

A STUDY
ON
PROFITABILITY AND SOLVENCY POSITION OF
Nabil Bank Limited

Submitted By

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RECOMMENDATION

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ACKNOWLEDGEMENT

This study attempts to examine the financial performance of **Nepal Arab Bank Limited** with special reference to Solvency and Profitability ratio with available data and information. It also deals with problem identification besides this field study to acquire the reality of banking operation of NABIL. For easier study the data has been presented by tables, graphs and have been interpreted using various statistical methods. This report tries to focus on the study of NABIL bank only.

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ABBREVLATIONS

NBL = Nepal Bank Limited
NRB = Nepal Rastra Bank
RBB = Rastriya Banijya Bank
NABIL = Nepal Arab Bank Limited
MOF = Ministry of Finance
S.D = Standard Deviation
C.V = Coefficient of Variance
OD = Overdraft
EPF = Employee Providend Fund

1. INTRODUCTION

1.1 Concept of Bank (Back ground of the study)

Bank is kind of formal financial institution. Our financial system is dominated by bank. The banking system in Nepal is a recent phenomenon which began only in 1996 BS as Nepal Bank Ltd. was incorporated under NBL act 2012 after transferring 51% of share to government.

The term 'Bank' is derived from Italian word 'Banko' which means a counter table or bench used by medieval money exchanges. According to oxford dictionary bank means "an establishment for keeping money and valuable safety of the money being paid out on the customer order by means of cheque.

To sum up, banks accumulate idle money from general public by providing attractive sound interest rate in their deposits and disburse the collected deposits as loan to business, organization, Agricultural sector, Industrial sectors and needy people, etc. So, we can say that main task of commercial bank is to mobilize resource in productive area by collecting it from scattered sources and generating profit.

Thus, bank acts as intermediaries channeling saving into investment and consumption. Through them bank fulfills the investment requirement of saver with the end it needs of investors. In this way bank plays on imperative role in our economy by providing effective service efficiently towards the attainment of economic development.

1.1.1 Commercial bank in Nepal (Historical development) brief review

The history of banking dates bank to sixteenth century. However in Nepal formal banking system was introduced only in 1994 Kartik 30th was the establishment of Nepal Bank Limited (NBL), which is regarded as pioneer Institution of modern banking system and served as a role financial institution of country for nearly two decades prior to establishment of this bank, the banking needs of people were fulfilled

to certain extent only by organized financial institution the "Tejartha Adda". However the service it offered were not sufficient. Actually the formation of high committed board "Udhyog Parishad" was indeed a landmark in opening new avenue in field of banking industry and commerce. Accordingly NBL was established on November 1937 under Nepal Bank Act as joint venture between government and private and overcoming its limitations. It regulates currency achieving stable exchange rate and mobilize capital for economic development and for stimulation of Trade Industry and banking sector. Nepal Rastra Bank (NRB) came into existence in April 26th 1956 as country's central bank. After this NRB diverted its attention towards the development of banking system by formulating relevant policies and procedures in this commotion commercial bank act 1963 was formulated, credit control regulation too was formulated. Hence, further shouldering the banking services. The Rastriya Banijya Bank (RBB) was established in 1966 under RBB Act 1964 with fully government owned commercial bank.

Of 20 commercial banks two are government controlled and rests are joint venture banks. The commercial Bank Act 1974 sets out regulation for licensing supervisor and cancellation of license of commercial bank. The joint venture bank currently comprises ---- in number, the first of which started in 1984. The comparative growth of commercial bank till March 2007 is listed below.

- Nepal Industrial and Commercial Bank
- Laxmi Bank Ltd.
- Lumbini Bank Ltd.
- Machhapuchre Bank Ltd.
- Nepal Credit and Commercial Bank Ltd.
- Siddhartha Bank Ltd.
- Kumari Bank Ltd.
- Bank of Kathmandu Ltd.
- Everest Bank Ltd.
- Nepal SBI Bank Ltd.
- Nepal Bangladesh Bank Ltd.
- Nepal Investment Bank Ltd.

- Himalayan Bank Ltd.
- Standard Chartered Bank Nepal Ltd.
- NABIL Bank Ltd.
- Rastriya Banijya Bank Ltd.
- Nepal Bank Ltd.
- Agricultural Development Bank
- Global Bank Ltd.
- Citizenship Bank Ltd.

Finally it is relevant to define the meaning of commercial bank according to commercial bank act BS 2031 (1974 A.D) which requires commercial bank means a bank which operates currency, exchange to commerce and other than banks which been specified for cooperative agriculture, industry of likely and any other specific objective.

1.1.2. Function of commercial bank

Bank can be defined according to the function they perform is established with the prime objectives of profit maximization. To achieve this, bank performs various functional actives. Principally commercial bank accepts deposits; provide loan primarily to business firms thereby facilitating the transfer of funds in the economy. Although in the past years banks were viewed as acceptor of deposit and provider of loan but modern commercial banks have to perform for overall development of trade commercial Industry, agriculture including priority and deprived sector. The growing banking need and sector challenging and their operation can't be under emphasized in present contrast of market globalization. Hence a bank is an institution or individual who is always ready to receive on deposits to be returned against the cheques of their depositors.

Major functions of commercial bank:

1. Accepting Deposit:-

Bank accept deposits in three forms or accounts namely saving – current and fixed. Saving account is for small depositors i.e. bank collect their small saving and pay interest. Current is for regular business transitive customers who keeps a fixed amount with bank for specific time. Banks pay higher interest on such deposit.

2. Advancing loans:-

Banks provides loans and advance from the money which it receives from deposits. Direct loan and advance are given to all customers against security of movable and immovable. Bank grants following four forms of loan:-

- Overdraft,
- Cash credit,
- Direct loans, and
- Discounting bills of exchange.

3) Agency functions:-

A Commercial bank undertake the payment of subscription, insurance premium, rent collection of bills, salaries, pensions, dividends, interest and change small amount of commission. It undertakes buying and selling of securities.

4) Credit creation:-

In order to earn profit, bank accepts deposit and advance by keeping small cash in reserve for day-to-day transactions. By granting loan bank create credit or deposit.

5. Other Functions/Services:-

- a) Bank safeguards valuables such as securities, jewellery documents of title to goods for safe custody.
- b) Bank assists to the traders who are engaged in foreign trade by discounting bills of exchange and others
- c) Bank make venture capital loan to the start-up cost of new companies particularly in high-tech industries.
- d) Bank offer a wide range of financial advisory services about financial, planning, consulting and others.

1.2 A BRIEF INTRODUCTION TO NABIL BANK LTD.

NABIL Bank Ltd. is the Nepal's first ever joint venture bank that initiated its operation on 12th July 1984. Nepal bank (international) limited Ireland was its joint venture partner at that time. It also received management support from national bank of Bangladesh, Dhaka at the time of inauguration. Its authorized capital used to have

only rs.100 million at the starting time. Now it has ascended its capital to Rs.500 million. With advancement it has 14 branches on a national scale which is the utmost number of any joint venture bank in Nepal. NABIL bank is distinguished for providing latest technology with vastly personalized service. Most of its banking activities and services are done through computers. NABIL provides different services like ATM, credit cards, tele-banking services, e-banking services, safe deposit locker services. Besides these services NABIL is the only bank to maneuver inside the international airport of arrival and departure of cargoes. NABIL has drawing arrangement with 75 banks in 40 countries of the world and with the exchange companies and bank as well. The policies of His Majesty's Government and Nepal Rastra Bank rule and regulation preside over NABIL.

Capital Structure of Nabil Bank:-

NABIL, being first ever joint commercial bank of Nepal has expanded its activities in the major areas of Nepal. Share capital structure of Nabil bank is as follows:-

| Capital | Amount (In Rs.) |
|--------------------|------------------------|
| Authorized Capital | 500,000,000 |
| Issued Capital | 491,654,400 |
| Paid up capital | 491,654,400 |

Table No.: 1 - Capital Structure of NABIL Bank

Ownership share subscription structure of NABIL Bank (as at Mid July 2006) is as follows:-

| Shareholders | Contribution |
|--|---------------------|
| NB International Ltd., Ireland | 50% |
| Nepalese Public Shareholders | 30% |
| Nepal Industrial Development Corporation | 10% |
| Rastriya Beema Sansthan | 9.67% |
| Nepal Stock Exchange | 0.33% |
| Total | 100% |

Presentation:-

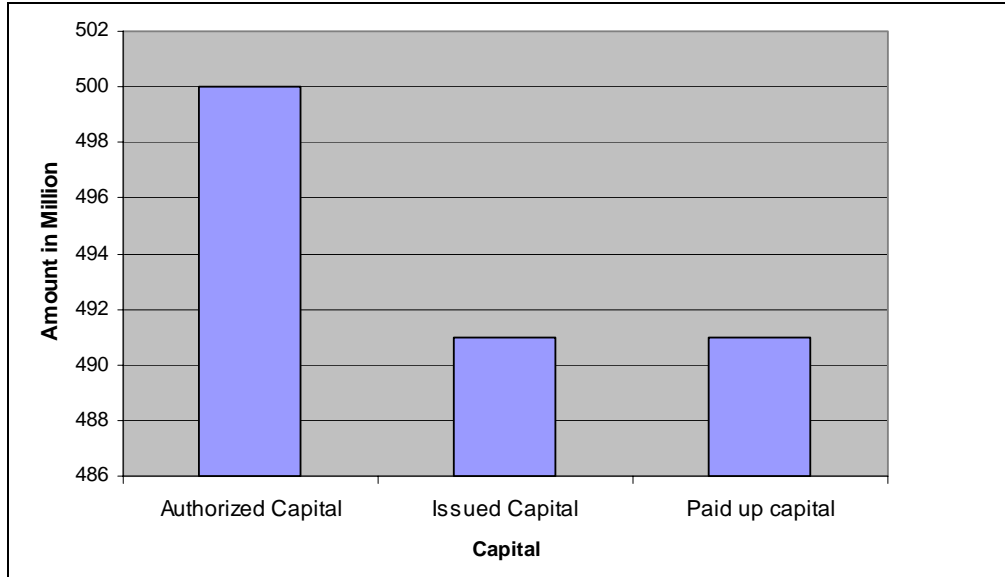


Figure no: – 1: Graphic Distribution of Share Capital Structure

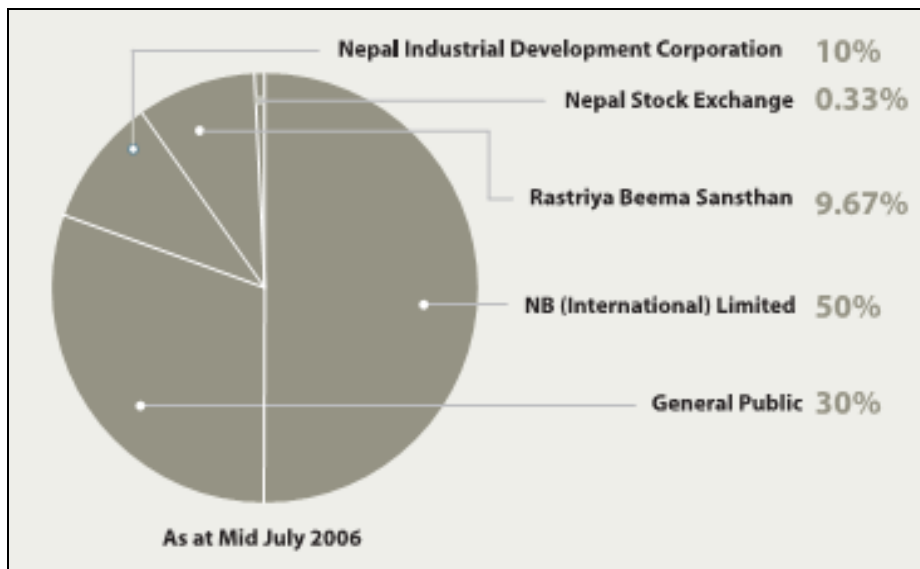


Figure no: – 2 Graphic Distribution of Share Subscription

1.2.1 BANKING SERVICES RENDERED BY NABIL

Nabil has been obtaining its objectives and targets through various kinds of banking services with a large number of facilities. The services rendered by Nabil Bank are as follows:

1. Nabil Bank provides loan, advance and overdraft to the needy person and customers against pledge and securities.
2. Nabil Bank performs the agency services like, payment of subscription, rent collection, dividend collection, interest collection etc. on behalf of the customers.
3. Nabil is a member of clearing house; it accepts cheque of any bank of its customers only.
4. It also exchanges the foreign currency i.e. sale and purchase of currency.

Beside these, various instrumental and modern technological services are provided by Nabil Bank which are discussed below:-

1. Deposits:-

Following types of accounts can be opened at any NABIL branches upon completion of simple documentary requirement:

- Saving Account
- Current Account
- Fixed Account
- Call deposit and others.

2. Guarantees:-

NABIL Bank issues Guarantees and Bonds on behalf of customers to the beneficiaries in Nepal. Upon fulfillment of requirement, NABIL also arranges issuance of Guarantees in the name of foreign beneficiaries through reputed international banks.

3. Credit Cards:-

NABIL is the first bank in Nepal to issue Rupee (valid in Nepal and India) and international (valid worldwide) MasterCard, cards in Nepal, a global prestigious service to its esteemed clients. NABIL is also expanding credit and facilities by issuing visa credit cards very soon.

4. Tele Banking:-

Telephone banking is another product provided by NABIL bank to its customers. Under this arrangement customer can know the balance of his account through telephone without human assistance.

5. Western Union Money Transfer:-

NABIL has entered into an agreement with Western Union Financial Inc., USA under which funds can be transferred to Nepal from more than 85000 locations in more than 176 countries within few minutes. This premium service specially helps tourists and Nepalese wage earners abroad to transfer fund to Nepal as and when required.

6. SWIFT (Society for Worldwide Inter Bank Financial Telecommunication):-

NABIL has started word wide transfer of fund by this fast and efficient funds transfer and messaging system. Messaging and fund transfers are carried through SWIFT with minimum time and cost.

7. Safe Deposit Locker:-

NABIL provides safe deposit lockers to keep valuables safety at a minimum cost. Presently, this facility is available at Lalitpur, Kantipath and Kamaladi offices.

8. Automated Teller Machines (ATM):-

NABIL is has launched the ATM facility to its account holders to enable fast withdrawal of funds, enquiring the balance in their accounts, accepting requests for cheque books and printing of statement of accounts.

9. Other facilities:-

The bank provides the facilities for the customer like deposit services, loans and advances, consumer finance, cash management, remittance services etc.

1.2.2 OBJECTIVES OF NABIL:

The commercial banking industry has been posing through a across phases of transaction right from it's inception which is now operating with the liberalization of financial policies but has given a way to some

malfunction misused if fraudulent practices deregulation in banking environment so as to capture the increased interest sensitivity of depositors "Your Bank at Your Service" has becomes the stepping store for the success of Bank. Thus to cope with changing environment the important management objectives of banks are:

- 1) To organize the structure to meet the challenges of changing environment.
- 2) To improve technology in banks.
- 3) To modernize office equipment.
- 4) To improve productivity through participative management.
- 5) To flow instruction and stick to rules and guidelines.

1.3 STATEMENT OF PROBLEM:

Nepal is a country which is made up of villages and rural areas mostly and where there is predominance of agriculture sector. It is difficult to solve the credit problems of the country through commercial bank and which are relevant to intramural and agriculture is to overcome these change.

The Nepal Rastra Bank has mandated commercial Bank to open the branches in urban areas. However, the challenge for country is to direct these commercial bank to provide service to small and middle entrepreneur. These rural branches of commercial Banks opened in the rural area of Nepal don't seem to be effective in their role of effective deposit mobilization and loan distribution.

The competition is burning issue of the time in the country due to emergency at no. of Finance companies and about a dozed of rural Banks and Co-operative societies in a short span of time. It has threatened the entire banking system. It has warned the IIBL to improve and manage their productivity. So, it is crucial time to concentrate land think better productivity management of the securities and growth of the bank in environment of tough competition.

The research seeks of fitted out inefficiency and weakness and NABIL with the analysis of these banks financial statement. Attempts are made shortly to answer the following questions:-

- How far have NABIL bank been able to transfer monetary resources from savers to users?
- How sound are operational results in relation their profitability?
- How have NABIL bank been managing their position in relation to solvency and profitability?
- What is the degree of financial risk measured in terms of financial leverage?

1.4 OBJECTIVES OF THE STUDY:

The main objective of the study is to analyze financial performance of and solvency position of this bank through the use of different ratios other objective of this study are as following:-

- To highlight the role of commercial bank in Nepal.
- To evaluate the profitability and solvency position of NABIL.
- To suggest and recommend some measure on the basis of the study of financial performance evaluation and finding for the improvement financial performance of Nabil Bank Ltd. in future.

1.5 IMPORTANCE OF STUDY:

The present study deserves some significant of its own kind in this field. The study will be concise practically usable and valuable to the major parties interested in the performance of NABIL's shareholders, management of bank, brokers, financial institutions, general public depositors, prospective customers, creditors etc.

Financial executive as well as those other policy making bodies which are concerned with banking would also find it useful to the advance teachers and students of the subjects particularly those in commerce, chartered accountancy and institution of Finance.

1.6 LIMITATION OF STUDY

This study is conducted in partial fulfillment of the requirement for the BBA 6th Semester. So, it possesses some limitation of its own.

One of the limitations of the study is; with regard to tempera coverage of the study to arrive any meaningful conclusions regarding the trend in the pattern and structure of financing a time service of fairly a long period are needed. But this study has covered only financial year from 2001/02 to 2005/2006.

- 1) Though there are 19 commercial banks, this study covers only one: NABIL Bank Ltd.
- 2) Being a student time and resources consentient
- 3) Limited variable has been selected.
- 4) Simple techniques has been used in analysis
- 5) The qualitative factors such as growth and expansions policy of the bank quality and general economics conditions have not been studied.

1.7 RESEARCH AND METHODOLOGY:

Type of study:

This is an analytical case study of NABIL's profitability & solvency.

Types of data used:

A Main source of data is the publication from NABIL, which is secondary source, and some publications of NRB, MOF, CBS as secondary sources and also taken primary date from interview with bank officials are also collected wherever necessary.

1.7.1 Tools and techniques of analysis:

The collected and observed data is tabulated after adjusting necessarily amounts of each overhead, however for the analysis of the data following tools are used.

- * Financial Tools
- * Statistical tools

1.7.2 Financial tools:

There are different types of financial tools that can be applied to the analysis the financial performance of NABIL bank. For our fieldwork following Ratio analysis tools are used.

1.7.3 Leverage ratio or solvency Ratio:

- * Debt Assets ratio
- * Debit equity ratio

1.7.4 Profitability ratio:

- * Exchange gain to Total Income ratio
- * Return on assets
- * Return on Equity
- * Overhead expenses ratio
- * Staff expenses total income ratio
- * Earning per share

1.7.5 Statistical Tools:

For our fieldwork study selected statistical tools are taken to examine the economics data of NABIL.

- * Mean
- * Standard deviation
- * Coefficient of variation.

2. DATA PRESENTATION AND ANALYSIS

2.1 Financial analysis:

Financial statement analysis generally begins with the calculation of set of financial ratios designed to reveal the relative strength and weaknesses of a company as compared to other companies in the same industry and to show weather the firm's position has been improving or deteriorating over time.

2.1.1 Leverage or solvency ratio:

The leverage or solvency ratio measures how effectively the firm is managing its assets. These ratios are designed to answer these types of questions:

- Does the total amount of each type of assets as reported on the balance seem reasonable, too high or too low in view point of current and projected operating levels?
- If institutions have too many assets, their interest expenses will be too high and hence their profit will be decreased on the other hand. If assets are too low profit sales being lost?

For our fieldwork study, following ratios are used:

2.1.2 Debt assets Ratio

The debt assets ratio generally measures the percentage of total funds provided by creditors. It is calculated by this formula.

$$\text{Debt assets Ratio} = \frac{\text{Total debt}}{\text{Total assets}}$$

2.1.3 Debt equity ratio

The debt equity ratio measures total debt and net worth ratio of the company. It is measured by this formula.

$$\text{Debt equity Ratio} = \frac{\text{Total debt}}{\text{Net worth}}$$

2.2 Profitability Ratio:

Profitability is the net result of a large number of policies and decisions. The ratios examined thus provide some information about the way the firm operating, but the profitability ratios show the combined effects of liquidity, assets management and debt management on operating results. In this fieldwork report the following profitability ratios are used:

2.2.1 Exchange gain to total income ratio:

The exchange gain to total income ratio measures total income and exchange gain ratio, it is measure by this formula:

$$\text{Exchange gain to total income Ratio} = \frac{\text{Exchange gain}}{\text{Total Income}}$$

2.2.2 Return on Assets:

It is the ratio of net income to total assets measures the return on total assets (ROA) after interest and taxes. It is measured by this formula.

$$\text{ROA} = \frac{\text{Net Profit after Tax (NPAT)}}{\text{Total Assets}}$$

2.2.3 Return on equity:

It is the ratio of Net Income after Tax to common equity measures the return on equity (ROE) or Rate of return on the stockholder investment.

$$\text{Return on equity (ROE)} = \frac{\text{NPAT}}{\text{Equity}}$$

2.2.4 Overhead to Total Income Ratio:

It is the ratio of Overhead to Net Income, measured by the following formula.

$$\text{Overhead to total Income Ratio} = \frac{\text{Overhead}}{\text{Total Income}}$$

2.2.5 Staff expenses to total income ratio:

It is the ratio of Staff Expenses to Net Income, measured by the formula,

$$\text{Staff expenses to total income ratio} = \frac{\text{Staff expenses}}{\text{Total Income}}$$

2.2.6 Earning per share:

It is the ratio of Net Profit after Tax to No. of Common Share. It is calculated by this formula,

$$\text{Earning per Share (EPS)} = \frac{\text{NPAT}}{\text{No. Of common share}}$$

Table 1 Debt Assets ratio of NABIL (amount in Millions)

| F/Y | Total debt | Total Assets | Ratio in%(x) | Index (%) | x ² |
|---------|------------|--------------|--------------|-----------|-------------------|
| 2001/02 | 67.7 | 17,629.2 | 0.38 | 100 | 0.14 |
| 2002/03 | 108.9 | 16,562.6 | 0.66 | 173.68 | 0.44 |
| 2003/04 | 173.5 | 16,745.5 | 1.04 | 273.68 | 1.08 |
| 2004/05 | 85.4 | 17,064.1 | 0.50 | 131.58 | 0.25 |
| 2005/06 | 112.6 | 22330 | 0.50 | 131.58 | 0.25 |
| | | | | | $\sum x^2 = 2.16$ |
| | | | | | $\sum x = 3.08$ |
| | | | | | $\bar{x} = 0.62$ |
| | | | | | $\sigma = 0.23$ |
| | | | | | CV= 37.1 |

The debt ratio of NABIL shows different year ratios viz. 0.38 in 2001/02, 0.66 in 2002/03, 1.04 in 2003/04, 0.50 in 2004/05, and 0.50 in 2005/06 and the mean, standard deviation and coefficient of variance are 0.62, 0.23% and 37.1% respectively.

Table 2 Debt Equity ratio of NABIL (amount in Millions)

| F/Y | Total debt | Total Equity | Ratio in%(x) | Index (%) | x ² |
|---------|------------|--------------|--------------|-----------|--------------------|
| 2001/02 | 67.7 | 1146.4 | 5.90 | 100 | 34.81 |
| 2002/03 | 108.9 | 1314.2 | 8.29 | 140.51 | 68.72 |
| 2003/04 | 173.5 | 1481.7 | 11.71 | 198.47 | 137.12 |
| 2004/05 | 85.4 | 1657.6 | 5.15 | 87.29 | 26.52 |
| 2005/06 | 112.6 | 1875 | 6.01 | 101.86 | 36.12 |
| | | | | | $\sum x^2 = 303.3$ |
| | | | | | $\sum x = 37.06$ |
| | | | | | $\bar{x} = 7.41$ |
| | | | | | $\sigma = 2.39$ |
| | | | | | CV= 32.27 |

The debt ratio of NABIL shows different year ratios viz. 5.90 in 2001/02, 8.29 in 2002/03, 11.71 in 2003/04, 5.15 in 2004/05, and 6.01 in 2005/06 and the mean, standard deviation and coefficient of variance are 7.41, 2.39% and 32.27% respectively.

Table 3 Exchange Gain to Total Income ratio of NABIL (in Millions)

| F/Y | Exchange gain | Total Income | Ratio in%(x) | Index (%) | x ² |
|---------|---------------|--------------|--------------|-----------|---------------------|
| 2001/02 | 154.2 | 1639.1 | 9.41 | 100 | 88.55 |
| 2002/03 | 144.1 | 1427.4 | 10.09 | 107.23 | 101.81 |
| 2003/04 | 157.3 | 1426.4 | 11.03 | 117.22 | 121.66 |
| 2004/05 | 184.9 | 1510.7 | 12.24 | 130.07 | 149.82 |
| 2005/06 | 185.5 | 1743.5 | 10.64 | 113.07 | 113.21 |
| | | | | | $\sum x^2 = 575.04$ |
| | | | | | $\sum x = 53.41$ |
| | | | | | $\bar{x} = 10.68$ |
| | | | | | $\sigma = 0.95$ |
| | | | | | CV= 9 |

The exchange gain to income ratio of NABIL shows the different year ratios viz. 9.41 in 2001/02, 10.09 in 2002/03, 11.03 in 2003/04, 12.24 in 2004/05, and 10.64 in 2005/06 and the mean, standard deviation and coefficient of variance are 10.68, 0.95% and 9% respectively.

Table 4 Return on Assets ratio of NABIL (amount in Millions)

| F/Y | NPAT | Total Assets | Ratio in%(x) | Index (%) | x ² |
|---------|-------|--------------|--------------|-----------|--------------------|
| 2001/02 | 271.6 | 17,629.2 | 1.54 | 100 | 2.37 |
| 2002/03 | 416.2 | 16,562.6 | 2.51 | 163 | 6.3 |
| 2003/04 | 455.3 | 16,745.5 | 2.72 | 176.62 | 7.4 |
| 2004/05 | 520.1 | 17,064.1 | 3.05 | 198.05 | 9.3 |
| 2005/06 | 635.3 | 22330 | 2.85 | 185.07 | 8.12 |
| | | | | | $\sum x^2 = 33.49$ |
| | | | | | $\sum x = 12.67$ |
| | | | | | $\bar{x} = 2.53$ |
| | | | | | $\sigma = 0.53$ |
| | | | | | CV= 21 |

The return on assets ratio show the different year ratios viz. 1.54 in 2001/02, 2.51 in 2002/03, 2.72 in 2003/04, 3.05 in 2004/05, and 2.85 in 2005/06 and the mean, standard deviation and coefficient of variance are 2.53, 0.53% and 21% respectively.

Table 5 Return on Equity of NABIL (amount in Millions)

| F/Y | NPAT | Equity | Ratio in%(x) | Index (%) | x ² |
|---------|-------|--------|--------------|-----------|----------------------|
| 2001/02 | 271.6 | 1146.4 | 23.69 | 100 | 561.22 |
| 2002/03 | 416.2 | 1314.2 | 31.67 | 133.70 | 1003 |
| 2003/04 | 455.3 | 1481.7 | 30.73 | 129.72 | 944.33 |
| 2004/05 | 520.1 | 1657.6 | 31.38 | 134.57 | 984.70 |
| 2005/06 | 635.3 | 1875 | 33.88 | 143.01 | 1147.85 |
| | | | | | $\sum x^2 = 4641.10$ |
| | | | | | $\sum x = 151.35$ |
| | | | | | $\bar{x} = 30.27$ |
| | | | | | $\sigma = 3.46$ |
| | | | | | $CV = 11.42$ |

The return on Equity ratio show the different year ratios viz. 23.69 in 2001/02, 31.67 in 2002/03, 30.73 in 2003/04, 31.38 in 2004/05, and 33.88 in 2005/06 and the mean, standard deviation and coefficient of variance are 30.27, 3.46% and 11.42% receptively.

Table 6 Overhead to Total Income ratio of NABIL (amount in Millions)

| F/Y | Overhead | Total Income | Ratio in%(x) | Index (%) | x ² |
|---------|----------|--------------|--------------|-----------|---------------------|
| 2001/02 | 134.3 | 1639.1 | 8.19 | 100 | 67.08 |
| 2002/03 | 166.2 | 1427.4 | 11.64 | 142.12 | 135.49 |
| 2003/04 | 153.4 | 1426.4 | 10.75 | 131.26 | 115.56 |
| 2004/05 | 190.3 | 1510.7 | 12.60 | 153.85 | 158.76 |
| 2005/06 | 182.7 | 1743.5 | 10.48 | 127.96 | 109.83 |
| | | | | | $\sum x^2 = 586.72$ |
| | | | | | $\sum x = 53.66$ |
| | | | | | $\bar{x} = 10.73$ |
| | | | | | $\sigma = 1.47$ |
| | | | | | $CV = 13.72$ |

The Overhead to Total Income ratio shows the different year ratios viz. 8.19 in 2001/02, 11.64 in 2002/03, 10.75 in 2003/04, 12.60 in 2004/05, and 10.48 in 2005/06 and the mean, standard deviation and coefficient of variance are 10.73, 1.47% and 13.72% receptively.

Table 7 Staff expenses to Income ratio of NABIL (amount in Millions)

| F/Y | Staff Expenses | Total Income | Ratio in%(x) | Index (%) | x ² |
|---------|----------------|--------------|--------------|-----------|---------------------|
| 2001/02 | 144.9 | 1639.1 | 8.84 | 100 | 78.15 |
| 2002/03 | 210.6 | 1427.4 | 14.75 | 166.85 | 217.56 |
| 2003/04 | 180.8 | 1426.4 | 12.67 | 143.33 | 160.53 |
| 2004/05 | 199.5 | 1510.7 | 13.21 | 149.43 | 174.50 |
| 2005/06 | 219.8 | 1743.5 | 12.61 | 142.65 | 159.01 |
| | | | | | $\sum x^2 = 789.75$ |
| | | | | | $\sum x = 62.08$ |
| | | | | | $\bar{x} = 12.42$ |
| | | | | | $\sigma = 1.95$ |
| | | | | | $CV = 15.69$ |

The staff expenses to total income ratio show the different year ratios viz. 8.84 in 2001/02, 14.75 in 2002/03, 12.67 in 2003/04, 13.21 in 2004/05, and 12.61 in 2005/06 and the mean, standard deviation and coefficient of variance are 12.42, 1.95% and 15.69% respectively.

Table 8 Earning Per Share of NABIL

| F/Y | NPAT | No. of Common Shares | Ratio in % (x) | Index (%) | x ² |
|---------|-------------|----------------------|----------------|-----------|-----------------------|
| 2001/02 | 271,638,612 | 4,916,544 | 55.25 | 100 | 3052.56 |
| 2002/03 | 416,235,811 | 4,916,544 | 84.66 | 153.23 | 7167.32 |
| 2003/04 | 455,311,222 | 4,916,544 | 92.61 | 167.62 | 8576.61 |
| 2004/05 | 520,114,085 | 4,916,544 | 105.49 | 190.93 | 11128.14 |
| 2005/06 | 635,262,349 | 4,916,544 | 129.21 | 233.86 | 16695.22 |
| | | | | | $\sum x^2 = 46619.85$ |
| | | | | | $\sum x = 467.22$ |
| | | | | | $\bar{x} = 93.44$ |
| | | | | | $\sigma = 24.33$ |
| | | | | | $CV = 26.04$ |

Earning per Share show the different year earning per share viz. 55.25 in 2001/02, 84.66 in 2002/03, 92.61 in 2003/04, 105.49 in 2004/05, and 129.21 in 2005/06 and the mean, standard deviation and coefficient of variance are 93.44, 24.33% and 26.04% respectively.

3. DIAGRAMMATIC AND GRAPHIC PRESENTATION

The collected data can be presented in the form of diagram and graph. They are simple methods of representing the data in the form of bars graphs, pie charts, lines, etc. They present the fact / data into the simpler form and show the significant features of the whole at a glance.

A clear idea of the variations in the values of a variable are much more easily obtained through diagrams or graphs than by the values given in table.

3.1 Diagrammatic presentation of NABIL's Net Growth Income

The table below shows NABIL's growth income in different year, which is plotted in the diagram below.

Table 9 Net growth income of NABIL (In Rs. '000'000)

| F/Y | Total Profit | Growth Income |
|---------|--------------|---------------|
| 2001/02 | 1639.1 | (19.8) |
| 2002/03 | 1427.4 | 81.24 |
| 2003/04 | 1426.4 | 39.08 |
| 2004/05 | 1510.7 | 64 |
| 2005/06 | 1743.5 | 115.1 |

Note: Growing Income rate in bracket shows negative figures. (In Rs. '000'000)

Figure 1 : Total Income of NABIL

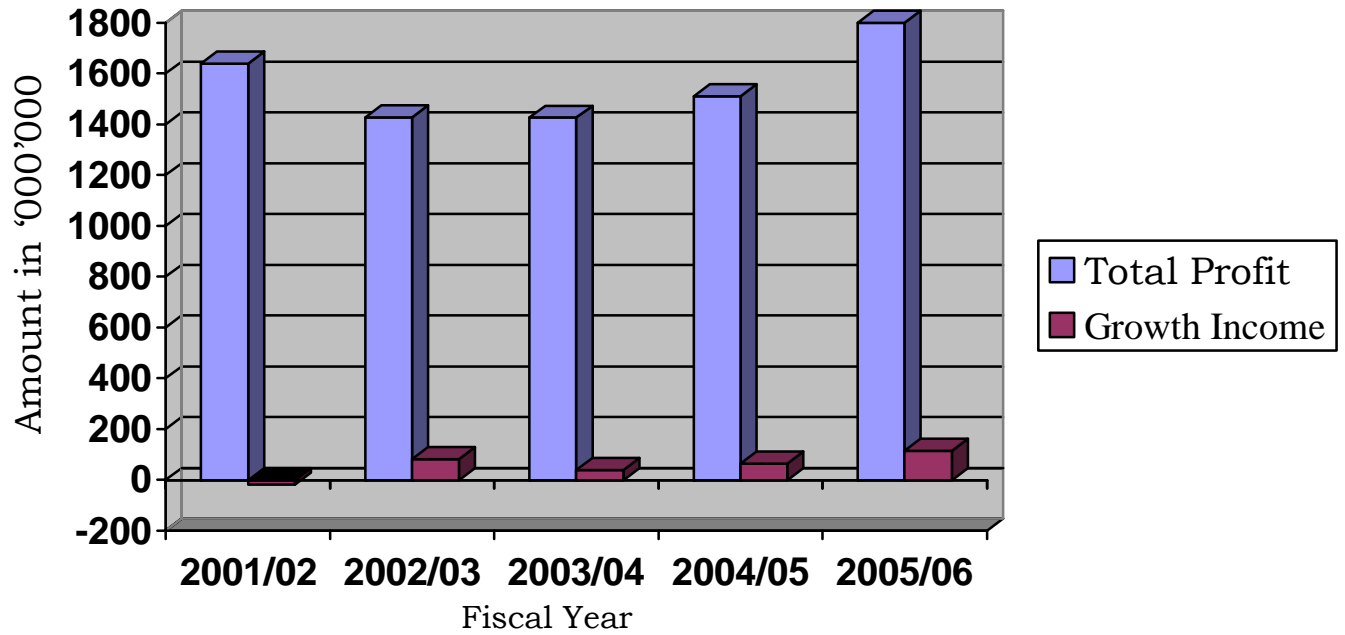
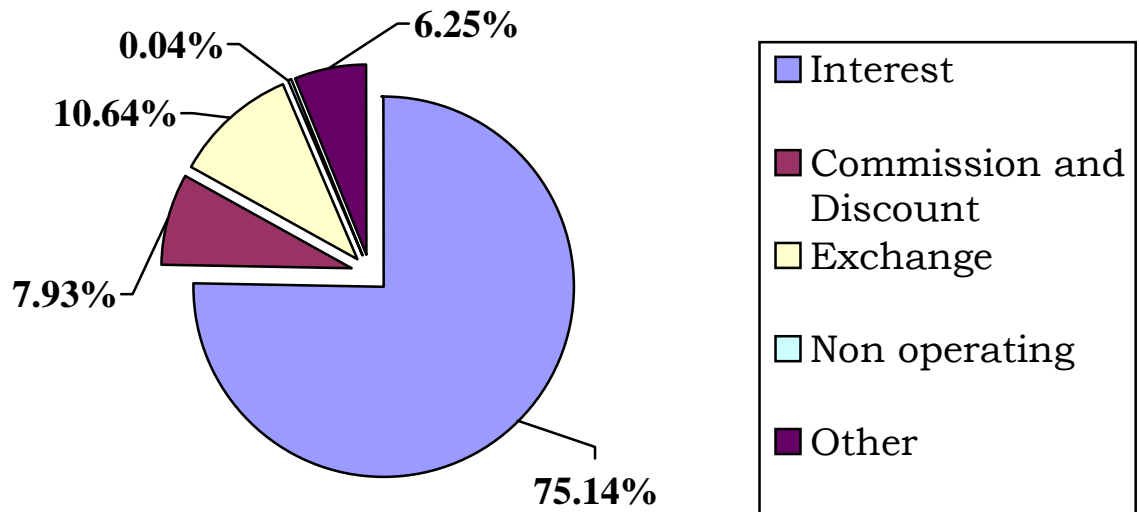
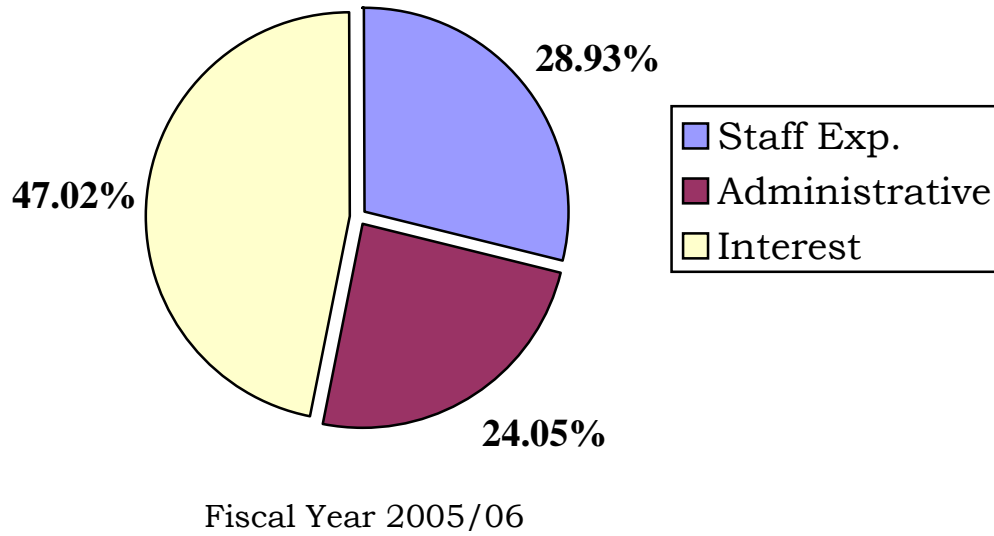


Figure 2 : Income Composition (in Percentage)



Fiscal Year 2005/06

Figure 3 : Expenses Composition (in Percentage)



4. SUMMARY CONCLUSION AND RECOMMENDATION

4.1 Summary & conclusion

Bank and financial institutions are playing an imperative role in our whole economy by providing effective service and collecting deposits from public and invest the collected deposits in different productive sector and earn profit.

In this fieldwork report we study about NABIL profitability and solvency position and we found the financial position of NABIL is better.

In compliance with analysis, the following finding as made:

The leverage ratio reveals the following positions:

4.1.1 The lowest mean ratio of debt assets ratio i.e. 0.62% shows the bank is not exploiting debt efficiently. It rather uses equity financing (internal and external equity) for assets. So, the risk is low as compared to debt financing. The ratio shows an increasing trend for the year 2001/02 to 2003/04 with max value of index as 273.68. But it has decreased in the recent years.

4.1.2 The debt equity ratio shows an increasing trend for the year 2001/02 to 2003/04. The index has decreased in 2004/05 to 87.29 but finally has increased in 2005/06 to 101.86% as compared to base year. The max index value is 198.47% in the year 2002/03.

Profitability ratio of NABIL shows the following positions:

4.1.3 The exchange gain to total income ratio shows an increasing trend as compared to the base year, which is beneficial to the

bank. The min. index value is 107.23 as that of 2002/03 and the max index value is 130.07 as that of 2004/05.

- 4.1.4** The return on assets of NABIL shows an increasing trend and has max. index value of 198.05 in the year 2004/05 as compared to base year 2001/02 i.e. 100. It shows that, NABIL is successful in deriving benefit from the assets it has used.
- 4.1.5** The trend of return on equity (ROE) is increasing. It shows that the bank is able to satisfy its shareholder's to the fullest. The max return index is 143.01 which is 43.01 % more than that of the base year 2001/02. Thus it is able to achieve the goal of wealth maximization too.
- 4.1.6** The Overhead to Total Income ratio shows a fluctuating trend. The max. index value is 153.85 as that of 2004/05 and the min. increased index value is 127.96 as in 2005/06. This shows the operational efficiency of NABIL is satisfactory.
- 4.1.7** The Staff Expenses to Total Income ratio of NABIL has increased by 66.85% in the year 2002/03. The min increased level of Staff Expenses compared to Total Income is 42.65%, during the recent year 2005/06. It shows that NABIL is successful in cutting down extra unnecessary expenses related to staffs.
- 4.1.8** The earning per share of NABIL increase continuously during the year 2001/02 to 2005/06 and maximum earning per share is 129.21 and the least price is 55.25. This shows the return of each equity shareholder is in satisfactory condition.

Graphical presentation of position of total profit and total expenses over different year reveals the following positions:

- 4.1.9** The position of profit over different years i.e. (2001/02 to 2005/06) shows the profit of NABIL decreased continually for the first three years and then it is rising rapidly. During 2003/04, the level of profit decreased to 1426.4 million. At 2005/06, the peak level of profit is 1743.5 million.

4.1.10 The position of income of NABIL over different year i.e. (2001/02 to 2005/06) shows that income composition of NABIL is no more difference.

4.1.11 The position of expenses of NABIL over different year i.e. (2001/02 to 2005/06) shows that expenses of NABIL is no more difference.

4.2 Recommendation

Based on the analysis and finding of the study, the following recommendation can be made.

4.2.1 The leverage ratio of NABIL shows the solvency position of the bank is satisfactory. The highest mean ratio of debt assets ratio (i.e. 1.04) shows the bank is not so successful in exploiting debt. It rather uses equity financing as a reliable source of capital and non riskier capital structure. The debt equity ratio shows that the debt is used a little as compared to equity. The bank should use the debt financing too as an alternative source to internal equity financing.

4.2.2 The profitability ratio shows the profitability position of NABIL is satisfactory. It should give continuity to this growth trend in future.

4.2.3 These ratios show that NABIL is more efficient in mobilizing the resources of owners and its operational efficiency is also satisfactory. The graphical presentation of position of profit over different years (i.e. F/Y 2001/02 to 2005/06) of NABIL show that the bank has been successful in increasing it's profit each year after the year 2004/05. Before that its position of profit was decreasing downwards.

4.2.4 The total expenses position of NABIL shows that the bank has been successful in winning the trust of the customer, as volume of expenses is no more difference and it's growing slowly than previous years. There is general rise and fall in expenses level during different years. It should give basic

priority to the customers and personnel first and then the organizational objectives, which will help to develop effective value chain in the organization.

Branches existing in some limited areas will not enable a bank to boost up its campaign of deposit mobilization and credit disbursement as desired. Therefore NABIL is recommended to open new branches at certain places every year after making feasibility of studies. And also it has launched various ideas as NABIL PREPAID card, extended banking hours, etc. so as to collect maximum amount of funds from general public.

Besides these, all the other functions of the company are satisfactory, no comments upon it.

Thank you.

ANNEX

A sample for calculation of mean, standard deviation and coefficient of variation

For example: **Earning per Share of NABIL**

Computation of mean, S.D. and C.V. of Debt assets ratio of NABIL

Table 8 Earning Per Share of NABIL

| F/Y | NPAT | No. of Common Shares | Ratio in %(x) | x ² |
|---------|-------------|----------------------|---------------|-----------------------|
| 2001/02 | 271,638,612 | 4,916,544 | 55.25 | 3052.56 |
| 2002/03 | 416,235,811 | 4,916,544 | 84.66 | 7167.32 |
| 2003/04 | 455,311,222 | 4,916,544 | 92.61 | 8576.61 |
| 2004/05 | 520,114,085 | 4,916,544 | 105.49 | 11128.14 |
| 2005/06 | 635,262,349 | 4,916,544 | 129.21 | 16695.22 |
| | | | | $\sum x^2 = 46619.85$ |
| | | | | $\sum x = 467.22$ |
| | | | | $\bar{x} = 93.44$ |
| | | | | $s = 24.33$ |
| | | | | CV= 26.04 |

$$\text{Therefore mean ratio } (\bar{x}) = \frac{\sum x}{N}$$

$$\text{Standard deviation (S.D.)} = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

$$\text{CV} = \frac{SD}{\bar{x}} \times 100$$

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