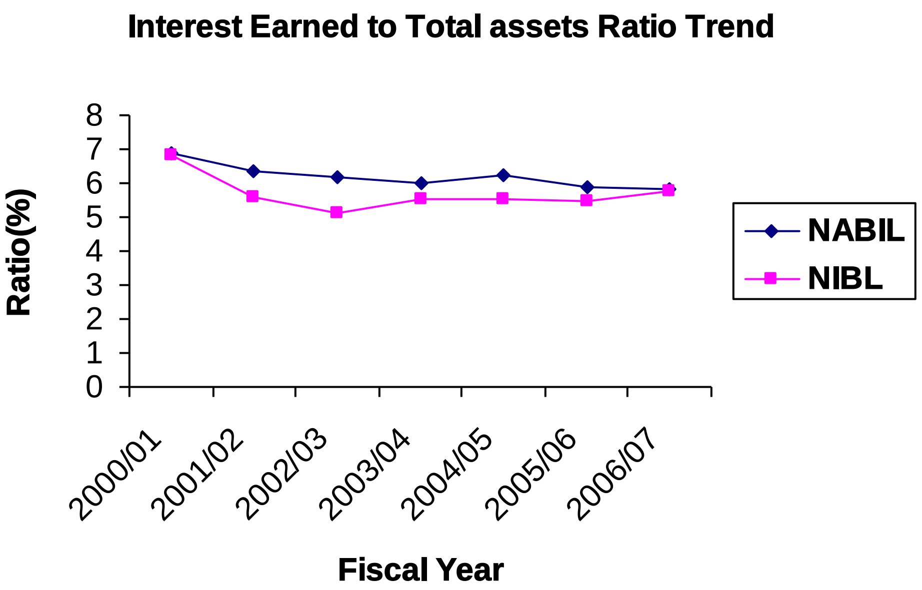
Table -13

Interest earned to total assets ratio (%)

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL Ratio	6.90	6.35	6.15	5.98	6.23	5.87	5.83	6.19
NIBL Ratio	6.82	5.56	5.09	5.52	5.52	5.50	5.74	5.68

The above table shows that the total interest earned to total assets ratio of two different banks have been decreasing throughout the review period. The maximum ratio of NABIL is 6.90% in FY 2000/01 and NIBL is 6.82% in same year FY 2000/01 and average ratio of NABIL has 6.19% and NIBL has 5.68%.

This ratio indicates that NABIL has greater ratio than NIBL. It means high percentage of interest earning in relation to its total assets. However the ratios of two banks are not satisfactory. This indicates that the banks have failed to earn a consistent interest income in relation to their total assets. At last we can say increased non performing assets in the asset structure led to the decline in the interest earned to total assets ratio of these banks.



[Figure # 12]

d. Total Operating Income to Personal Expenses Ratio:

This ratio is calculated by dividing total operating income by personal expenses. Personal expenses are the reward provided for the staff for performing organizational task. Total operating income measures the cost paid for taking services from staff to generate income by providing services to the customers. The following table shows the operating income to personal expenses ratio of the selected banks.

Table -14

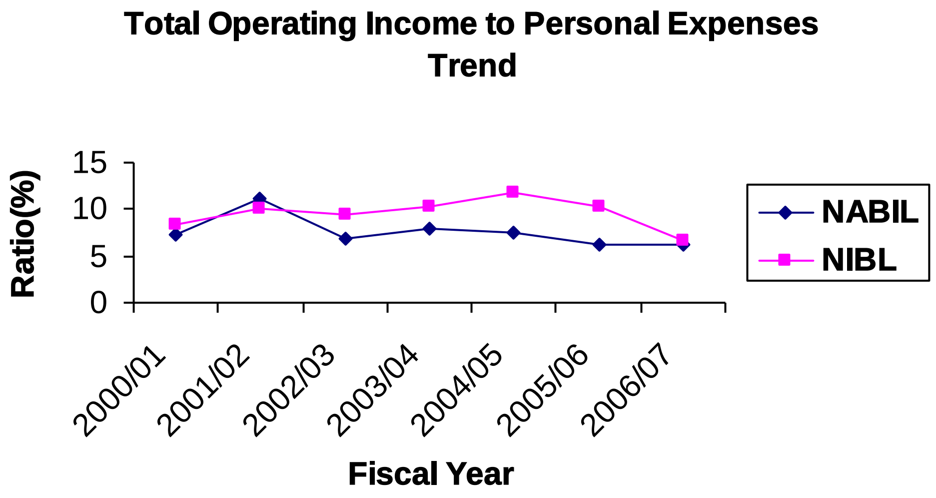
Total Operating Income to Personnel Expenses **(times)**

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL Ratio	7.21	11.12	6.78	7.90	7.57	6.19	6.16	7.56
NIBL Ratio	8.26	10.04	9.43	10.18	11.81	10.33	6.57	

The above table shows the commission and discount income to personal expenses ratio. In case of NABIL Bank increasing trend since FY 2000/01 and then diminishing trend slightly. Maximum ratio is 1.007 times in FY 2000/01 and average ratio is 0.73 times. In case of NIBL firstly in decreasing trend and then in FY 2002/03 is start to increase and average ratio 0.76 times.

This analysis helps us to conclude that NABIL has higher investment for its staff than NIBL higher investment on staff reduces the turnover of the staff. So we can conclude that NABIL Bank's staffs are working more efficiently than NIBL as the higher ratio of commission and discount income to personal expenses ratio.

Following figure shows the trend of ratio of two banks.



[Figure # 13]

e. Interest Income to Interest Expense Ratio:

This ratio measures the utilization of outsider's fund deposit which cost interest for the banks for lending activities that generate revenue interest for the bank. Higher percentage represents the effective utilization of debt capital. The ratio of interest income to interest expenses is tabulated below:

Table No. – 15

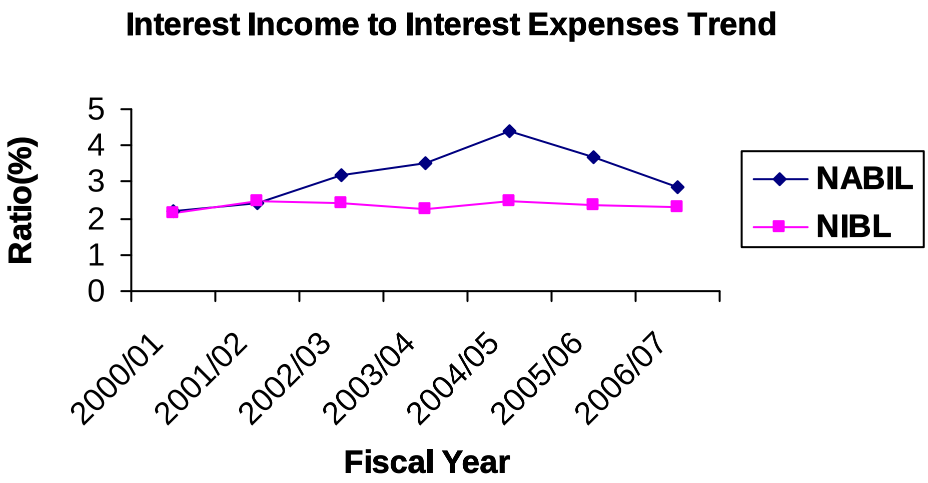
Interest Income to Interest Expenses Ratio **(times)**

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL Ratio	2.19	2.42	3.21	3.53	4.39	3.67	2.86	3.18
NIBL Ratio	2.14	2.50	2.43	2.24	2.50	2.39	2.31	2.36

The above table shows the two selected banks have been able to maintain the interest income to interest expense ratio quite consistently. The ratio of NABIL is increasing and decreasing ratios in reviewing period but the ratio of NIBL is fluctuating each year. In average NABIL has 3.18 times and NIBL has 2.36 times.

The above analysis helps to conclude that the income interest to income expense ratio of NABIL was slightly better than NIBL. This implies that either NABIL is using the outsider's fund properly on the income generating activities or the fund the bank is using is relatively less costly than that of NIBL.

Following figure shows the trend of selected two banks.



[Figure # 14]

4.1.1.4 Valuation Ratio:

Various valuation ratios like price earning ratio, dividend payout ratio and market value per share have been calculated to indicate the market value of the bank as compared to the book value and to measure the stock price relative to earnings.

a. Price Earning (P/E) Ratio:

This ratio is calculated by dividing market value per share by earning per share. This ratio indicated investor's judgment or expectation about the firm's performance. To the investors the ratio helps to take right decision shares from the market. The Ratio of price earning of selected two banks is tabulated below:

Table - 16

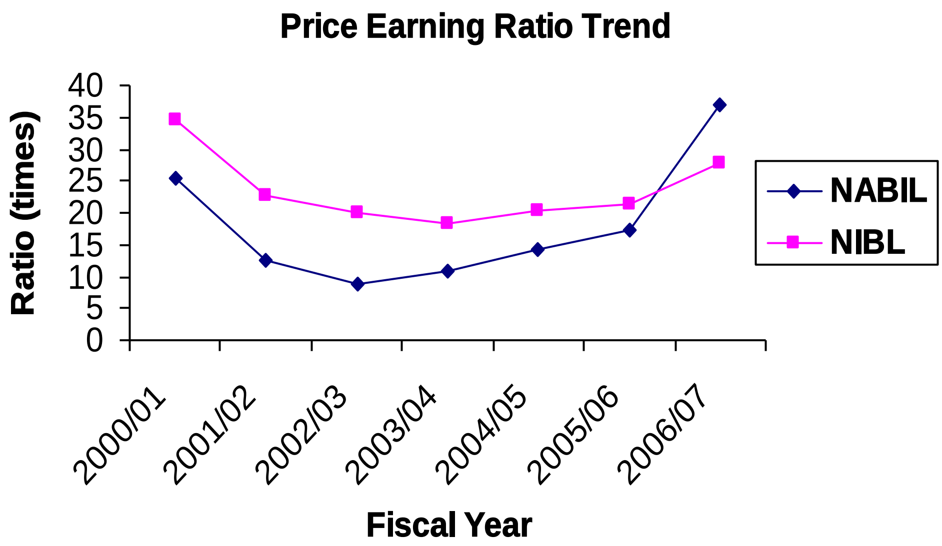
Price Earning Ratio **(Times)**

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL	25.31	12.67	8.74	10.80	14.27	17.34	36.84	17.99
NIBL	34.67	22.63	20.13	18.18	20.25	21.23	27.63	23.53

The above table shows that the price earning ratios of two selected banks. In case of NABIL, it has fluctuated trend. The minimum ratio is 8.74 times in Fy 2002/03 and the maximum ratio is 36.84 times in Fy 2006/07 and average ratio is 17.99 times. In case of NIBL firstly increasing and then in decreasing trend. The minimum ratio is 18.18 times in FY 2003/04 the maximum ratio is 34.67 times in Fy 2000/01 and average ratio is 23.53 times.

On average P/E ratio of NIBL is the higher than NABIL. The variance or differences of two banks are highly different. So, it can be concluded that the public's expectation of NIBL is higher than NABIL.

Following figure shows the trend line of NABIL & NIBL.



[Figure # 15]

b. Dividend Payout Ratio:

Dividend Payout Ratio is calculated by dividing cash dividend by Earning per share. Profit after tax earned by the banks has to be distributed among the shareholders. Banks usually do not distribute 100% of their earnings; they tend to retain certain portion in order to expand their business. Higher dividend payout ratio indicates lower retained profit and higher cash dividends to the shareholders. Dividend payout ratios of the selected two banks are tabulated below.

Table - 17

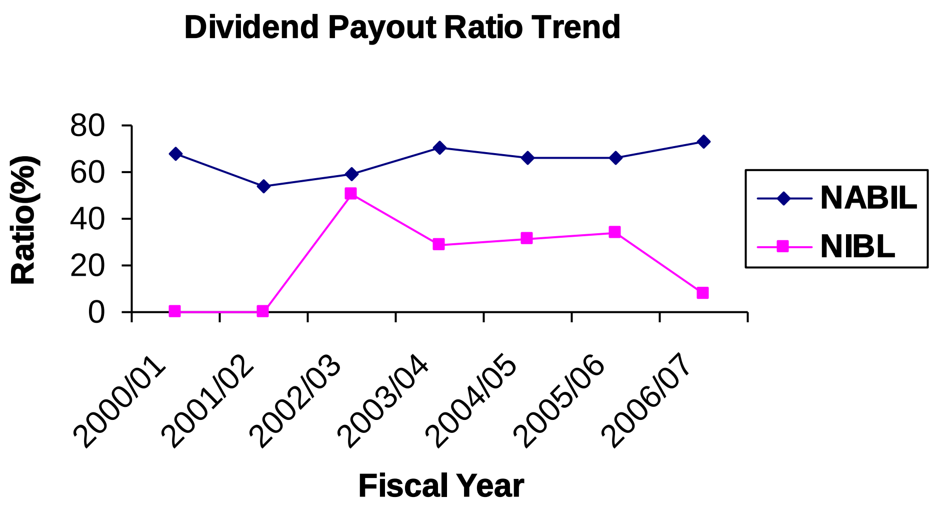
Dividend Payout Ratio (%)

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL Ratio	67.50	54.30	59.06	70.19	66.36	65.78	72.95	63.59
NIBL Ratio	-	-	50.56	29.01	31.65	33.70	7.99	21.84

The above table shows that both banks are must paying dividend each year. NABIL is paying regularly after 2000/01 in reviewing period but NIBL is not paid in Fy 2000/01 and 2001/02. The DPS of NABIL is fluctuating 54.30 to 72.95% and NIBL is fluctuating 7.99% to 50.56% on average NABIL has 63.59% and NIBL has 21.84%.

The above analysis helps us to conclude that NABIL being in its maturity stage is paying high percentage of dividend while NIBL is paying lower percentage on average than NABIL.

Following figure shows the trend lines of two selected banks.



[Figure # 16]

4.1.1.5 Other Indicators

Some of other indicators such as dividend per share and earning per share have been selected for the study.

a. Earning Per Share (EPS)

Earning per share is calculated by dividing profit after tax by total number of shares. Higher profitability of the bank results in the higher earning per share. The main concentration of shareholders lays in the bottom line of the bank i.e. its profit after tax. No matters the earnings are retained or distributed higher earning per share enhance the value of the shareholder wealth. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis. Higher the amount of EPs is the indicators of efficiency of management and vice versa.

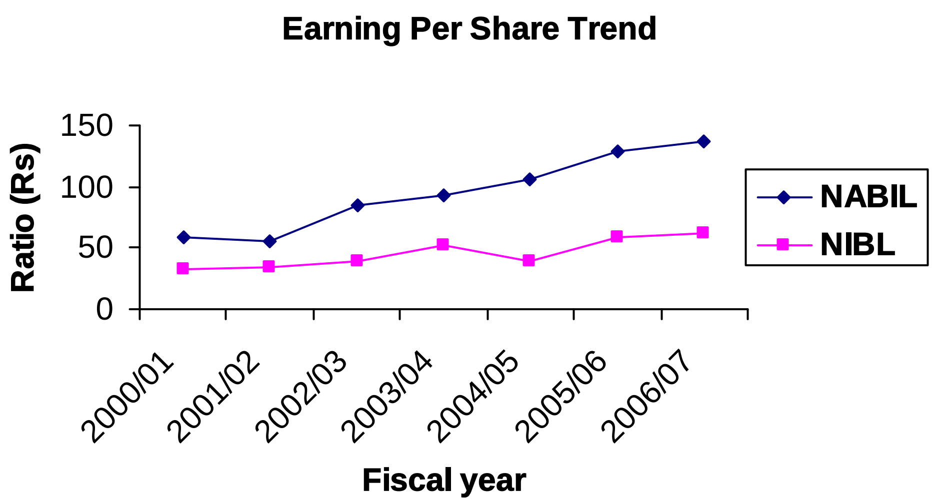
The following table shows the 7 year's earning per share (EPS).

Table - 18

Earning Per Share

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL (Rs.)	59.26	55.25	84.66	92.61	105.49	129.21	137.08	94.79
NIBL (Rs.)	33.17	33.59	39.56	51.70	39.50	59.35	62.57	45.63

From above table, the EPS is fluctuating each year in both banks. The EPS of NABIL is between Rs. 55.25 to 137.08 and average is Rs 94.79. And the EPS of NIBL is in between 33.17 to 62.57 and average Rs. is 45.63. It seems that NABIL has the better EPS than NIBL but NIBL has also increasing trend of EPS. This indicates that EPs of NABIL shows more efficiency of management than NIBL.



[Figure # 17]

b. Dividend per Share

DPS can be calculated as dividing paid by par value of the share. DPS shows the percentage of the dividend that the shareholders receive in relation to the paid up value of the share. The DPS is tabulated below of selected banks. The amount of earning distributed and paid as cash dividend is considered as dividend per share. Higher the DPS shows the efficiency of management and vice versa.

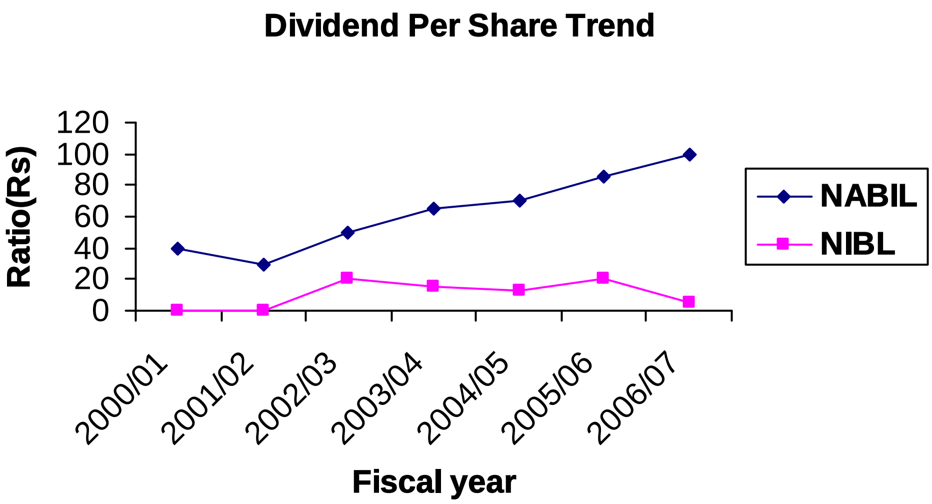
Table – 19

Dividend per Share (in Rs.)

FY / Bank	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Avg.
NABIL	40.00	30.00	50.00	65.00	70.00	85.00	100	62.85
NIBL	0.00	0.00	20.00	15.00	12.5	20.00	5.00	10.35

The above table shows the DPS of two selected banks NABIL has in between 30 to Rs. 100 and NIBL has in between 0 to Rs. 20 and average DPS of NABIL is Rs. 62.85 and NIBL is Rs. 10.35 in reviewing period. NIBL does not pay dividend in Fy 2000/01 & 2001/02.

From above analysis we can conclude that NABIL bank give more dividend to its shareholders than NIBL or NABIL is more profitable bank to investors than NIBL.



[Figure # 18]

After analyzing the various financial ratios of the selected two banks now we have a clear picture of comparative financial efficiency of these two banks. The next part of financial analysis includes the income and expenditure analysis of these two banks for the review period.

4.1.2 Income and Expenditure Analysis

Income and expenditure are the important indicators of the financial efficiency so their analysis is important to draw any conclusion.

4.1.2.1 Operating Income

The analysis shows the proportionate contribution of different sources of income in generating total income. The major sources of operating income of commercial banks are as follows:

- Interest received from loan and advances or government securities.
- Commission and discounts.
- Foreign exchange income
- Fluctuation gain and other miscellaneous income.

The operating income of selected two banks is tabulated below in percentage.

Table No. -20

Operating Income in Percentage

S. no	Income Source	2000/01		2001/02		2002/03		2003/04		2004/05		2005/06		2006/07		Average	
		Nabil	**NIBL**	**Nabil**	**NIBL**	**Nabil**	**NIBL**	**Nabil**	**NIBL**	**Nabil**	**NIBL**	**Nabil**	**NIBL**	**Nabil**	**NIBL**	**Nabil**	**NIBL**
1	Interest Received	80.51	82.96	68.34	78.48	75.90	79.58	75.10	80.20	74.30	70.60	70.09	71.29	69.73	72.19	73.42	76.47
2	Commission and discount	9.33	3.84	6.98	3.90	10.78	7.06	10.39	6.11	8.96	12.41	10.17	12.09	10.18	13.15	9.54	8.37
3	Foreign Exchange	10.14	11.82	9.41	10.31	10.74	8.80	11.80	9.65	12.85	13.60	13.64	13.11	14.18	10.86	11.82	11.16
4	Other	0.02	1.38	15.27	7.31	2.58	4.56	2.90	4.04	3.89	3.39	6.10	3.74	5.9	3.80	5.23	4.03
	Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

i) Interest Income:

Interest income is main source of bank's income which is proved from the above table. The sources of interest income are loans advances and overdrafts are the major source of interest income. Other sources are interest income from investment on government securities, debentures and others.

The above table shows that the interest income of all two banks are quite consistent throughout the review period but there is quite variance in the interest income of NABIL in Fy 2001/02 on average NABIL's interest income was 73.42% of its operating income and NIBL's was 76.47%.

The above analysis helps to conclude that percentage income from interest is higher in NIBL then NABIL. Higher percentage income reflects better operational efficiency or higher level of risk due to higher volume of investment in loan and advances. But this may subject to the bank's potential losses in the future due to bad debts.

ii) Commission and Discount Income

The above table shows that the commission and discount is 3rd major source of income of selected two banks. It consist of commission and discount received from letter of credit, letter of guarantees, remittance fees and other fees and commission received through various facilities provided to the customers.

The above table shows the highly fluctuation of commission and discount in both banks. In case of NABIL the highest income from commission and discount is 10.78% in Fy 2002/03 and lowest income is 6.98% in Fy 2001/02 then an average income is 9.54% in study period. In case of NIBL, the highest income is 13.15% in Fy 2006/07 and lowest income is 3.84% in Fy 2000/01 than an average income from commission and discount is 8.37%.

This analysis helps to conclude that the earning from commission and discount is better in NABIL bank than Nepal investment bank which implies that it provides more services to its customers.

iii) Foreign Exchange Income

This is also one of the major sources of income for the banks which consist of gains on sales of foreign currency and revaluation income. The above table shows that foreign exchange income of two banks is fluctuating each year. It was maximum percentage in FY 2006/07 (14.18%) in NABIL and FY 2004/05 (13.60%) in NIBL. Thus it is clear that this income has decreased throughout the review period.

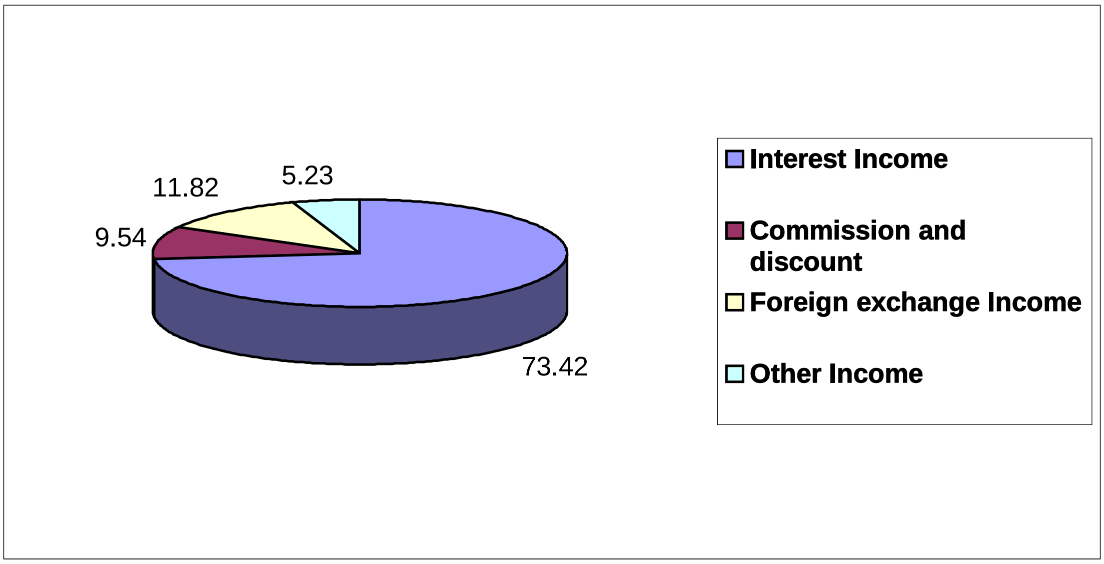
This clearly shows that this income was little bit highest in NABIL (11.82%) on average than NIBL (11.16%). This helps to conclude that foreign exchange income is comparatively better in NABIL than NIBL.

iv) Other income

Other income had a very nominal contribution in the total operating income. It has a considerable contribution in the income in case of NABIL bank. In average NABIL bank has 5.23% of other income and 4.03% in NIBL.

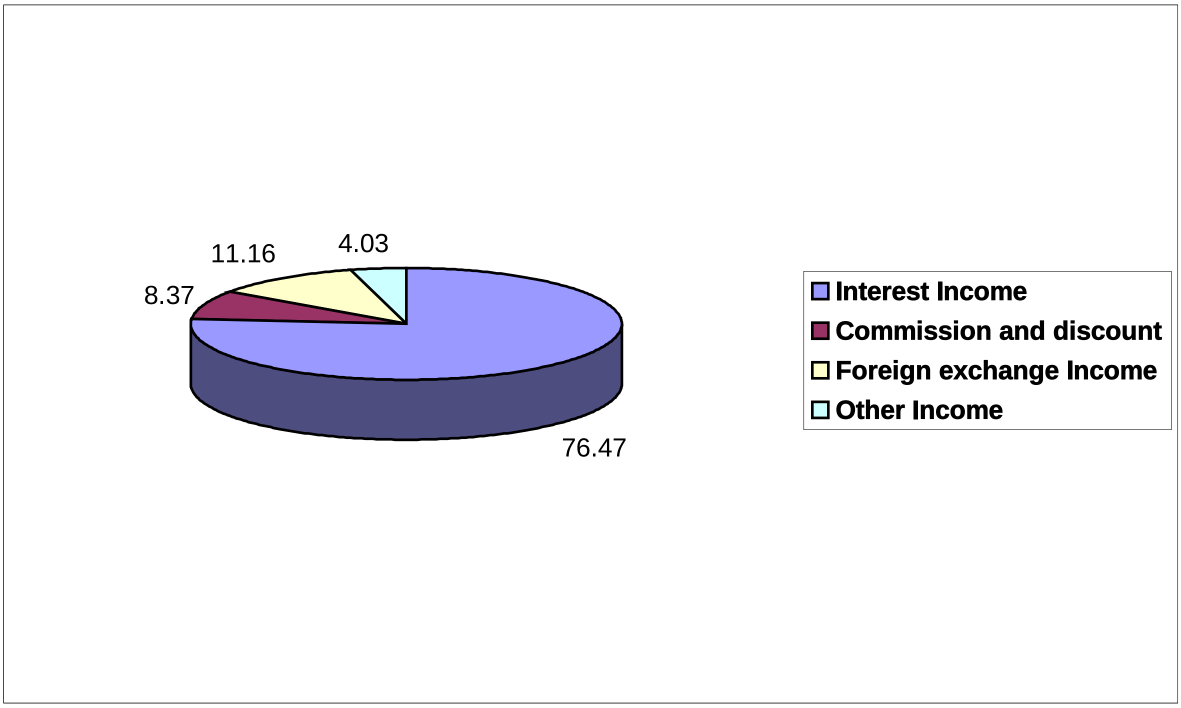
In conclusion, we can say that interest income is the major source of income in two banks. In occupied more than 75% of the operating income. In some fiscal years the income from foreign exchange was more than the income from commission and discount. The pie chart of average operating income of the two selected banks is given below.

Average Operating Income of NABIL Bank



(Figure # 19)

Average Operating Income of NIBL.



(Figure # 20)

4.1.2.2 Operating Expenses

Operating expenses are those expenses that are directly related with the operation of the banks. This analysis shows the proportionate expenses under the different headings. They are personnel expenses, office operating expense and provision for staff bonus which are tabulated as follows:

Table -21

Operating Expenses in Percentage

S. no.	Income Source	2000/01		2001/02		2002/03		2003/04		2004/05		2005/06		2006/07		Average.	
		Nabil	NIBL	Nabil	NIBL	Nabil	NIBL	Nabil	NIBL	Nabil	NIBL	Nabil	NIBL	Nabil	NIBL	Nabil	NIBL
1	Interest Paid	53.78	51.16	38.84	39.84	40.84	47.79	41.22	55.18	33.94	52.80	42.05	57.58	51.29	59.78	43.14	52.02
2	Staff Expenses	13.56	9.75	12.18	12.56	27.10	15.48	26.34	15.18	27.80	14.44	25.87	14.15	22.16	12.68	22.14	13.46
3	Other General Expenses	27.76	35.82	45.28	45.54	23.52	31.95	21.96	25.29	26.52	27.24	21.51	22.35	17.37	21.23	26.27	29.92
4	Provision for Staff Bonus	4.89	3.27	3.71	2.61	8.54	4.78	10.48	4.35	11.73	5.52	10.57	5.92	9.18	6.31	8.44	4.68
	Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

i) Interest Paid:

The above table shows that the interest paid is the major expense of operating expense of the selected banks. Interest was paid different headings like fixed saving. Current saving, loan borrowed, etc.

The above table shows the fluctuation trend of interest expenses. In case of NABIL the highest expenses in interest is 53.78% in Fy 2000/01 and lowest expenses is 33.94% in Fy 2004/05 than on average is 43.14% as well as NIBL has 59.78% highest expenses in interest and lowest 39.84% and 52.02% on average on studying period. This analysis helps to conclude that NIBL is using more interest bearing liabilities than NABIL.

ii) Personnel (staff) Expenses

Personnel expenses are one of the important heading in the operating expenses of any institutes. This includes salary, allowances, training, uniforms and liveries. Without staff any firm cannot operate any task of organization. According to above table personnel expense is higher in NABIL than NIBL personnel expenses of NABIL are in between 12.18% to 27.80% and NIBL is in between 9.75% to 15.48%. The staff expense trend is increasing trend in NIBL but NABIL has fluctuating trend in study period.

Above analysis helps to conclude that NABIL has been spending higher portion of operating expenses in personnel expense than NIBL. This higher expense on personnel and higher number of staff may create position impact on the economic development of the country.

iii) Other General Operating Expenses

The expenses that are general operating in nature and directly related with the operation of the bank are grouped under this consists of the expense incurred in rent, repairs, maintenance and utilities traveling, entertainment, business promotion, advertisement, communication, stationery, audit fees insurance board meeting and other sundry expenses.

From the above table this expense is second main source of expenses but NIBL in FY 2002 it took first source of operating expenses. NABIL bank has these expenses in between 17.37% to 45.28% and NIBL has in between 21.23% to 45.54% and on average NABIL has 26.27% and NIBL has 29.92%.

This analysis helps to conclude that NIBL has been spending more of its income into general operating expenses. NABIL bank has controlled its operating expenses considerably which caused the decline in its proportion of operating expenses.

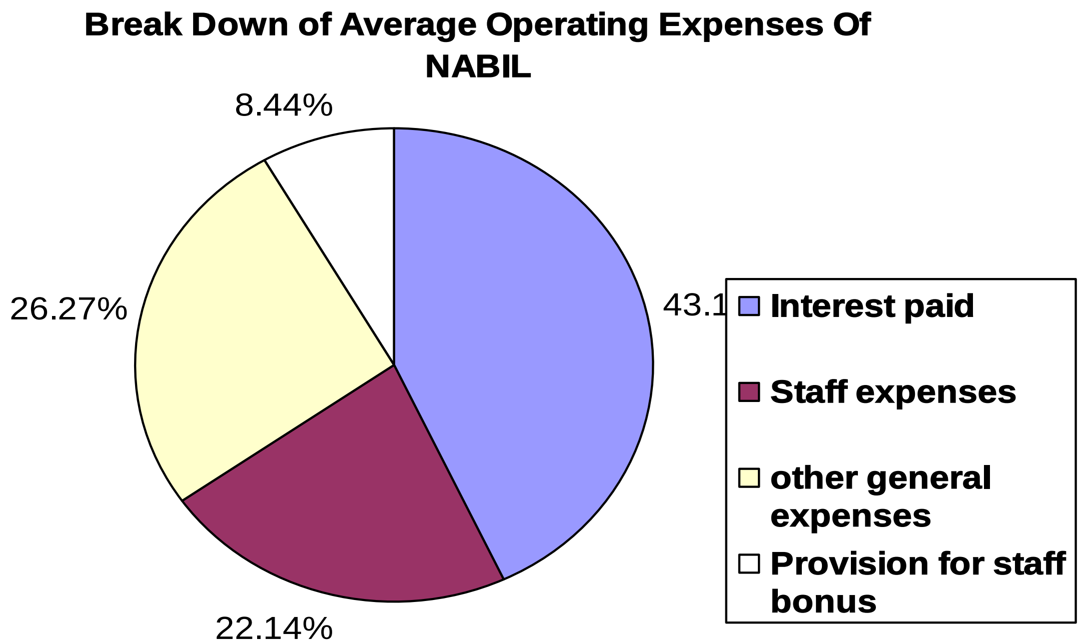
iv) Provision for Staff Bonus

Provision for staff Bonus expense plays vital role in the banks to motivate staff and bank could achieve good performance of staff so this expense is important part of whole expense. Bonus is distributed only if the bank can earn profit.

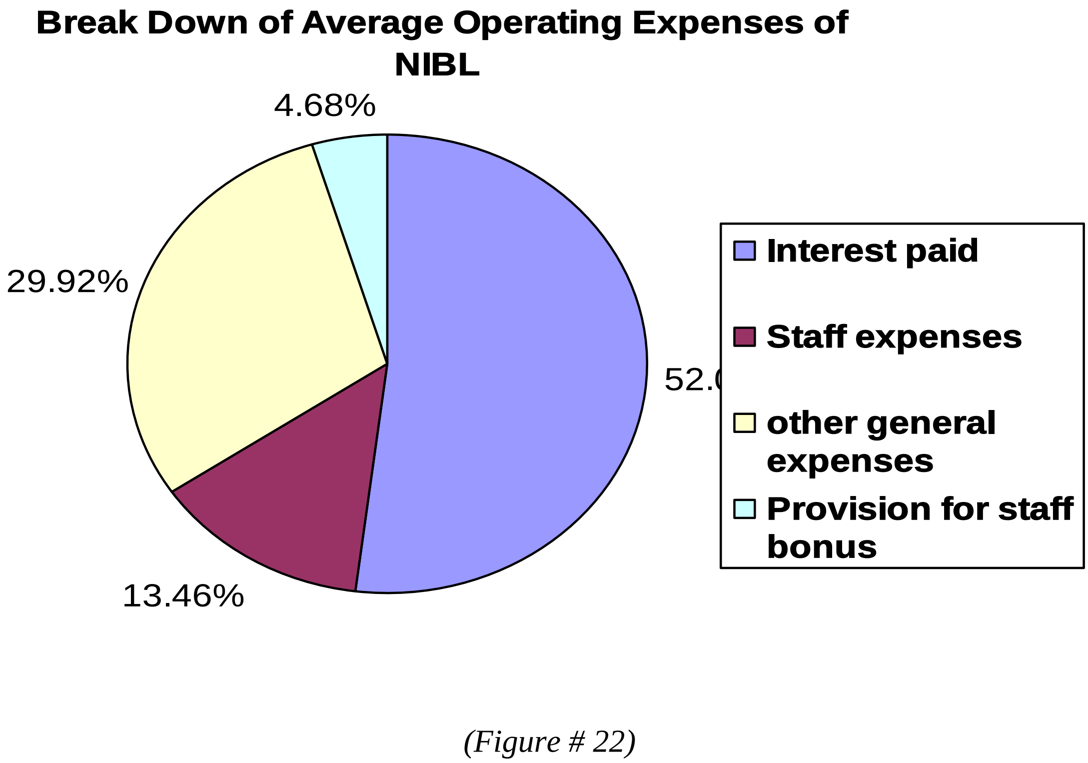
The above table shows that the provision for staff bonus is fluctuating through out the review period. In case of NABIL bank the highest percent of provision for staff bonus is 11.73% and lowest is 3.71% and NIBL is in between 2.61% to 6.31% and on average NABIL has 8.44% and NIBL has 4.68%.

The above analysis helps to conclude that comparatively NABIL bank is trying to uplift the morale of its staff which ultimately motivated staff for better performance and productivity. But higher portion of bonus to staff reduces the dividend for their shareholders which are the burning conflict in these banks.

The breakdowns of average operating expenses of these selected banks are presented in the figure below.



(Figure # 21)



(Figure # 22)

4.2 Statistical Analysis

The financial efficiency of the selected banks has been analyzed statistically through trend analysis with least square method.

4.2.1 Trend Analysis

This analysis shows the trend of deposits collection and loan and advances of NABIL and NIBL for seven years. Deposit collection show a bank's efficiency in performance and efficient utilization of the same indicates its success and profitability.

The total deposits, loan and advances and deposits utilization of NABIL and NIBL is presented below.

Table -22

Deposits Utilization of NABIL **(In million)**

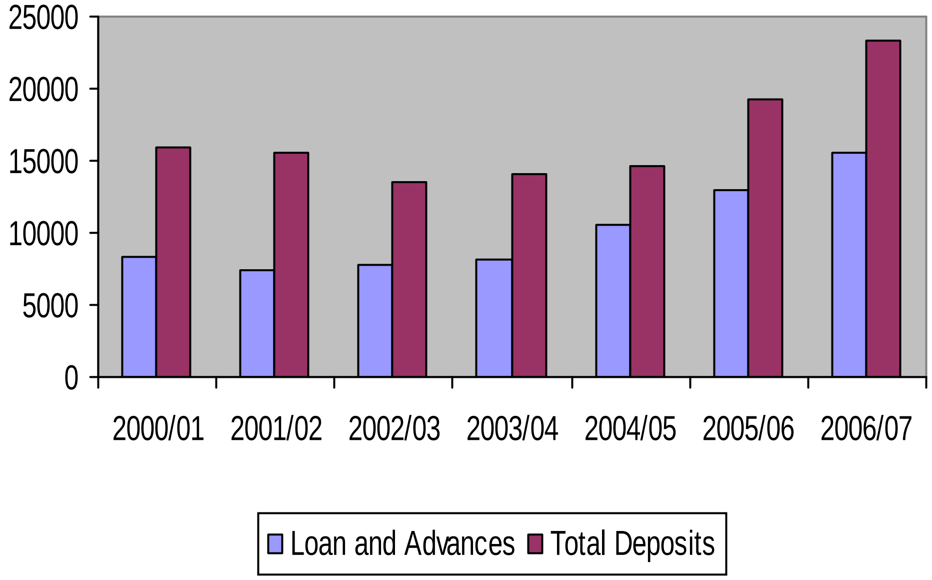
F.Y.	Loan and advances	Total deposits	Deposits utilization Rate (%)
2000/01	8324.44	15839.01	52.56
2001/02	7437.90	15506.44	47.97
2002/03	7755.95	13447.65	57.68
2003/04	8189.99	14119.03	58.01
2004/05	10586.17	14586.61	72.57
2005/06	12922.54	19347.40	66.79
2006/07	15545.78	23342.29	66.60
Average		**60.31**	

Table -23

Deposit Utilization of NIBL **(In million)**

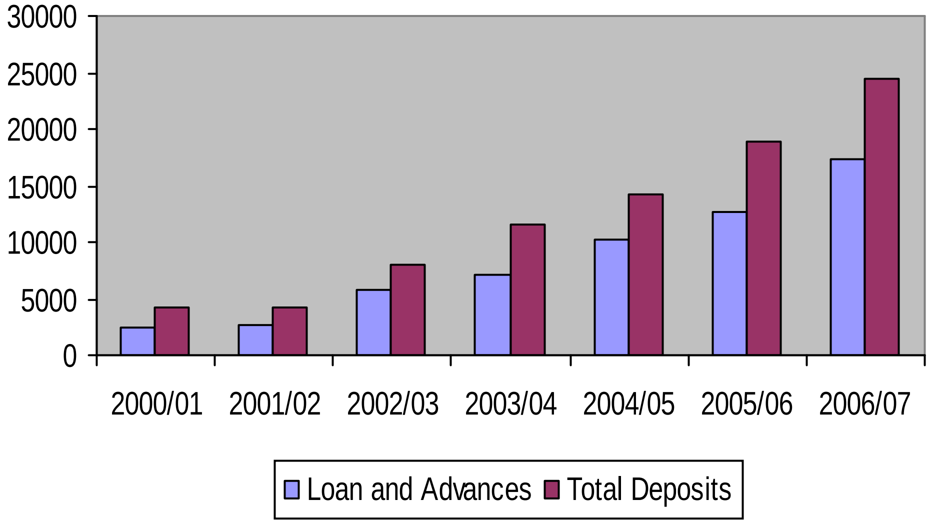
F.Y.	Loan and advances	Total deposits	Deposits utilization Rate (%)
2000/01	2429.03	4256.21	57.07
2001/02	2564.43	4174.76	61.43
2002/03	5772.14	7922.75	72.86
2003/04	7130.13	11524.68	61.87
2004/05	10126.06	14254.57	71.04
2005/06	12776.21	18927.31	67.50
2006/07	17286.43	24488.86	70.59
Average			66.38

Trend of "Loan and Advances" and "Total Deposits" of NABIL

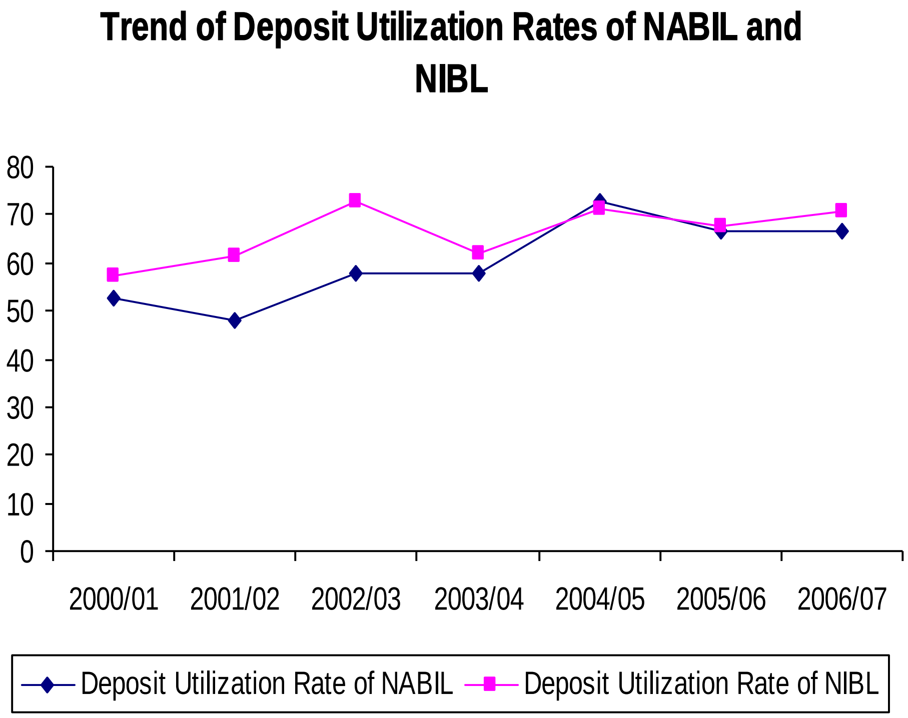


(Figure # 23)

Trend of "Loan and Advances" and "Total Deposits" of NIBL



(Figure # 24)



(Figure # 25)

Above table and figure shows that the loans and advance and total deposit of selected two banks. In case of NABIL loans and advances and total deposits is increasing trend since Fy 2002/03 and decrease in Fy 2001/02 and little bit increase in Fy 2003/04. In case of NIBL fluctuating trend is shown in review period when final year of the study is highest in loans and advance and deposits utilization rate is always higher except Fy 200/01 of NIBL. On average NABIL has 60.31% and NIBL has 66.38% in deposit utilization. So, NIBL have good knowledge of collect and invest technique.

Trend analysis is including various trends and researcher has analyzed the trends of the five basic financial indicators they are:

- Total deposit trend.
- Total loans and advances trend
- Net profit after tax trend
- Earning per share trend
- Market value per share trend

4.2.1.1 Total Deposit Trend

Total deposit trend in analyzing the total deposit of NABIL and NIBL by least square method. Appendix O (1) shows that the total deposit trend of NABIL bank's which is expected to be Rs. 21074.15 million in Fy 2007/08 and Rs. 22193.10 million in Fy 2008/09. The deposit has been increasing every year by Rs. 1118.95 million.

In case of NIBL, the expected deposit will be Rs26011.98 millions in Fy 2007/08 and Rs in 29459.65 million in FY 2008/09. The deposit has been increasing every year by Rs. 3447.67 million. As per the calculations in Appendix O, the calculated values of average total deposits (a) Rate of change of deposit and (b) expected value of total deposits for FY 2007/08 and 2008/09 are as follows

Table -24

Total deposit trend **(In million)**

Bank	**a**	**b**	**Expected total deposit for fiscal years**			
			2007/08	**2008/09**	**2009/010**	**2010/011**
NABIL	16598.35	1118.95	21074.15	22193.10	23312.05	24431
NIBL	12221.30	3447.67	26011.98	29459.65	32907.32	36354.99

The above analysis gives the summary of total deposit trend of the selected banks in FY 2007/08 and Fy 2008/09. It can be seen that the rate of growth in deposit per year is higher in NIBL than NABIL and expected deposit also more in NIBL than NABIL. So we can say that NIBL is success to collect deposit.

4.2.1.2 Total Loans and Advance Trend

The researcher will now analyze the total loans and advances trend of NABIL Bank Ltd. and Nepal Investment bank Ltd. The Appendix 'P' shows that NABIL's total loans and advances has been in the increasing trend and it is expected to be Rs. 15175.18 million in Fy 2007/08 and Rs 16441.71 million in Fy 2008/09. Total loans and advances have been increasing every year by Rs. 1266.55 million.

NIBL Bank's trend analysis of total loans and advances will now analyze in Appendix 'P'. The result is an increment trend. The change in total loans and advances every year is Rs.

2476.77 million and expected total loans and advances for FY 2007/08 is Rs. 18204.86 million and in FY 2008/09 is Rs.20681.63 million.

As per the calculations in Appendix 'P' the calculated value of average loans and advances (a) rate of change of loans and advantages and (b) expected total loans and advances for Fy 2007/08 and 2008/09 are as follows:

Table -25

Expected total loans and advances **(In million)**

Bank	a	b	Expected total deposit			
			2007/08	2008/09	2009/010	2010/011
NABIL	10108.96	1266.55	15175.18	16441.71	17708.26	18974.81
NIBL	8297.78	2476.77	18204.86	20681.63	23158.40	25635.17

From the above calculations we can see that the growth in total loans and advances in NABIL is the higher at Rs. 1266.55 than NIBL at Rs. 2476.77. This proves that NIBL is very aggressive in mobilizing its collected deposit to earn a huge return out of it but it is not sure because loans may be used unproductive sector.

4.2.1.3 Net Profit After Tax Trend

This study will now analyze the net profit after tax trend of NABIL Bank Ltd. And NIBL the calculation in Appendix Q shows the trend of both banks. NABIL's net profit after tax has been in the increasing trend and it is expected to be Rs. 748.95 million in FY 2007/08 and Rs. 819.62 million in FY 2008/09. Net profit after tax has been increasing every year by Rs. 70.67 million.

NIBL's trend also calculated in Appendix 'Q" that shows the net profit after tax on increment trend which is growing every year at the rate of Rs. 72.76 million. The expected net profit after tax of NIBL for FY 2007/08 is Rs. 500.62 million and Rs. 573.38 million is FY 2008/09.

As per calculation in Appendix Q, the calculated values of average net profit after tax (a) rate of change of net profit after tax and (b) expected net profit after tax for Fy 2007/08 and 2008/09 are as follows :

Table -26

Expected Total Net Profit after Tax (In million)

Bank	a	b	Expected total deposit			
			2007/08	2008/09	2009/010	2010/011
NABIL	466.27	70.67	748.95	819.62	890.29	960.96
NIBL	209.58	72.76	500.62	573.38	646.14	718.90

Above analysis can be conclude that NIBL bank has higher growth rate in the net profit after tax of Rs. 72.76 million and expected net profit after tax also greater than NIBL obviously. If this trend continues NABIL will soon surpass NIBL in providing net profit after tax. The success to achieve this highly competitive growth rate can be contributed to its aggressiveness in advancing credits to various sectors by diversifying its business to various part of the country. So, NIBL should be known own position and should be trying to improvement.

4.2.1.4 Earning Per Share Trend

Now this study will analyze the earning per share trend of NABIL Bank Ltd. The calculation in Appendix 'R' shows that Nabil's earning per share has been in the increasing trend and it is expected to be Rs. 152.23 in pay 2007/08 and Rs. 166.59 in FY 2008/09. Earning per share has been increasing ever year by Rs 14.36.

NIBL's earning per share trend shows in Appendix 'R'. It earning per share is decreasing trend. The change in earning per share of every year is Rs. 4.99 the expected earning per share for fy 2007/08 is Rs 61.31 and in fy 2008/09 is Rs. 66.30.

As per calculation in Appendix 'R' the calculated values of average earning per share (a), rate of change of earning per share (b) and expected earning per share for fy 2007/08 and 2008/09 are as follows:

Table -27

Expected Earning per Share

Bank	a	b	Earning Per Share			
			2007/08	**2008/09**	**2009/010**	**2010/011**
NABIL	94.79	14.36	152.23	166.59	180.95	195.31
NIBL	41.35	4.99	61.31	66.30	71.29	76.28

From the above table it can be concluded that EPS of NABIL is greater than EPS of NIBL. NABIL‘s earning efficiency is better than NIBL.

4.2.1.5 Market Value per Share Trend

This trend is last of calculated trend analysis this analysis shows the market value per share trend of NABIL and NIBL in Appendix S. This Appendix show that Nabil's market value per share has been in increasing trend and it is expected to be Rs. 3890.01 in FY 2007/08 and Rs 4407.69 in FY 2008/09 market value per share have been increasing every year by Rs. 517.68

NIBL trend analysis of market value per share is calculated in Appendix S, it has been also in increasing trend and it is expected to be Rs. 1453.72 in fy 2007/08 and Rs 1551.65 in fy 2008/09. Market value per share has been increasing every year by Rs. 97.93.

As per calculations in Appendix S, the calculated values of average market value per share (a), rate of change of market value per share (b) and expected market value per share of FY 2007/08 and 2008/09 are as follows:

Table -28

Expected Market Value per Share

Bank	a	b	Market value per share			
			2007/08	**2008/09**	**2009/010**	**2010/011**
NABIL	1819.29	517.68	3890.01	4407.69	4925.37	5443.05
NIBL	1062	97.93	1453.72	1551.65	1646.58	1747.51

The above table shows that the average market value per share of NIBL is less than NABIL. It indicates the market value of the bank. It is expected that the bank will grow in a high rate in the future.

As mentioned above, the trend analysis conducted above can be beneficial to the various parties concerned with these banks. These trends can be taken as the guidelines and norms around which the financial efficiency of the banks rotates if there are certain intended deviation in order to change the expected results, there is need to deviate from the current trend as well.

4.2.1.6 Coefficient Of Correlation

It is a most widely used statistical tools which measure the significance of the relationship between two variables during the study period. It is denoted by the symbol 'r'.

The formula for computing Karl Pearson’s coefficient of correlation is as follow.

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

The value of coefficient of correlation as obtained by the above formula should always lie between ±. When r = +1, it denotes the perfect positive correlation between two variables and r = -1 denotes there is negative correlation between the variables.

1. Coefficient of correlation between EPS and DPS of NABIL and NIBL.

It is calculated to examine the relationship between EPS and DPS of NABIL. The main objective of calculating coefficient of correlation is to test whether the EPS are significant in generating more satisfaction level to cover dividend per share. This analysis should be helpful for NABIL to take correlative action on the dividend pay time.

Coefficient of correlation of NABIL

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

$$r = \frac{7 x 46355.7 - 440 x 663.56}{\sqrt{7 x 31350 - (440)^2}\sqrt{7 x 68922.53 - (663.56)^2}}$$

= 0.9853 i.e. 0.99

Above calculation shows the correlation between EPS and DPS is positive of 0.99. It indicates that NABIL gives dividend to its dividend holder in good position. Or there is perfectly positive relation between EPS and DPS.

<u>Coefficient of correlation of NIBL</u>

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

$$r = \frac{7 x 3560.3 - 72.5 x 319.44}{\sqrt{7 x 1206.25 - (72.5)^2}\sqrt{7 x 15464.09 - (319.44)^2}}$$

= 0.3962 i.e. 0.40

Above calculation shows the correlation between EPS and DPS is positive of NIBL by 0.40. Positive correlation indicates that NIBL perfectly maintain its EPS and DPS.

4.2.1.7. Computation of probable error

1. **Probable error of NABIL Bank**

Per = 0.6745 1- $(0.99)^2/\sqrt{7}$ =0.005

= 6 × PE =6×0.005 = 0.030

Since r>6PE, i.e. we conclude that correlation coefficient(r) is significant.

2. Probable error of NIBL

Per = 0.6745 1- $(0.40)^2/\sqrt{7}$ =0.21 = 6 × PE =6×0.21 = 1.28

Since r<6PE, we can conclude that correlation coefficient(r) is not significant.

4.2.1.8. Testing of Hypothesis

1. T-test of NABIL

Here,
No. of years = 7
Correlation of coefficient (r) = 0.99

- ❖ Null hypothesis, H0: r = 0, i.e. the variables are not correlated.

- ❖ Alternative hypothesis, H1: r ≠ 0, i.e. the variables are positively correlated. (Two tailed test).
  Test statistic,

$$t = \frac{r}{\sqrt{(1-r)^2}}\sqrt{n-2}$$

$$t = \frac{0.99}{\sqrt{(1-0.99)^2}}\sqrt{7-2}$$

= 15.69

- ❖ Degree of freedom = n – 2 = 7 – 2 = 5

- ❖ Critical value: the tabulated value of t at 5% level of significance for two tailed test and for 5 degree of freedom is 2.571.

- ❖ Decision: since calculated value of t is greater than tabulated value of t .The Alternative hypothesis H1 is accepted. That is correlation coefficient (r) of NABIL bank is significant.

2. T- test of NIBL

We have,
No of years (n) = 7
Correlation coefficient (r) = 0.44

- ❖ Null hypothesis, H0: r = 0, i.e. the variables are not correlated.

- ❖ Alternative hypothesis, H1: r ≠ 0, i.e. the correlation coefficient is not zero. (Two tailed test)

Test statistic

$$t = \frac{r}{\sqrt{(1-r)^2}}\sqrt{n-2}$$

$$t = \frac{0.4}{\sqrt{(1-0.4)^2}}\sqrt{7-2}$$

= 1.0648

- ❖ Degree of freedom = n-2 = 7-2 = 5
- ❖ Critical value: the tabulated value of t at 5% of level of significance for two tailed test and degree of freedom is 2.571.
- ❖ Decision: since calculated value t is less than tabulated value of t, the Null Hypothesis is not accepted. There is no significant in the correlation coefficient of NIBL.

4.3 Findings

After analysis and calculating the study certain findings are available so the lifts of findings are as follows:

- ➢ To analysis the liquidity position, including all calculating ratio, it indicates better liquidity position of Nepal Investment Bank and Nabil has lower liquidity position but it is also able to meet their current obligation.
- ➢ Analysis of leverage capital structure ratio indicates that both banks have competitor each other in debt equity ratio Nabil bank takes high rank in every ratios like debt to equity ratio, debt to total capital ratio, interest coverage ratio, fixed coverage ratio. NABIL takes better rank than NIBL.
- ➢ Analysis of profitability ratio indicates including all ratios both banks have competitor each other. The different profitability shows the different position of these banks. Return on Investment, interest earned to total asset ratio, return on common equity and interest income to interest expenses ratio of NABIL is higher position and commission and discount income to personnel expense ratio shows the NIBL takes higher position.
- ➢ Analysis of valuation ratio including two different ratios. They are price earning ratio and dividend payout ratio. P/E ratio indicates Nepal Investment Bank take higher rank and in dividend payout ratio NABIL takes higher rank than NIBL.
- ➢ Analysis of other indicators indicates calculation of EPS and DPS. These two indicators are proportion each other. EPS and DPS both indicators of NABIL are higher than NIBL.
- ➢ The major source of operating income of these banks is income from interest, which was higher in NIBL than NABIL. Incase of commission and discount and foreign exchange and other income NABIL has high income than NIBL.
- ➢ On the other side, NIBL is paying higher percentage of operating expense on interest for its deposits collect, where as NABIL expenses higher in staff expenses and bonus expenses and other general expenses bonus is high in NIBL.
- ➢ Trend analysis shows that deposit utilization rate is satisfactory in NIBL than Nabil.

- Other trend analysis shows that Nabil has better position in expected EPS and market value than NIBL and NIBL has high position in expected loan and advances and expected Net profit than Nabil.

4.3 SWOT Analysis

The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment. It is such as instrumental in strategy formulation and selection. The internal and external environment is an important part of the strategic planning process of the bank. In case of comparative analysis, we have to study about SWOT analysis.

Environmental factors internal to the firm usually can be classified as Strengths(S) or Weakness (W) and those external to the firm classified as Opportunities (O) or Threats (T).

1. Strengths (S): - Bank strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage.

NIBL has high liquidity position than NABIL. NIBL can mobilize more investment in different sectors than NABIL. It has a better financial position than NABIL

Deposit collection of NIBL is higher than NABIL. Many customers may attract in NIBL. NABIL should many attractive schemes to collect deposits.

NABIL has higher EPS and DPS that means it can give more profit for its investors. That's why customers are attracted in NABIL bank than NIBL.

In leverage capital structure ratio, NABIL takes better position than NIBL. It helps to know the relationship of long term debt with shareholders fund or total capital.

In profitability ratio indicates of efficiency of the bank. It helps to show their capabilities.

2. Weakness (W): - the absence of certain strengths may be viewed as a weakness.

NIBL should mobilize its investment and it should follow new rules and regulations.

In the profitability ratio, between two banks NIBL has little bit weak to manage their funds to earn profit.

According to the P/E ratio, public’s expectation is low in NABIL than NIBL about the bank’s performance.

3. Opportunities (O): -the external environment analysis may reveal certain new opportunities for profit and growth.

The modern banks have focused only urban area to expand their branches. Customers are not situated only in urban area. They may be in rural area. In that case, if they expand their branch in rural area, they can get good customers.

Today is age of competition. If both banks are followed new techniques and new rules and regulation among 25 commercial bank or against their competitors, they could take better position among their customers.

In the contest of our country, industrial sectors are growing day by day like hydro-power sector or other multi- national companies. Both banks have an opportunity to invest and collect the funds. They have a good chance to show their performance.

Banks could try to increase their credit portfolio by exploring productivity sector.

4. Threats (T):- Changes in the external environment also may present threats to the bank.

Nepal is under development country. Political environment of our country is going to very bad and disgusting and increased trade barriers day by day. In this situation financial sectors of our country are not safe.

Most of the countries in the world are suffering from financial crisis. That may be affected to mobilize the banking sector. Today is age of competition. Many banks are going to establish. In that case these banks should follow new rules and regulation. And they must make competitive preparation to collect deposit, investment diversification and giving more and unique facilities to attract customers.

At the end of this chapter researcher hope that another chapter show the recommendations, conclusion and summary have to be made in order to make this thesis more effective. Therefore, the following conclusion chapter covers highlighting about findings based on the analysis and recommendations based on findings.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

In this conclusion, summary, findings and some prescribed recommendations have been put forward for the benefit of the selected JVBS along with conclusions derived from the study are highlighted in order to lift the country from the present economic turmoil.

5.1 Summary

Nepal has many finance mobilizing sectors as well as commercial banks, development banks, financial institutes. There are 25 commercial banks listed NRB including in Investment bank and Nabil bank. In total commercial bank there is including joint venture bank and public issue securities bank. This study selects Nabil bank among 7 joint venture bank and Nepal Investment bank in among 18 public issue of Securities Company. NIBL issue debenture to public, researcher wants to conclude the financial efficiency of two different sectors banks and other interesting news about these banks is both are presented of 'Bank of the year' in different year. This study is evaluation the financial efficiency for 7 years, i.e. FY 2000/2001 to 2006/2007.

The researcher has analyzed available data by using financial as well as statistical tools which has been described already in previous chapter main issues and findings have been taken from analysis of data. Following shows the findings of the study.

5.2 Conclusion

With some twenty three commercial bank but only 11 is listed and twenty one development banks operating in Nepal, the market seems over crowded and the banks are new findings a tough competition among themselves. Since the entry barriers are not so high due to the government's liberal policy. This competition is expected to be more intense in the near future as there is always the possibility of a new player entering this sector.

There is no any doubt that these banks have been operating smoothly and have been successful in becoming the pillars of economic system of the country. Their direct contribution to the economy, includes high amount of the corporate tax paid by them good dividend to the shareholders and employment to the qualified personal in order to make them equipped with all the technical knowledge of banking. Indirectly these banks act financial intermediaries which provide a link between borrowers and lenders there by mobilizing the idle resources towards productive investments. Moreover, these banks are competing themselves in terms of service excellence with the help of automation and computerized transactions as a result of which customers are benefiting. These banks have introduced developments like automatic teller machine (ATM Card), credit cards, deposit schemes and others which cannot be over sighted and therefore considered as a very healthy development in the economy.

There are different kinds of deposit mobilization institutes like banks, finance company, saving and credit co-operative limited all types of institutes does their activities according to their rules, regulations and limited fund which is suitable for it.

Just like banks utilize much fund of amount, finance company utilize middle amount of fund and co-operative limited utilize small amount of fund from lower society of country. Banks have different kind according to their operating nature like commercial bank and development bank, commercial banks have three kinds they are joint venture banks, public issue securities bank and private bank. Among these banks these study has been studied NABIL bank as a representative of joint venture bank and Nepal Investment bank as a representative of public issue securities bank.

Many people think that without joint venture any cannot be get success in banking field but this study give answer to them. If there is effective management team and technology without joint venture bank also can be get success in the field of banking activities. NIBL is award holder of 'Bank of year 2004' as well as NABIL was the 'Bank of the year of 2003'. So they are more competitor each other from different type of banks.

5.3 Recommendation

From the Summary of the main findings of the analysis of financial performance and efficiency of the selected banks, following recommendations can be advanced to overcome the weakness and in efficiency and to improve the performance of these two banks.

- Current ratios of both banks are not satisfactory position but these banks show under 1.53:1 ratio. So, these banks should maintain their short term solvency position by increasing current assets like bank balance, inventory and reserve fund on its own account if there is low reserve bank would not be maintain accidental case.
- Deposit collection of both banks is starting to increase since FY 2004/05. Nabil should launch many attractive schemes to collect deposit and effective way to invest. Because average fixed deposit of Nabil is less than NIBL.
- In case of debt every ratio shows lower debt ratio of NIBL. Creditors prefer low debt ratio, so NABIL should decrease debt ratio for attract its creditor. It (NABIL) should collect more deposit by customer or issuing shares.
- NIBL has low DPS and EPs, it means this bank minimize to give profit for its investors. This is no good news for investor. So, NIBL should increase its dividend payout ratio.
- Today is the age of competitor. So, these banks must make competitive preparation to collect deposit, investment diversification and giving more and unique facilities to attract customers.
- NIBL, with the highest number of common shares had lowest earning per share. Therefore, NIBL must increase its profit further more to increase its earning per share issuing of bonus shares will result in the increment of the number of share.
- NIBL is recommended to decrease its operating expenses in other sector like traveling, advertising and so on. Although it can expense its income to staff for motivate. Other sector expense is unproductive so, NIBL should minimize its extra expense.
- It is recommended to these banks to try to increase their credit portfolio by exploring the productive sectors and thereby not only increase the weight age of interest income from risk assets in relation to the total income but also facilitate in promoting the industries to develop the overall economic situation of the Country. The banks should be invested in industrial area not for only unproductively sector.

- To meet social responsibility, it is recommended to promote and mobilize small investors by making a small investor development unit that can fund and advice to small investors. The minimum level of bank balance should be decreased and treated separately for the small investors and economically backward community people especially for the local caste families of the rural area.
- The modern banks have focused only urban area to expand their branch. Customers are not only situated in urban area, it should be known the banks that the people of rural area may be customer of modern bank. So these banks should expand their branch in rural area.
- Complaint box should be kept in each and every branch and bank personnel try to eliminate those deficits, which are in the complaint box in order to maintain better relation with its customer.
- Last but not the least, it is suggested to develop systematic plans and programs for increasing the working efficiency of the employees that should include incentives like training and rewards which are well and clearly structured and implemented. Now different schemes are launching in market like Grihini saving account, facility to open account Rs. 100 etc but banks should understand that right technology for right customer for ex. in rural area's customer cannot use computerize system. Banks may attraction of many people by different new services, idea and policies like women's development program, poverty alleviation program, priority sector development programs etc.

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Appendix -A

Current Asset, Current Liabilities and Current Ratio

(fig. in million)

Fiscal year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
NABIL								
Current assets	13161.68	13313.40	13868.30	12712.63	12429.57	15834.71	18023.50	
Current liabilities	17226.21	16384.73	15135.42	14407.69	10268.79	12353.84	14927.23	
Ratio (%)	0.76	0.81	0.92	0.88	1.21	1.28	1.21	1.01
NIBL								
Current assets	3423.11	3340.25	7517.89	10990.72	11852.99	15403.53	20344.22	
Current liabilities	4629.02	4410.21	8359.46	7387.97	14504.02	10103.41	13297.58	
Ratio (times)	0.74	0.76	0.90	1.49	0.82	1.52	1.53	1.11

Appendix –B

Cash and Bank Balance to Total Deposit

(fig. in million)

Fiscal year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
NABIL								
Cash & bank balance	812.90	1051.82	1144.77	970.49	559.38	630.24	1399.83	
Total deposit	15839.01	15506.44	13447.65	14119.03	14586.61	19347.40	23342.29	
Ratio (%)	5.13	6.78	8.51	6.87	3.83	3.26	6	5.77
NIBL								
cash & bank balance	522.86	338.92	926.53	1226.92	1340.48	2335.52	2441.51	
Total deposit	4256.21	4174.76	7922.75	11524.68	14254.57	18927.31	24488.86	
Ratio (%)	12.28	8.12	11.69	10.65	9.40	12.34	9.97	10.64

Appendix-C

Cash & Bank Balance to Non Interest Bearing Ratio

(fig. in million)

Fiscal year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
NABIL								
Cash & bank balance	812.90	1051.82	1144.77	970.49	559.38	630.24	1399.83	
Non interest bearing deposit	3254.33	8087.53	5965.39	5814.34	5481.73	7127.55	7719.74	
Ratio (%)	24.50	13.00	19.19	16.69	10.20	8.84	18.13	15.79
NIBL								
Cash & bank balance	522.86	338.92	926.53	1226.92	1340.48	2335.52	2441.51	
Non interest baring deposit	1337.98	1950.04	3815.88	4343.90	4338.80	5432.36	6229.84	
Ratio (%)	39.08	17.38	24.28	28.24	30.90	43.01	39.19	31.68

Appendix-D

Cash & Bank Balance to Interest Bearing Deposits

(fig in 'million')

Fiscal year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
NABIL								
Cash & bank balance	812.90	1051.82	1144.77	970.49	559.38	630.24	1399.83	
Interest bearing deposit	4917.14	12363.86	10022.97	11106.10	11446.20	16071.01	10187.35	
Ratio(%)	16.53	8.51	11.42	8.73	4.89	3.92	13.74	9.68
NIBL								
cash & bank balance	522.86	338.92	926.53	1226.92	1340.48	2335.52	2441.51	
Interest bearing deposit	1259.59	3276.61	6717.29	9737.59	12385.51	16943.16	21942.16	
Ratio (%)	41.51	10.34	13.79	12.60	10.82	13.78	11.12	16.28

Appendix –E

Fixed Deposit to Total Deposit

(fig. in million)

Fiscal year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
NABIL								
fixed deposit	7667.54	2446.85	2252.54	2310.57	2078.54	3449.09	5435.19	
Total deposit	15839.01	15506.44	13447.65	14119.03	14586.61	19347.40	23342.29	
Ratio(%)	48.41	15.78	16.75	16.36	14.25	17.83	23.28	21.81
NIBL								
Fixed deposit	1658.66	945.93	1672.82	2294.68	3212.27	5412.97	7516.69	
Total deposit	4256.21	4174.76	7922.75	11524.68	14254.57	18927.31	24488.86	
Ratio (%)	38.97	22.66	21.11	19.91	22.53	28.60	30.69	26.35

Appendix –F

Debt Equity Ratio

(fig. in million)

Fiscal year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
NABIL								
Total debt	78.10	98.10	113.01	110.80	107.88	102.42	101.05	
Share holder equity	571.18	654.77	822.53	990.02	1165.98	1383.34	1565.40	
Ratio(%)	13.67	14.98	13.74	11.19	9.25	7.40	6.46	10.95
NIBL								
Total debt	29.25	40.22	16.25	19.50	15.65	13.87	13.60	
Share holder equity	299.10	353.48	343.25	433.75	592.43	824.85	1076.77	
Ratio (%)	9.78	11.38	4.73	4.50	2.64	1.68	1.26	5.14

Appendix –G

Debt to Total Capital Ratio

(fig. in 'million')

Fiscal year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
NABIL								
Long term debt	78.10	98.10	113.01	110.80	107.88	102.42	101.05	
Total capital	491.65	491.65	491.65	491.65	491.65	491.65	491.65	
Ratio (%)	15.89	19.95	22.99	22.54	21.94	20.83	20.55	20.67
NIBL								
Long term debt	29.25	40.22	16.25	19.50	15.65	13.87	13.60	
Total capital	169.08	169.98	295.29	295.29	587.74	590.59	801.35	
Ratio (%)	17.30	23.66	5.5	6.60	2.66	2.35	1.70	8.54

Appendix –H

Interest Coverage Ratio

(fig. in million)

Fiscal year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
NABIL								
Net profit before interest & tax	1051.72	871.66	932.75	940.02	1001.33	1255.17	1550.76	
Interest paid	578.36	462.08	317.35	282.95	243.54	357.16	555.71	
Ratio (times)	1.82	1.89	2.94	3.32	4.11	3.51	2.79	2.91
NIBL								
Net profit before interest & tax	256.98	208.54	359.36	557.68	688.23	995.86	1408.91	
Interest paid	163.15	130.44	189.21	326.20	354.55	490.95	685.53	
Ratio (times)	1.58	1.60	1.90	1.71	1.94	2.03	2.06	1.83

Appendix –I

Fixed Coverage Ratio

(fig. in million)

Fiscal year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
NABIL								
Net profit before interest & tax	1051.72	871.66	932.75	940.02	1001.33	1255.17	1550.76	
Interest paid	578.36	462.08	317.35	282.95	243.54	357.16	555.71	
Ratio (times)	1.82	1.89	2.94	3.32	4.11	3.51	2.79	2.91
NIBL								
Net profit before interest & tax	256.98	208.54	359.36	557.68	688.23	995.86	1408.91	
Interest paid	163.15	130.44	189.21	326.20	354.55	490.95	685.53	
Ratio (times)	1.58	1.60	1.90	1.71	1.94	2.03	2.06	1.83

Appendix – J

Return on Investment (ROI)

(fig. in million)

Fiscal year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
NABIL								
EBIT	1051.72	871.66	932.75	940.02	1001.33	1255.17	1550.76	
Total asset	18367.15	17629.25	16562.61	16745.49	17186.33	22329.97	27253.39	
Ratio (%)	5.73	4.94	5.63	5.61	5.83	5.62	5.69	5.58
NIBL								
EBIT	256.98	208.54	359.36	557.68	688.23	995.86	1408.91	
Total asset	5127.36	4973.90	9014.24	13255.50	16063.54	21330.14	27590.84	
Ratio (%)	5.01	4.19	3.99	4.21	4.28	4.67	5.11	4.49

Appendix –K

Return on Common Equity

(fig. in million)

Fiscal year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
NABIL								
NPAT	291.37	271.63	416.25	455.31	518.64	635.3	674.0	
Net worth	1062.83	1146.42	1314.18	1479.88	1656.88	1873.20	2055.12	
Ratio (%)	27.41	23.69	31.67	30.73	31.38	33.88	32.77	30.22
NIBL								
NPAT	56.39	57.09	116.82	152.67	232.15	350.54	501.40	
Net worth	469.08	523.46	638.53	729.05	1180.17	1415.44	1878.12	
Ratio (%)	12.02	10.91	18.30	20.94	19.67	24.77	26.70	19.04

Appendix –L

Interest Earned to Total Asset Ratio

(fig. in 'million')

Fiscal year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
NABIL								
Total interest earned	1266.70	1120.18	1017.87	1001.62	1068.75	1310.00	1587.76	
total asset	18367.15	17629.25	16562.61	16745.49	17186.33	22329.97	27253.39	
Ratio (%)	6.90	6.35	6.15	5.98	6.23	5.87	5.83	6.19
NIBL								
Total interest earned	349.75	326.22	459.51	731.40	886.80	1172.74	1584.99	
Total asset	5127.36	4973.90	9014.24	13255.50	16063.54	21330.14	27590.84	
ratio	6.82	6.56	5.09	5.52	5.52	5.50	5.74	5.68

Appendix – M

Total Income to Personnel Expenses Ratio

(fig in 'million')

Fiscal year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
NABIL								
Total operating income	1051.72	1639.12	1427.45	1429.05	1510.68	1359.51	1480.16	
Personnel expenses	145.86	147.44	210.58	180.84	199.52	219.78	240.16	
Ratio (times)	7.21	11.12	6.78	7.90	7.57	6.19	6.16	7.56
NIBL								
Total Operating Income	256.98	418.79	577.93	913.71	1145.63	1246.03	954.39	
Personnel expenses	31.10	41.72	61.29	89.75	97	120.66	145.37	
Ratio (times)	8.26	10.04	9.43	10.18	11.81	10.33	6.57	9.52

Appendix –N

Interest Income to Interest Expenses Ratio

(fig. in million)

Fiscal year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
NABIL								
Interest income	1266.70	1120.18	1017.87	1001.62	1068.75	1310.00	1587.76	
Interest expenses	578.36	462.08	317.35	282.95	243.54	357.16	555.71	
Ratio (times)	2.19	2.42	3.21	3.53	4.39	3.67	2.86	3.18
NIBL								
Interest income	349.75	326.22	459.51	731.40	886.80	1172.74	1584.99	
Interest expenses	163.15	130.44	189.21	326.20	354.55	490.95	685.53	
ratio	2.14	2.50	2.43	2.24	2.50	2.39	2.31	2.36

Appendix –O

Price Earning Ratio

Fiscal year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
NABIL								
MVPS (RS.)	1500	735	735	1000	1505	2240	5050	
EPS (Rs.)	59.26	55.25	84.66	92.61	105.49	129.21	137.08	
Ratio (times)	25.31	13.30	8.68	10.80	14.27	17.34	36.84	17.99
NIBL								
MVPS (Rs.)	1150	760	795	940	800	1260	1729	
EPS (Rs.)	33.17	33.59	39.56	21.7	39.5	59.35	62.57	
Ratio (times)	34.67	22.63	20.13	18.18	20.25	21.23	27.63	23.53

Fiscal year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average

Appendix – P

Dividend Payout Ratio

NABIL								
Dividend per share (Rs.)	40.00	30.00	50.00	65	70	85	100	
Earning per share (Rs.)	59.26	55.25	84.66	92.61	105.49	129.21	137.08	
Ratio (%)	67.50	54.30	59.06	70.19	66.36	65.78	72.95	63.59
NIBL								
Dividend per share (Rs.)	0.00	0.00	20.00	15	12.50	20	5	
Earning per share (Rs.)	33.17	33.59	39.56	21.7	39.5	59.35	62.57	
Ratio (%)	-	-	50.56	29.01	31.65	33.70	7.99	21.84

Appendix –Q(1)

Trend Analysis of NABIL

(in million)

Year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**N = 7**
Total deposit(000,000) (y)	15839.01	15506.44	13447.65	14119.03	14586.61	19347.40	23342.29	Σy = 116188.43
Deviation From 2007/08(X)	(3)	(2)	(1)	0	1	2	3	Σx = 0
x^2	9	4	1	0	1	4	9	$\Sigma x^2 = 28$
xy	(47517.03)	(31012.88)	(13447.65)	0	14586.61	38694.8	70026.87	Σxy = 31330.72

Here, Number of year (N) = 7

When, Σx = 0 from the two normal equations

$$a = \frac{y}{N} = \frac{116188.43}{7} = 16598.35$$

$$b = \frac{xy}{x^2} = \frac{31330.72}{28} = 1118.95$$

Thus, average total deposit (a) = Rs.16598.35

Rate of change of deposit (b) = Rs. 1118.95

Hence, During 2007/08, for x = 4, y = 16598.35 + 1118.95 | 4 = 21074.15

During 2008/09, for x = 5, y = 16598.35 + 1118.95 | 5 = 22193.1

During 2009/010, for x = 6, y = 16598.35 + 1118.95 | 6 = 23312.05

During 2010/011, for x = 7, y = 16598.35 + 1118.95 | 7 = 24431

Appendix Q (2)

Trend Analysis of Total Deposit NIBL

(in million)

FY	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**N = 7**
Total deposit (000,000)(y)	4256.21	4174.76	7922.75	11524.67	14254.57	18927.31	24488.85	Σy = 85549.12
Deviation trend 2000(x)	(3)	(2)	(1)	0	1	2	3	Σx = 0
x^2	9	4	1	0	1	4	9	Σx^2 = 28
xy	(12768.63)	(8349.52)	(7922.75)	0	14254.57	37854.62	73466.55	Σxy = 96534.84

Here, No. of years (N) = 7

When, $\Sigma x = 0$ from the two normal equation

$$a \ X \frac{y}{\rho} X \frac{85549.12}{7} X12221.30$$

$$b = \frac{xy}{x^2} X \frac{96534.84}{28} X3447.67$$

Thus average total deposit (a) = Rs.12221.30

Rate of change of deposit (b) = 3447.67

Hence, the equation of straight line trend is y = 12221.30+3447.67× x

During 2007/08, for x = 4, y = 12221.30+3447.67 | 4 =26011.98

During 2008/09, for x = 5, y = 12221.30+3447.67 | 5 = 29459.65

During 2009/010, for x = 6, y = 12221.30+3447.67 | 6 = 32907.32

During 2010/011, for x = 7, y = 12221.30+3447.67 | 7 = 36354.99

Appendix R (1)

Trend Analysis of Total Loan & Advance NABIL

(in Million)

Year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**N = 7**
Total loan & advance (y)	8324.44	7437.90	7755.95	8189.99	10586.17	12922.54	15545.78	Σy = 70762.77
Deviation from 2000(x)	(3)	(2)	(1)	0	1	2	3	Σx = 0
x^2	9	4	1	0	1	4	9	Σx = 28
xy	(24973.32)	(14875.8)	(7755.95)	0	10586.17	25845.08	46637.34	Σxy = 35463.52

Here no. of years (N) = 7

When Σx = 0 from the two normal equations,

$$a X \frac{y}{\rho} = \frac{70762.77}{7} = 10108.96$$

$$b X \frac{xy}{x^2} = \frac{35463.52}{28} = 1266.55$$

Thus average loan and advance (a) = Rs 10108.96

Rate of change loan and advance (b) = Rs. 1266.55

Hence, the equation of straight line trend is y = 10108.96+1266.55 | x

During 2007/08, for x = 4, y =10108.96+1266.55 | 4 = 15175.18

During 2008/09, for x = 5, y =10108.96+1266.55 | 5 = 16441.71

During 2009/010, for x = 6, y =10108.96+1266.55 | 6 = 17708.26

During 2010/011, for x = 7, y = 10108.96+1266.55 | 7 = 18974.81

Appendix – R (2)

Trend Analysis of Total Loans and Advance - NIBL

Year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**N = 7**
Total loan & advance (y)	2429.03	2564.43	5772.14	7130.13	10126.06	12776.21	17286.43	Σy = 58084.43
Deviation from 2000(x)	(3)	(2)	(1)	0	1	2	3	Σx = 0
x^2	9	4	1	0	1	4	9	Σx = 28
xy	(7287.09)	(5128.86)	(5772.14)	0	10126.06	25552.42	51859.29	Σxy = 69349.68

Here, No. of year (N) = 7

When, Σx = 0 from the two normal equations

$$a X \frac{y}{\rho} = \frac{58084.43}{7} = 8297.78$$

$$b X \frac{xy}{x^2} = \frac{69349.68}{28} = 2476.77$$

Thus, average loan & advance (a) = Rs.8297.78

Rate of change loan & advance (b) = Rs.2476.77

Hence, the equation of straight line trend is y = 8297.78+2476.77 × x

During 2007/08, for x = 4, y =8297.78+2476.77 | 4 = 18204.86

During 2008/09, for x = 5, y =8297.78+2476.77 | 5 = 20681.63

During 2009/010, for x = 6, y =8297.78+2476.77 | 6 = 23158.40

During 2010/011, for x = 7, y =8297.78+2476.77 | 7 = 25635.17

Appendix S(1)

Trend Analysis of Net Profit after Tax-Nabil Bank **(in million)**

Year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**N = 7**
Net profit after tax ('000000') (y)	291.37	271.63	416.25	455.31	520.11	635.26	673.95	Σy = 3263.88
Deviation from 2000(x)	(3)	(2)	(1)	0	1	2	3	Σx = 0
x^2	9	4	1	0	1	4	9	Σx = 28
xy	(874.11)	(543.26)	(416.25)	0	520.11	1270.52	2021.85	Σxy = 1978.86

Here, Number of years (N) = 7

When Σx = 0, from the two normal equations.

$$a X \frac{y}{\rho} = \frac{3263.88}{7} = 466.27$$

$$b X \frac{xy}{x^2} = \frac{1978.86}{28} = 70.67$$

Thus, average Net Profit after tax (a) = Rs. 466.27million

Rate of change of Net Profit after tax (b) = Rs. 70.67 million

Hence, the equation of straight line trend is y = 466.27+70.67 × x

During 2007/08, for x = 4, y = 466.27+70.67 | 4 = 748.95

During 2008/09, for x = 5, y = 466.27+70.67 | 5 = 819.62

During 2009/010, for x = 6, y =466.27+70.67 | 6 = 890.29

During 2010/011, for x = 7, y =466.27+70.67 | 7 = 960.96

Appendix –S (2)

Trend Analysis of Net Profit after Tax – NIBL

Year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**N = 7**
Net profit after tax ('000000') (y)	56.39	57.09	116.82	152.67	232.15	350.54	501.39	Σy = 1467.05
Deviation from 2000(x)	(3)	(2)	(1)	0	1	2	3	Σx = 0
x^2	9	4	1	0	1	4	9	Σx = 28
xy	(169.17)	(114.18)	(116.82)	0	232.15	701.08	1504.17	Σxy = 2037.23

Here, Number of years (N) = 7

When Σx = 0, from the two normal equations.

$$a X \frac{y}{\rho} = \frac{1467.05}{7} = 209.58\text{million}$$

$$b X \frac{xy}{x^2} = \frac{2037.23}{28} = 72.76\text{Million}$$

Thus, average Net Profit after tax (a) = Rs. 209.58 million

Rate of change of Net Profit after tax (b) = Rs. 72.76 million

Hence, the equation of straight line trend is y = 209.58+72.76 × x

During 2007/08, for x = 4, y =209.58+72.76 | 4 = 500.62

During 2008/09, for x = 5, y = 209.58+72.76 | 5 = 573.38

During 2009/010, for x = 6, y =209.58+72.76 | 6 = 646.14

During 2010/011, for x = 7, y =209.58+72.76 | 7 = 718.90

Appendix – T (1)

Trend Analysis of Earning Per Share - NABIL

Year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**N = 7**
Earning per share (y)	59.26	55.25	84.66	92.61	105.49	129.21	137.08	Σy = 663.56
Deviation from 2000(x)	(3)	(2)	(1)	0	1	2	3	Σx = 0
x^2	9	4	1	0	1	4	9	Σx = 28
xy	(177.78)	(110.5)	(84.06)	0	105.49	258.42	411.24	Σxy =402.21

Here, Number of years (N) = 7

When Σx = 0, from the two normal equations.

$$a X \frac{y}{\rho} = \frac{663.56}{7} = 94.79 \text{ million}$$

$$b X \frac{xy}{x^2} = \frac{402.21}{28} = 14.36 \text{ Million}$$

Thus, average Earning per share (a) = Rs.94.79 million

Rate of change of earning per share (b) = Rs. 14.36 million

Hence, the equation of straight line trend is y = 94.79+ 14.36 × x

During 2007/08, for x = 4, y =94.79+ 14.36 | 4 = 152.23

During 2008/09, for x = 5, y = 94.79+ 14.36 | 5 = 166.59

During 2009/010, for x = 6, y =94.79+ 14.36 | 6 = 180.95

During 2010/011, for x = 7, y =94.79+ 14.36 | 7 = 195.31

Appendix – T (2)

Trend Analysis of Earning Per Share - NIBL

Year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**N = 7**
Earning per share (y)	33.17	33.59	39.56	21.7	39.5	59.35	62.57	Σy = 289.44
Deviation from 2000(x)	(3)	(2)	(1)	0	1	2	3	Σx = 0
x^2	9	4	1	0	1	4	9	Σx = 28
xy	(99.51)	(67.18)	(39.56)	0	39.50	118.7	187.71	Σxy = 139.66

Here, Number of years (N) = 7

When Σx = 0, from the two normal equations.

$$a X \frac{y}{\rho} = \frac{289.44}{7} = 41.35 \text{ million}$$

$$b X \frac{xy}{x^2} = \frac{139.66}{28} = 4.99 \text{ Million}$$

Thus, average Earning per share (a) = Rs. 41.35 million

Rate of change of earning per share (b) = Rs. 4.99 million

Hence, the equation of straight line trend is y = 41.35+4.99 × x

During 2007/08, for x = 4, y =41.35+4.99 | 4 = 61.31

During 2008/09, for x = 5, y =41.35+4.99 | 5 = 66.30

During 2009/010, for x = 6, y =41.35+4.99 | 6 = 71.29

During 2010/011, for x = 7, y =41.35+4.99 | 7 = 76.28

Appendix – U (1)

Trend Analysis of Market Value per Share - NABIL Bank

Year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**N = 7**
Market value per share (y)	1500	700	740	1000	1505	2240	5050	Σy = 12735
Deviation from 2000 (x)	(3)	(2)	(1)	0	1	2	3	Σx = 0
x^2	9	4	1	0	1	4	9	Σx = 28
xy	(4500)	(1400)	(740)	0	1505	4480	15150	Σxy = 14495

Here, Number of years (N) = 7

When Σx = 0, from the two normal equations.

$$a X \frac{y}{\rho} = \frac{12735}{7} = 1819.29$$

$$b X \frac{xy}{x^2} = \frac{14495}{28} = 517.68$$

Thus, average Earning per share (a) = Rs. 1819.29

Rate of change of earning per share (b) = Rs.517.68

Hence, the equation of straight line trend is y = 1819.29+517.68 × x

During 2007/08, for x = 4, y =1819.29+517.68 | 4 = 3890.01

During 2008/09, for x = 5, y =1819.29+517.68 | 5 = 4407.69

During 2009/010, for x = 6, y =1819.29+517.68 | 6 = 4925.37

During 2010/011, for x = 7, y =1819.29+517.68 | 7 = 5443.05

Appendix –U(2)

Trend Analysis of Market Value per Share - NIBL

Year	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**N = 7**
Market value per share (y)	1150	760	795	940	800	1260	1729	Σy = 7434
Deviation from 2000(x)	(3)	(2)	(1)	0	1	2	3	Σx = 0
x^2	9	4	1	0	1	4	9	Σx = 28
xy	(2157)	(1200)	(822)	0	1150	1520	2385	Σxy = 2742

Here, Number of years (N) = 7

When Σx = 0, from the two normal equations.

$$a X \frac{y}{\rho} = \frac{7434}{7} \; 1062$$

$$b X \frac{xy}{x^2} = \frac{2742}{28} = 97.93$$

Thus, average Earning per share (a) = Rs. 1062

Rate of change of earning per share (b) = Rs. 97.93

Hence, the equation of straight line trend is y = 1062+97.93 × x

During 2007/08, for x = 4, y =1062+97.93 | 4 = 1453.72

During 2008/09, for x = 5, y =1062+97.93 | 5 = 1551.65

During 2009/010, for x = 6, y =1062+97.93 | 6 = 1649.58

During 2010/011, for x = 7, y =1062+97.93 | 7 = 1747.51