

# COMPARATIVE SWOT ANALYSIS OF NEPALESE COMMERCIAL JOINT VENTURE BANKS

**By:**

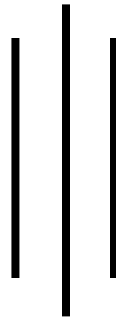
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**A thesis submitted to:  
Office of the Dean  
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*“in partial fulfillment of requirements for the degree of  
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## RECOMMENDATION

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**COMPARATIVE SWOT ANALYSIS  
OF  
NEPALESE COMMERCIAL JOINT VENTURE BANKS**

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This thesis is prepared and submitted to the faculty of management as partial fulfillment of the requirements of the master's degree in Business Studies (MBS).

Firstly, I would like to pay thanks to my parents who headed me towards the light of education and path of truth. Due to their non-stopping effort for guidance. Today I come in this position. So I would like to share the credit of my success with them.

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## **DECLARATION**

I hereby declare that the work reported in this thesis “Comparative **SWOT** Analysis of Nepalese Commercial Joint Venture Banks submitted to the Dean, Faculty of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements of the Master’s Degree in Business Studies (M.B.S) under the strict supervision of Dr. Shyam Bahadur Katuwal, Associate Professor, T.U. P.G. Campus, Biratnagar.

Sanjeev Thakur

2069/12/08

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# ABBREVIATION

NRB	=	Nepal Rastra Bank
JVB	=	Joint Venture Bank
NABIL	=	Nepal Arab Bank Limited
SCBNL	=	Standard Chartered Bank Nepal Ltd.
HBL	=	Himalayan Bank Ltd.
RBB	=	Rastriya Banijya Bank
NBL	=	Nepal Bank Limited
ADB	=	Agricultural Development Bank Ltd.
NIDC	=	Nepal Industrial Development Corporation
NSE	=	Nepal Stock Exchange
PBT	=	Profit before Tax
HMG	=	His Majesty Government
PAT	=	Profit after Tax
FY	=	Fiscal Year
EPS	=	Earning Per Share
DPS	=	Dividend per Share
IMF	=	International Monetary Fund
NGO	=	Non Government Organization
NPR	=	Nepalese Rupee
CRR	=	Cash Reserve Ratio
SHF	=	Share Holder's Fund
LCY	=	Local Currency
FCY	=	Foreign Currency
IR	=	Interest Received
ROA	=	Return On Assets
ROE	=	Return On Equity
T.U.	=	Tribhuvan University
FD	=	Fixed Deposit
NPA	=	Non Performing Assets

# **CHAPTER-ONE**

## **INTRODUCTION**

### **GENERAL BACKGROUND**

A Bank is an institution, which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. Banks render a wide range of services to the people of different walks of life. The term 'Bank' derives from Latin word 'Bancus' which refers to the bench on which the Banker would keep the money and his records. Some persons trace its origin to the French word 'Banque' and the Italian word 'Banca' which means a bench for keeping, lending and exchanging of money or coins in the market place by moneylenders and moneychangers. The concept of Banking has developed from the ancient history with the effort of ancient goldsmith who developed the practice of storing people's gold and valuables. The history reveals that it was the merchant Banker who first evolved the system of Banking by trading in commodities than money. Then they issued different documents as the near substitutes of money, called drafts or hundis in modern days.

As a public enterprise, Banking made its first beginning around the middle of the twelfth century in Italy and the Bank of Venice, founded in 1157 A. D. Broadly speaking, a Bank draws surplus idle money in the hand of public in the form of deposits and supplies that money in the form of loans to those who are in a position to utilize the same for some productive uses. With the passage of time, functions of Banks have increased manifold. Since Banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society.

Banking sector plays an important role in the economic development of the country. Commercial Banks are one of the vital aspects of this sector, which deal

in the process of channeling the available resources in the needed sectors. It is the intermediary between the deficit and surplus of financial resources. All the economic activities are directly or indirectly channeled through these Banks. People keep their surplus money as deposits in the Banks and hence Banks can provide such funds to finance the industrial activities in the form of loans and advances.

In our country, the development of Banking is relatively recent. However, some crude Banking operations were in practice even in the ancient times. In Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Sankhadhar, a Sudra merchant of Kantipur in 879 A. D or 880 A.D. after having paid all the outstanding debts in the country. The establishment of the 'Tejarath Adda' during the year 1877 A.D. was fully subscribed by the government of Kathmandu Valley, which played a vital role in the Banking system. Hence, the establishment of 'Tejarath Adda' was running smoothly for the following decades.

Modern commercial banks are identified with different names such as Business Banks, Retail Banks, Clearing Banks, Joint Venture Banks, Merchant Banks, and Development Banks etc. No matter what name we give to banks, they all perform the same basic function: i.e. they provide a link between lenders, those who have surplus money and do not wish to spend immediately, with borrowers, and those who do not have surplus money but wish to borrow for investment in productive purposes. Basically, by charging a rate of interest to borrowers slightly higher than they pay to lenders, the Banks make their profit. This is known as financial intermediation.

A Joint Venture is an association of two or more persons or parties, having mutual advantages in a specific operation, and is undertaken to make the operation highly remunerative with their collective efforts. Joint Venture Banks are partnering

having alliance Banks with more than one nation. Joint Venture Banks (JVBs) are financial intermediaries, financing deficit units with money deposited to them by surplus units. The financial system of a banking industry in precise is a complex network embracing payments mechanisms and the borrowing and lending of funds. Though they have other important functions, the key role played by these banks in the system is to act as financial intermediaries channeling funds from those with income in excess of their needs to those wishing to borrow.

To the greater extent, economic growth rate is based on the Banks and other financial institutions' performance in an economy. Many researches have revealed that Banks and economic condition are two wheels of the same chariot. Now-a-days, Banking activities are spreading all over the world.

Following are the list of commercial banks licensed by NRB for financial transaction as of Kartik End 2061 B.S.

**Table No. 1**  
**List of Licensed Commercial Banks**

1	Nepal Bank Ltd.	1937/11/15	Kathmandu
2	Rastriya Banijya Bank Ltd.	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	Nabil Bank Ltd.	1984/07/16	Kathmandu
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Ltd..	1987/01/30	Kathmandu
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu
10	Everest Bank Ltd.	1994/10/18	Kathmandu
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Rupandehi
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh, Chitawan
14	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biaratnagar, Morang
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski
16	Kumari Bank Ltd.	2001/04/03	Kathmandu

17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu
21	Prime Commercial Bank Ltd	2007/09/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	DCBL Bank Ltd.	2008/05/25	Kamaladi, Kathmandu
25	NMB Bank Ltd.	2008/06/05	Babarmahal, Kathmandu
26	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu
27	Janata Bank Nepal Ltd.	2010/04/05	Kathmandu
28	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu
30	Civil Bank Ltd.	2010/11/26	Kamaladi, Kathmandu
31	Century Commercial Bank Ltd.	2011/03/10	Putalisadak , Kathmandu
32	Sanima Bank Ltd	2012/03/16	Nagpokhari, Kathmandu

### 1.1.1 JOINT VENTURE BANK

Joint Venture Banks are partnering having alliance Banks with more than one nation. Joint Venture Bank (JVBs) are financial intermediaries, financing deficit units with money deposited with them by surplus units. The financial system of a banking industry in precise is a complex network embracing payments mechanisms and the borrowing and lending of funds. Though they have other important functions, the key role played by these banks in the system is to act of their needs to those wishing to borrow.<sup>1</sup>

One of the pre-requisite for the economic development process is the existing of a sound and healthy financial system, with high level of operating efficiency. The operating efficiency is mainly tested by their ability to mobilize savings and its deployment for production purposes. After the onset of economic liberalization process, there has been visible expansion in the financial system of Nepal. In this

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<sup>1</sup> Don Wright & Wally Valentine "Business of Banking". Page 29

connection, Nepalese economy has witnessed several changes in the financial systems as a result of which several JVBs evolved in the last decade.

The overall market is relatively small and existing financial institutions are competing among themselves for their share in it. Few years back, Nepalese owned banks dominated the entire financial market of the country. However, JVBs have been making inroads, starting with Nepal Arab Bank Limited in 1985, Nepal Indosuez Bank in early 1986, Nepal Grindlays Bank in 1987 and Himalayan Bank Limited in 1992. In recent years, several new banks, viz. Nepal Bangladesh Bank, Nepal SBI Bank, Bank of Kathmandu and Everest Bank Limited have entered the market, and there are nine foreign joint venture banks operating in Nepal.

Joint Venture Banks were established to invite foreign investment and modern technologies to provide financial services to the target market in the kingdom of Nepal.

Government's policy of economic liberalization has opened its doors to private foreign investments in conjunction with Nepalese investors. This has intensified the competition, which has ultimately affected the profitability of the banks. Hence to become successful in the competition environment, all banks are moving ahead with to become the most preferred supplier of financial services to the target market and to become noted for their professionalism of its management and staff; to gain their position as the leading bank in the provision of their financial performance and to be able to provide stable and consistent return to their shareholders.

Therefore to meet the objectives of the JVBs, they are concentrating in their thrust areas, viz., Corporate Banking, Retail and Private Banking, Investment Banking, Credit Cards and Technology and at the same time they must maintain their asset quality by keeping intact the lending standards.

The role and importance of Joint Venture Banking system is extremely enhanced in the prevailing Nepalese economy due to the indispensable functions played by them, as a result of which, they have managed to perform in a significant way by gaining their position as the leading banks.

The management of these JVBS is mainly held by foreign banks, due to which they enjoy some of the competitive advantageous factors like electronic banking services, scientific credit evaluation, worldwide fund transfer systems, credit cards, tele-banking, automatic teller machines and fully computerized banking networks with highly skilled personnel, advanced management skills and international chain of branches.

Hence they have been able to perform satisfactory through service excellence and customer satisfaction, thereby earning a stable and consistent return to their shareholders.

Nevertheless, Nepalese banking system is still a crossroads; rapid changes to ways of working are needed in order to improve profitability via innovation, flexibility and efficiency. These banks in terms of commitment and financial resources must pay a high price, but they have no choice if they want to remain competitive and set an example towards economic prosperity.

This study titled '**Comparative SWOT Analysis of Nepalese Joint Venture Commercial Banks**' focuses at the financial intermediations of the Joint Venture Banks operating in Nepal..

### **1.1.2 SWOT**

#### **Strengths, Weaknesses, Opportunitites and Threats (SWOT).<sup>2</sup>**

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<sup>2</sup> [http://www.marketingteacher.com/Lessons/lesson\\_swot.htm](http://www.marketingteacher.com/Lessons/lesson_swot.htm)

**SWOT** analysis is a tool for auditing an organization and its environment. It is the first stage of planning and helps marketers to focus on key issues. *SWOT* stands for **strengths, weaknesses, opportunities, and threats**. Strengths and weaknesses are **internal** factors. Opportunities and threats are **external** factors.

**In SWOT, strengths and weaknesses are internal factors. For example: strength could be:**

- ) Your specialist marketing expertise.
- ) A new, innovative product or service.
- ) Location of your business.
- ) Quality processes and procedures.
- ) Any other aspect of your business that adds value to your product or service.

**A weakness could be:**

- ) Lack of marketing expertise.
- ) Undifferentiated products or services (i.e. in relation to your competitors).
- ) Location of your business.
- ) Poor quality goods or services.
- ) Damaged reputation.

**In SWOT, opportunities and threats are external factors. For example: An opportunity could be:**

- ) A developing market such as the Internet.
- ) Mergers, joint ventures or strategic alliances.
- ) Moving into new market segments that offer improved profits.
- ) A new international market.
- ) A market vacated by an ineffective competitor.

### **A threat could be:**

- J A new competitor in your home market.
- J Price wars with competitors.
- J A competitor has a new, innovative product or service.
- J Competitors have superior access to channels of distribution.
- J Taxation is introduced on your product or service.

A word of caution, SWOT analysis can be very subjective. Two people rarely come-up with the same final version of SWOT. It simply looks at the negative factors first in order to turn them into positive factors. So use of SWOT should be as guide and not a prescription.

### **Simple rules for successful SWOT analysis.**

- J Be realistic about the strengths and weaknesses of your organization when conducting **SWOT** analysis.
- J SWOT analysis should distinguish between where your organization is today, and where it could be in the future.
- J SWOT should always be specific. Avoid grey areas.
- J Always apply SWOT in relation to your competition i.e. better than or worse than your competition.
- J Keep your SWOT short and simple. Avoid complexity and over analysis
- J SWOT is subjective.

Once key issues have been identified with your SWOT analysis, they feed into marketing objectives. **SWOT** can be used in conjunction with other tools for audit and analysis, such as PEST analysis and Porter's Five-Force analysis. So SWOT is a very popular tool with marketing students because it is quick and easy to learn.

Here, the focus is on the Financial SWOT which analyses basically on the financial aspects.

### **FOCUS OF THE STUDY**

This study ‘**Comparative SWOT Analysis of Nepalese Joint Venture Commercial Banks**’ concentrates on the financial performance of Joint Venture Banks operating in Nepal. The performance of the Joint Venture Banks is evaluated along with the brief analysis of the state of the economy, which provides the opportunities as well as threats to the commercial banks. This study is basically focused on financial performance of the selected JVBs to know their impacts on the national economy as a whole. The financial performance of any bank can be evaluated on the basis of meeting of their objectives and fulfillment of the functions. Analyzing financial performance is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a bank’s position and performance.

### **STATEMENT OF THE PROBLEM**

Due to the economic recession in the nation, there has been lower investment in the agriculture, manufacturing, industrial and financial sectors which has caused lower growth of gross domestic product and hence foreign trade deficit is increasing day by day. JVBs are also facing this economic chaos and difficulties in extending their loan and advances towards the profitable sectors. Because of economic recession, only few entrepreneurs are able to survive and others, who are less competitive, are backing out from the industry. In this situation, banks invest their surplus funds in the non-risky portfolios like treasury bills, or government securities, which yield lower rate of returns in comparison to credit to be in safer side.

Slower pace of economy with absence of profitable investment opportunities forces people to save their surplus money in form of bank deposits. This results in

higher growth of deposit volumes as compared to credits, which affects C/D ratios of banks adversely.

The economic slowdown of expansion is occurred mainly because of elasticity of credit supply. The elasticity of credit supply basically depends on the functioning of the central banking system. Central bank has issued directives to regulate the activities of commercial banks with the objective of safeguarding the public sector. Despite of prevailing economic recession in the country, Joint Venture Banks operating in Nepal have managed to perform well in terms of their work efficiency and profitability. However, they are also facing problems in generating an adequate return on their investment and the role of banking sector has been further increased for the upliftment of the country's economy from the present condition. They must attempt to find the potential areas of profitable investment in order to get themselves and the nation away from this economic turmoil.

This study will support in identifying weak areas and determining strategies relating to these banks. The study analyzes not only the financial information of JVBs but also the cause of their **Strength** and **Weakness**. The **Opportunities** and **Threats** facing the Banking sector would be dealt and analyzed as well. This study will be of great importance to the parties concerned and hence the topic has been identified as the problem of the study. This study will cover all the financial aspects of the JVBs and will be highly instrumental in recognizing the potential areas of investment.

In order to appraise the financial performance of these banks the financial ratios are considered as the major tools. The term ratio refers to the numerical or quantitative relationship between two variables. Crucial ratios can be calculated from the balance sheet and profit & loss account. Important ratios like Capital structure ratio, debt equity ratio, liquidity ratio, efficiency ratio, interest coverage ratio and profitable ratios can be calculated from the balance sheet and profit &

loss account which will be relevant in evaluating the overall financial performance and the position of the bank.

Besides financial ratios, comparative graphical presentations will also be used for the purpose of presenting the comparative results of the JVBs in an effective way. The main goal of this study is to identify the problems faced by these banks and to meet the objectives mentioned below.

## **OBJECTIVES OF THE STUDY**

The general purpose of this study is to spot, examine and assess the financial **Strength** and **weakness** of the selected Joint Venture Banks. The following objectives have been considered as prime objectives of this study.

- ) To emphasize about the growth, objectives, functions, and role of the commercial Joint Venture Banks
- ) To evaluate the comparative financial strengths & weakness of three competitive JVBs.
- ) To provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of their shareholders based on the findings of the study.

## **SIGNIFICANCE OF THE STUDY**

Banking sector plays a vital role for the country's economic development and considered as a pre-requisite for the economy. It is source for economic development; it maintains economic confidence of various segments and extends credit to people. The banking sector has to take great responsibilities since the country is undergoing through a deteriorating economic situation.

A analytical comparative financial analysis of three JVBs namely NABIL (Nepal Arab Bank Limited), Standard Chartered Bank Nepal Limited (Nepal Grindlays

Bank Limited) and Himalayan Bank Limited, will be of great importance for policy makers, academicians, professional bankers, shareholders, management, stock brokers, depositors, prospective customers, investors and the general public. I believe that this study will be valuable primarily to the students of Finance, because they can relate their theoretical knowledge of finance to the practical results derived from this study.

The analysis of the financial performance will stress the strength and weakness of these banks and hence this study will be able to provide suggestive improvements for their operation. Furthermore, the comparative financial position of three JVBs will help the shareholders and general public to know the best performing bank in this banking environment.

## **LIMITATIONS OF THE STUDY**

Basically, the study has been conducted as partial fulfillment of the requirement of the 'Master of Business Studies'. So this study has the following limitations:

- ) Among the various JVBs, the study is focused only on three JVBs namely, NABIL, SCBNL & HBL. NABIL and SCBNL being the first two banks to operate in Nepal are considered as 'established banks' and hence have been selected. Himalayan Bank Limited, though considered as the second-generation bank has also been able to expose as established bank since the performance of this bank is very much comparable and competitive with the established banks.
- ) This study covers the period of five years only.
- ) The study is based on secondary data and the findings will be based on the information provided by the banks.
- ) This study is prepared in a limited period of time for the partial fulfillment of MBS and cannot be considered as masterpiece.

## **ORGANIZATION OF THE STUDY**

The study has been organized in the following chapters in order to make it easy to understand.

The **first chapter** is an introductory chapter which contains background of the study, introduction of commercial banks, focus of the study, statement of the problems, objectives of the study, limitation of the study and organization of the study.

The **second chapter** is concerned with review of literature. This contains conceptual framework, review of legislative provision, review of research paper and published and unpublished master's thesis of T.U.

The **third chapter** is the most important part of the study. It deals with the research methodology, which is applied to collect the data and analyze them in this study. It contains introduction, research design, sources of data, population and sample, financial analysis and statistical analysis.

The **fourth chapter** is analyzing one, which deals with presentation and analysis of relevant data through definite courses of research methodology with financial and statistical analysis related to financial performances of JBVs. Major findings of the study have been presented at the end of this chapter.

The **fifth chapter** is the last part of the study, which provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks. Finally, an extensive, bibliography and appendices are also presented at the end of the thesis work.

## **INTRODUCTION OF SAMPLE ORGANIZATIONS UNDER STUDY**

### **STANDARD CHARTERED BANK NEPAL LIMITED (SCBNL)**

Standard Chartered Bank Nepal Ltd. is the second Joint Venture Bank established in 1985 in association with Australia and New Zealand (ANZ) banking group. Initially, 50% of its share was owned by ANZ Grindlays Bank PLC, 35% by Nepal Bank Limited and 15% by the general public. The shares owned by ANZ Grindlays Bank Ltd., Australia were transferred to Standard Chartered Bank PLC United Kingdom on August 2000. Consequently, the name of the Bank was changed from Nepal Grindlays Bank Limited to Standard Chartered Bank Nepal limited effective from July 16, 2001.

The Bank places a great emphasis on being equipped with the best human resources so as to continue to be the leader of the Banking industry. In order to improve the skills and knowledge of the staffs, the Bank continues to provide development programs, including on the job training and job rotation. In its report, the Bank has stated that it has followed latest performance management technique to measure the staff effectiveness, which involves planning for, agreeing to, achieving & reviewing results for each job position within stipulated time frames. This program links staff to the overall objectives of the Bank giving each employee a clear role to play in the strategic action plans of the organization. The Bank is also using part time employee to improve the service delivery standard especially during peak pressure periods.

The Bank has its own V-Sat international communication link which enables them to centralize data processing in Kathmandu and has greatly improved local and international communication. With the acquisition of the institution by SCB group, the Bank has spent considerable efforts to change the system platform, both software and technology infrastructure.

### **NABIL BANK LIMITED (NABIL)**

NABIL was established in 1984 as the first JVB in Nepal. Now it has grown large number of branches currently operating in Nepal. Initially, 50% of its share was owned by Dubai Bank Ltd., U.A.E. and 20% of the share by Nepalese Financial Institutions. Remaining Shares were undertaken by the general public of Nepal. The Shares owned by Dubai Bank Ltd. were transformed to Emirates Bank International Ltd. (EBIL), Dubai by virtue of its annexation with the latter. Later on, EBIL sold its entire 50% equity holding to National Bank Ltd., Bangladesh. National Bank Ltd. Bangladesh is managing the Bank in accordance with the technical services agreement signed between it and the Bank on June 1995. The Bank has changed its name from Nepal Arab Bank Limited to NABIL Bank Ltd. from 1<sup>st</sup> January 2002.

NABIL has continued to extend its network and has given emphasis for its own office premises. It has laid its commitment for the managerial and technical skill development programs, in house training and training at different institutes in India and the entrepreneurial development program for graduates. The Bank has laid greater emphasis in technology venturing into new areas of banking activities and also for the improvement of quality of manpower.

### **HIMALAYAN BANK LIMITED (HBL)**

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Habib Bank Limited, one of the largest commercial banks of Pakistan. Banks operations were commenced form January 1993. It is the first commercial bank of Nepal with maximum shareholding by Nepalese Private Sector. Besides commercial activities, the bank also offers industrial and merchant banking facilities. The bank at present has the five branches in Kathmandu valley and seven branches outside the valley. The bank is also operating a counter in the premise of the Royal Palace. The bank has a very aggressive plan of establishing more branches in different pats of the kingdom in

near future. The bank's policy is to extend quality and personalized service to its customers as promptly as possible. The bank, as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements, to extend more efficient services to its customers. Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the bank to constantly improve its service level but has also kept it prepared for future adoption of new technology. HBL has listed on Nepal stock exchange in July 5, 1993. The share participation of the bank is 51% Nepalese Promoters, 14% employment provident fund, 15% general public and 20% Habib Bank of Pakistan.

## CHAPTER-TWO

### REVIEW OF LITERATURE

A literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literature helps the researcher to develop a thorough understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigation problems that have already been definitely answered. Thus a literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest<sup>3</sup>. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to be done. The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know<sup>4</sup>.

- What research has been done in the subject?
- What theories have been advanced?
- What are the approaches taken by the other researchers?
- What are the areas of agreement or disagreement?
- Whether there are gaps that can be filled through the proposed research?

In this chapter, the overall concept and view of 'Financial Performance' will be streamlined by making comprehensive review of relevant literature related to this study which would enable us to know the comparative strength and weakness of the chosen JBV's and the opportunities/ threats they possess in the dynamic environment. The review of literature is arranged in the following order:

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<sup>1</sup> Howard K. Wolff and P.R. Pant (2005), *Social Science research and Thesis writing*, Buddha Academic publishing and distributors, Kathmandu, Nepal

<sup>2</sup> *Ibid*

## **2.1 Conceptual review**

### 2.1.1 Review of Books

### 2.1.2 Review of journals/ Articles

### 2.1.3 Concept of Financial Analysis for determining comparative SWOT

## **2.2 Review of related studies**

### 2.2.1 Review of Policy Documents

### 2.2.2 Review of Thesis

## **2.3 Research Gaps**

## **2.1 Conceptual / Theoretical Review**

### **2.1.1 Review of Books**

#### Books relating to Finance

Finance is a broad field and there are various books written in this subject. The book by **M.Y. Khan and P.K. Jain**<sup>5</sup> is considered to be a useful book in the Financial Management. The modern approach of Khan and Jain views the term Financial Management in broad sense and provides a conceptual and analytical framework for financial decision making. According to them, ‘the finance function covers both acquisition of funds as well as their allocation, hence, apart from the issues of acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses.’ The three major financial decisions, according to Khan & Jain are:

The investment decision

The financing decision and

The dividend policy decision

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<sup>5</sup> *M.Y. Khan; P.K. Jain “Financial Management” (Tata McGraw-Hill Publishing Co. Ltd.)*

The book on ‘Managerial Finance’ written by **Weston and Brigham**<sup>6</sup> stresses on Risk-Return trade off as one of the major financial functions. They believe that the maximization of the value of the firm can be achieved through maximization of returns in one hand and through minimization of the risk in the other. The relationship between the expected future state of the economy and the performance of individual firms enables a relationship to be set forth between the state of the economy and the returns from the investments in firms.

Likewise, **James C. Van Horne**<sup>7</sup> in his book ‘Financial Management and Policy’ describes about the new areas of finance. He emphasizes on two broad functions of finance, they are:

- Investment in assets and new products;
- Determining the best mix of financing and dividends in relation to a company’s overall valuation.

According to him, ‘Investment of funds in assets determines the size of the firm, its profits from the operations, its business risk and its liquidity. Obtaining the best mix of financing and dividends determine the firm’s financial charges and its financial risk, it also impacts its valuation.’ He further incorporates other core financial areas, such as:

- Creation of Value;
- Investment Decision;
- Financing Decision;
- Dividend Decision; and
- Financial Management.

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<sup>6</sup> *J.Fred Weston; Eugene F. Brigham “Managerial Finance” (Holt-Saunders International Editions).*

<sup>7</sup> *James C. Van Horne; “Financial Management & Policy” (Prentice-Hall International Ltd.)*

The objectives of a company must be to **Create Value** for its shareholders. Market price of company's stock represents its value and this can be maximized by firm's optimum investment, financing and dividend decisions.

The **Capital Investment decision** is the allocation of the capital to investment proposals whose benefits are to be realized in the future. As the future benefits are not known with certainty, investment proposals necessarily involve risk. Consequently they should be evaluated in relation to their expected return and risk.

In the **Financing Decision**, the financial manager is concerned with determining the best financing mix of an optimum 'Capital Structure'. If a company can change its total valuation by varying its capital structure, an optimal financing mix would exist, in which market price per share could be maximized.

Another important decision of the firm, according to Van Horne is its **Dividend Policy**. The dividend decision includes the percentage of earnings paid to stockholders in cash dividends. The dividend-payout ratio determines the amount of earnings retained in the firm and must be evaluated in the light of the objective of maximizing shareholder's wealth.

The **Financial Management** involves the solution of the three major decisions. Together, they determine the value of a company to its shareholders. Van Horne believes that the objective of any firm is to maximize its value, and therefore, the firm should strive for an optimal combination of the three inter-related decisions, solved jointly. The main thing is that the financial manager relates each decision to its effect on the valuation of the firm.

The book by **I.M. Pandey**<sup>8</sup> on 'Financial Management' defines financial management as that managerial activity which is concerned with the planning and controlling of the firm's financial resources. I.M. Pandey believes that among the most crucial decisions of the firm are those which relate to finance, and an

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<sup>8</sup> *I.M. Pandey; "Financial Management" (Vikash Publishing House Pvt. Ltd.)*

understanding of the theory of financial management provides the conceptual and analytical insights to make the decisions skillfully. I.M. Pandey further identifies two kinds of finance functions:

- ) Routine and
- ) Managerial finance functions.

The **Routine Finance functions** do not require a great managerial ability to carry them out and they are chiefly clerical in nature. **Managerial Finance functions**, on the other hand are so called because they require skillful planning, control and execution of financial activities. According to him, there are four important managerial finance functions:

- Investment or long-term asset mix decision.
- Financing or Capital-mix decision.
- Dividend or Profit allocation decision.
- Liquidity or short-term asset-mix decision.

After reviewing these various books, Finance can be defined as the acquisition and investment of fund for the purpose of enhancing the value and wealth of an organization. The various areas under finance include investment, public finance, corporate finance and financial institutions. The basic function of finance is to manage the firm's balance sheet in the most efficient way. The balance sheet reflects how a firm acquired financing through debt and equity sources, and it reflects the disposition of acquired financing among the various asset accounts.<sup>9</sup>

The major financial functions required for managing the Bank's balance sheet are summarized below:

1. Analysis and Planning;
2. Financial Structure Management; &
3. Asset Management.

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<sup>9</sup> Terry S. Maness "Introduction to Corporate Finance" Page 4

The first function, **financial analysis and planning**, is to understand the Bank's current financial condition and plan for its future financial requirement in different economic scenarios.

After analyzing the financial needs, the second function is to **manage the financial structure** of the Bank, which can be done by optimizing the use of debt and equity in the capital structure. While deciding about this optimum structure, a financial manager must concentrate in minimization of cost of funds in one hand, and maximization of value of the firm in the other. Moreover, financial structure management for a Banking sector includes, a typical treasury function, which is also called 'Funds Management.' This function contributes a significant portion in profits earned by Banks.

The final function is the **management of asset structure** of the Bank. Advances of credit and investment in certain portfolios constitute the major portion of the Bank's asset. The major financial function related to Assets Management is to decide for the least risky and most profitable alternatives of investments. This can be conducted by determining returns and risks associated with the loans and advances made by Bank.

All the above financial decisions or functions as mentioned by different writers are instrumental towards effective handling of financial management, which includes activities beginning from raising of funds to efficient and effective use of funds; no matter either it is a Banking or a non-Banking institution.

### Books relating to Commercial Banks

There are various books written on commercial Banks. Some of them are reviewed for our purpose.

In his book named 'Success in Elements of Banking', **David Cox**<sup>10</sup> stresses in three major functions to be performed by the commercial banks:

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<sup>10</sup> *David Cox "Success in Elements of Banking"*

To accept and safeguard deposits of money from customers;  
To permit money to be withdrawn or transferred from one account to another;  
To lend the surplus of deposited money to suitable customers who wish to borrow.

Cox believes that the word- **money** is common to all the basic functions of the bank. Money, according to him, can be defined as anything, which is generally acceptable in the settlement of the debt and passes freely from hand to hand.

**Don Wright & Wally Valentine**<sup>11</sup> in their book ‘Business of Banking’ consider commercial banks as those ‘financial intermediaries’ having the following significance:

They have access to large amounts of deposits and so have funds available when required by borrowers.

Commercial Banks can transform Maturities. Lenders of depositors often want fairly immediate access to their deposits. Borrowers often want to borrow for a long period of time. Commercial Banks use their skill to make long term loan to customers, keeping enough liquid assets on hand to meet the demands of depositors.

They minimize the risk of loss if the borrower does not repay the loan. They can do this because of their large reserves.

Commercial Banks have large scale of operations. They operate on a very large scale and so gain economies of scale.

**R.S. Sayers**<sup>12</sup>, in his book ‘Modern Banking’ stresses in the economic importance of commercial Banks and highlights the function of ‘creation of money’ by banks. According to Sayers, “The special interest of economists in the activities of banks is due to the monetary nature of the deposit liabilities of the banks.” There lies the

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<sup>11</sup> *Don Wright & Wally Valentine “Business of Banking” (Northcote House)*

<sup>12</sup> *R.S. Sayers “Modern Banking” (Oxford at the Clarendon Press)*

community's interest in banks because by their operations, they can effect 'the monetary situation', in sense of the availability of the purchasing power. This can most readily be understood by reference to the ordinary lending business of the bank. When a bank makes an advance, by allowing a customer to overdraw his account, the bank in effect exchanges its own promise to pay immediately against the customer's promise to pay off the advance later on; the economic importance of this exchange is that the bank's promise to pay immediately is absolutely effective purchasing power, which plays an instrumental role in increasing the total demand of the goods and services.

The book on 'Banking and Economic Development' by **Rondo Cameron**<sup>13</sup> has expressed a wide variety of opinions on the effectiveness of Banking systems in promoting or facilitating economic development. Cameron indicated that where banking was left most free to develop in response to the demand for its services, it produced the best results. Restrictions on freedom of entry of commercial banks almost always reduce the quality and quantity of financial services available to the economy, and thus hinder or distort economic growth. Competition in banking, on the other hand, acts as a spur to the mobilization of idle financial resources and to their efficient utilization in commerce and industry.

The book on 'Money and Banking' written by **D.G. Lockett**<sup>14</sup> highlights a typical problem faced by the commercial bank. He considers commercial bank as a sort of 'pumping station' on a pipeline through which money is flowing. Money flows into the bank when customers add to their deposits, when outstanding loans come due and are repaid, when the bonds held by the bank are matured, and so forth. Money is 'pumped out' of the bank when customers withdraw their deposits, when the banks new loans, when the bank invests its assets in government backed securities, and likewise. Clearly, money going out of the bank cannot be greater

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<sup>13</sup> *Rondo Cameron "Banking and Economic Development" (New York Oxford University Press)*

<sup>14</sup> *Dudly G. Lockett "Money and Banking" (International Student Edition)*

than the money coming in; moreover, if the bank is to realize its profit potential, the money moving out of the bank should not be less than the money coming in. Thus in very general terms, the problem faced by the bank is to ‘recycle’ all the money moving through it. This short-run adjustment problem faced by the bank can be solved through efficient servicing of customer needs, proper investment strategy and maintaining appropriate legal reserve requirements.

The book on ‘Nepalese Banking System’ written by **Madhav Prashad Aryal**<sup>15</sup> highlights the following characteristics of the commercial banks operating in Nepal:

Commercial banks, having limited liability are established under the Company Act 2021 with the approval of the Nepal Rastra Bank.

Commercial banks are established with the objective of profit maximization and are managed by its shareholders.

Commercial banks, except performing primary functions of accepting deposits and lending, also deal in foreign currency exchange and trade finance activities.

Commercial banks in Nepal are established in government, semi-government, private and joint venture sectors.

Nepal Rastra Bank recommends, directs and controls the establishment, operations and dissolutions of all the commercial banks in Nepal.

The reviewing of all these above books has given us good insight knowledge about the theoretical aspects of the commercial banks. However, our economy is still facing unhealthy financial situation of the banking institution.

### 2.1.2 Review of Journals/ Articles

After reviewing the books, certain useful journals on domestic market, banking, financial statement analysis and monetary credit situation of Nepal are studied.

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<sup>15</sup> *Madhav Prashad Aryal “Nepalese Banking System” (Shree Printing Press)*

When government decided to establish banks with joint ventures, two benefits were expected. First that competition would force domestic banks, such as Nepal Bank Ltd. and Rastriya Banijya Bank to improve their services and efficiency, second that introduction of new banking procedures methods and technology would occur.<sup>16</sup>

There has been substantial growth in the number of Joint Venture banks in Nepal since 1990s. The basic reason behind this is the government's deliberate policy of allowing foreign joint venture banks to operate in Nepal. Government's liberalization policy of allowing also encourages the traditionally run commercial banks to enhance their efficiency and competitiveness through modernization, mechanization, and computerization and prompt customer services by setting them to the exposure of the joint venture banks.<sup>17</sup>

The existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercial banks. The main beneficiary of this is the Bank-client. The increased competition forces the existing banks to improve their quality and extend services by simplifying procedures and by training, motivating own staffs to respond to the new challenges.<sup>18</sup>

The joint venture banks are in a better position than local commercial banks in profit making. In an average, no foreign banks have suffered loss till now, but local banks owned negative profits.<sup>19</sup>

Despite the increase in number, the joint venture banks are concentrated in urban centers, especially in major cities, with all their headquarters in Kathmandu alone

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<sup>16</sup> Madlin, C and Snock H, "Evaluation of Banking supervision in Nepal Rastra Bank" IMF, Jan 31, 1998, p-4

<sup>17</sup> Shrestha, M.K. "Commercial Banks, comparative performance evaluation" Kosh year 16, Karmachari Sanchaya Kosh Publication, 1990

<sup>18</sup> Chopra, S. "Role of Foreign Banks in Nepal", NRB Samachar, 34<sup>th</sup> anniversary, April 1990.

<sup>19</sup> Pradhan, K. "Nepal Ma Banijya Banking Upalabdhi Tatha Chunauti", Kathmandu, 1991, p-13.

except that of Nepal Bank of Ceylon (*name changed to Nepal Credit and Commerce Bank Ltd.*) which is based in Rupandehi. This trend has resulted in two-way effects on the operation of the government owned commercial banks in Nepal. First, the comparatively attractive interest rates and devices promptness of these private banks have drawn the public deposit to their side thereby reducing financial liabilities of the former. Second, as a result of reduction in the financial liabilities, the government-operated commercial banks have been forced to shut down some of their branches in the remote areas of the country. Nevertheless, a look at the activities of these JVBs provides a fill up in to the tremendous aid they provide to the national economy. They have been instrumental in mobilizing capital more effectively and to a large extend. Especially, they have been more helpful in founding the private sector.<sup>20</sup>

An article written by Radha Krishna Poudel on ‘Banking: Challenges Ahead’<sup>21</sup> focuses in the potential areas where banks should invest to fight the prevailing economic recession. Currently, growth in the profitability of JVBs has been mainly due to external factors such as 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 balance their operations and generate sufficient surplus in their cash-flows. In recent years, growth rate of bank deposits has declined comparatively. Mobilization of internal resources in the country demands that banks attract more financial resources from the public.”

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<sup>20</sup> *Facts about Nepalese Economy, 1998, “Joint Venture Banks in Nepal”, Nepal society for applied economics, July 1998*

<sup>21</sup> *Radha Krishna Poudyal “Banking: Challenges Ahead”*

For our purpose, another useful article ‘Financial Statement Analysis’ published in Nepal Rastra Bank Samachar on 2053 by Narayan Pd. Poudel<sup>22</sup> is reviewed.

According to Mr. Poudel, Balance sheet, profit & loss a/c and the accompanying notes are the most useful aspects of the Bank. We need to understand the major characteristics of bank’s balance sheet and profit & loss account. The bank’s balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets form a small portion of the 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 deposit liabilities are the major components of profit & loss a/c. The other sources of income are fee, commission, discount and service charges.

The major balance sheet characteristics of commercial banks are shown in the following tabular form:

**Table no:2.1**  
**Major Characteristics of Commercial Banks**

<b>Characteristics</b>	<b>Significance</b>	<b>Risk</b>	<b>Return</b>
-Few fixed assets	Low degree of operating leverage	Reduce	Reduce
-Substantial amount of short term liabilities (Deposits)	To be liquid	Increase	Increase
-Substantial amount of financial assets	High degree of operating leverage	Increase	Increase

A typical format of profit & loss a/c is given below:

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<sup>22</sup> Narayan Pd. Paudel “Financial Statement Analysis: An approach to Evaluate Banks’ Performance” NRB Samachar (An annual Publication-2053)

**Table no:2.2**  
**A typical format of profit & loss a/c is given below:**

Interest income	R
Interest expenses	C
Net-Interest income	R-C
Provision for loan loss	PLL
Net interest income after PLL	R-C-PLL
Non-interest income	F
Non-interest expenses	O
Net non-interest income	F-O
Net income before Tax	(R-C)-PLL+(F-O)
Income Tax	T
<i>Net Income after Tax</i>	(R-C)-PLL+(F-O)-T

*Table-2 Profit & Loss account*

The users of the financial statements of a bank need relevant, reliable and comparable information which assists 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 statements has been expressly laid down in the concerned act. Commercial Banking Act 1974 requires the audited balance sheet and profit & loss a/c to be published in the leading newspaper for the information of general public.

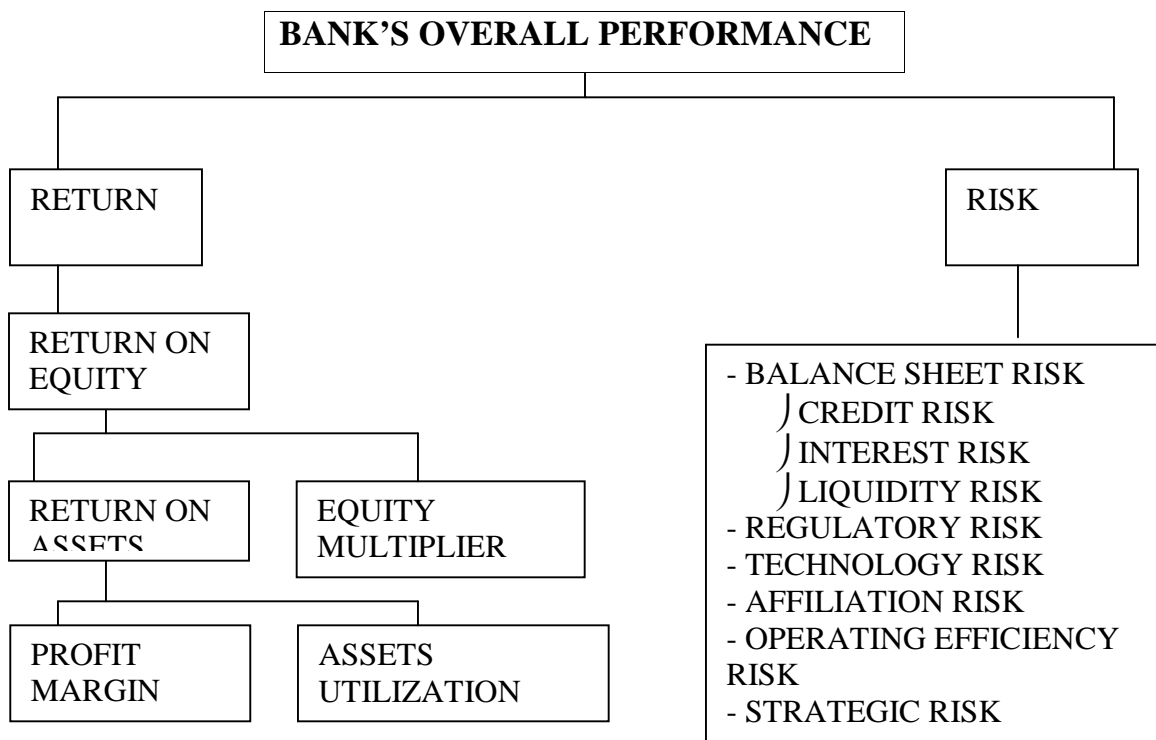
According to Poudel, the principal objectives of analyzing financial statements are to identify:

- ) 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 banks overall performance, i.e. profitability which is affected by the following factors:

1. The structure of balance sheet and profit & loss a/c.
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)

He has laid down an approach to evaluate the bank's overall performance through balancing between the risk and return components of the bank which is explicitly shown in the chart below:



$$ROE = ROA * EM = \text{NET INCOME} / \text{AVERAGE EQUITY}$$

$$ROA = PM * AU = \text{NET INCOME} / \text{AVERAGE ASSETS}$$

$$EM = \text{AVERAGE ASSETS} / \text{AVERAGE EQUITY}$$

$$PM = \text{NET INCOME} / \text{TOTAL INCOME}$$

AU = TOTAL INCOME / AVERAGE ASSETS

Dr. Manohar K. Shrestha, in his work 'Commercial Banks' Comparative Performance Evaluation'<sup>23</sup> stresses 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 the 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 suggestions 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 and should be subjected to revision at that date and consequently categorized as good, substandard or doubtful loans.

Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

### 2.1.3 Concept of Financial Analysis

Financial Analysis involves the use of various financial statements. The first is the balance sheet, which represents a snapshot of the firms' financial position at the movement in time and next is the income statement that depicts a summary of the firms' profitability over time.<sup>24</sup>

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<sup>23</sup> Dr. Manohar K. Shrestha, 'Commercial Banks' Comparative Performance Evaluation' (Karmachari Sanchaya Kosh Publication)

<sup>24</sup> J.C.C. Vanhorne & H.N. Wachowicz, "Fundamentals of Financial Management" Prentice Hall of India P. Ltd., 1997, p-120.

Analysis and interpretation of financial statements is an attempt to determine the financial performance of any organization so that a forecast may be made of the prospects for future earning, ability to pay interest, debt maturity and probability of a sound dividend policy.

In the words of Myers, “Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statement and a study of trends of these factors as shown in series of statement.”<sup>25</sup>

Financial Statement Analysis involves a comparison of a firm’s performance with that of other firms in the same line of business, which is often, identified by the firm’s industry classification.<sup>26</sup>

The analysis of transaction determines the solvency of business and the major efficiency of operation as compared to similar concerns. The analysis reveals how far the dreams and ambitions of the tough management have been converted into reality during each financial year. The analysis being a technique of x-raying the financial position as well as progress of concern, it enables managers and investors to take the decisions that will affect the company’s future. Hence, much information can be attained about various aspects of a business through the analysis, which other ways would have been buried in a maze of details.

### **Objectives of Financial Analysis:**

From the concept of financial performance analysis, it has been proved that one can explore various facts related to the past performance of business and predict out the future potentials for achieving expected results. Various parties are involved in the business directly or indirectly. Therefore, objective of analysis also

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<sup>25</sup> J.C. Myers, “Financial Statement Analysis”, Anglewood Cliffs, Prentice Hall of India Pvt. Ltd.,1961, p-4

<sup>26</sup> J.F. Weston, S. Besley & E.F. Brigham, “Essentials of Managerial Finance” Dryden Press, Hartcourt Brace College Publisher, 1996, p-78

differs from one party to other. However, major objectives of the analysis, in broad sense, can be stated as follows.<sup>27</sup>

Assessment of past performance & current position

Assessment of potential & related risks.

#### Assessment of past performance & current position

Past performance is often good indicator of future performance. Therefore, an investor or creditor is interested in the past sales, expenses, net income, cash flow and return on investment. In addition, an analysis of current position will tell what assets the business owns and what liabilities must be paid. Besides, it will provide the information about various facts in relation to the business such as-

- Earning capacity or the profitability of the concern.
- Operational efficiency of the concern as a whole of its various departments.
- Long term and short term solvency of the business for the benefit of debenture holders and trade credit.
- Real meaning and significance of financial data.

#### Assessment of potential and related risk

The past and present information are useful only to the extent that has been bearing on future decisions. Investor judges the potential earning capacity of a company because that will affect the value of the investment or share and the amount of dividend the company will pay. The creditors judge the potential debt paying ability of the company. The potentials of the existing company are easier to predict than that of others. This means there is less risk associated with them. The risk of the investment or loan hinges on how easy it is to predict the future profitability and liquidity. Besides, managers of the business concern will get various information about the potentials such as-

- Possibility of development in near future through forecast & budget allocation.

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<sup>27</sup> B.E. Needles, "Financial Accounting", Houghton Mifflin Company, Boston, 1989, p-63,64.

- Financial stability of the business concern.
- Reforms needed in the present policies and procedures that will help reduce weaknesses and strengthen performance.

### **Major steps in Financial Analysis:**

The basis for financial analysis is financial information obtained from balance sheet and profit & loss a/c. The analysis of financial statements is completed in three major steps.<sup>28</sup>

- a) The first steps involve the reorganization and rearrangement of the entire financial data as contained in the financial statements. This calls for regrouping them into few principle elements according to their resemblance and affinities. Thus, the balance sheet and income statement are completely recast and presented in the condensed form entirely different from their original shape.
- b) The next step is the establishment of the significant relationship between the individual components of balance sheet and profit & loss a/c. This is done through the application of tools of financial analysis.
- c) Ultimately, significance of result obtained by means of financial tools is evaluated. This requires establishment of standard against which actual be compared.

### **Techniques of Financial Analysis:**

To evaluate the financial condition and performance of a company, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio or index relating two pieces of financial data to each other. Analysis and interpretation of various financial data would give experienced and skilled analyst a better understanding of the financial condition and performance of the firm, than they will obtain from analysis of the financial data alone.<sup>29</sup>

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<sup>28</sup> *I bid*, p-56.

<sup>29</sup> J.C. Vanhorne, “*Financial Management and policy*”, Prentice Hall of India p. Ltd., 1999,p-691-692

The technique of analysis are employed to ascertain or measure the relationship among the financial statement items of a single set of statement and changes that have taken place in these items as reflected in successive financial statement. The fundamental of the analytical technique is to simplify or reduce the data under review to the understandable terms.

Out of various techniques, selection of a technique or combination of the techniques can be used for the analysis depending on the purpose and availability of the materials demanded by the technique.

#### **a) Funds Flow Analysis**

The statements of change in financial position prepared to determine only the sources and uses of fund between two dates of balance sheets is known as funds flow statements. It is prepared to uncover the information that financial statements fail to describe clearly. It spells out the sources from which funds were derived and uses to which these funds were put.

This statement is prepared to summarize the change in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to change in owners' equity. It is also aimed to depict the way in which the firm used its financial resources during the period.

Method of preparing funds flow statement depends essentially upon the sense in which the term fund is used. There are three concepts of fund: Cash concept, Total resources concept and Working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept represents the total assets and resources as fund. The term fund refers only to working capital on working capital concept.

However, the concept of fund as working capital has gained wide acceptance as source of fund while conducting funds flow analysis. Transaction that decreases working capital is treated as application. But any transaction that affects current

liabilities or current assets without resulting any change in working capital is not taken as source or use.

The utility of this technique stems from the fact that it enables shareholders, creditors and other interested persons to evaluate the use of funds. It also enables them to determine how these uses were financed. In the light of information supplied by statement, the outsider can decide whether or not to invest in the enterprise. It enables finance manager to detect the imbalances in the use of funds and undertake remedial actions. It serves as control device to measure the deviation between actual use of fund and the estimated budget. Analysis can evaluate the financial pattern of the concern (what portion of growth was financed internally and what portion externally).

In spite of the great significance of funds flow analysis to various parties associated with the business, it is not free from drawbacks. Its shortcomings can be listed as:

- This is not full proof as it depends on conventional financial statements.
- It cannot introduce any new items, which causes changes in financial status of the business.
- It is not much relevant technique as study of change in cash position is more useful rather than fund position.
- It is historical in nature so cannot estimate source and application of fund in near future.
- It does not reflect the structural and policy changes.

#### **b) Cash Flow Analysis**

This statement is prepared to clearly know the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital. It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash

receipts from debtor against credit dates are recognized as the source of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose is regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

This type of analysis is useful for short-run planning of the firm. The firm needs sufficient cash to pay debt maturing in near future, to pay interest and other expenses and to pay dividend to shareholders. The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with firms' need for cash during the period and accordingly, arrangement can be made to meet the deficit or invest the surplus cash temporarily.

Though it is more confidential than funds flow analysis for the decision related to the near future, it is also free from drawbacks. Its drawbacks can be listed as:

- It is not perfect evident as it depends on conventional statements.
- It is historical in nature.
- It doesn't reflect structural and policy changes.

### **c) Trend Analysis**

This method is immensely helpful in making comparative analysis of financial statements of several years. This method of analysis involves the computation of percentage relationship that each statement item bears to the same item in the base year. Base year for the comparison may be earliest year, the latest year or any intervening year under the study. This exhibits the direction to which the concern is preceding.

Trend analysis reveals whether the current financial position of the company has improved over the past years or not. It shows which of the items have moved in a favorable direction and which of them in unfavorable direction. Though it is the important tool of analysis, it too is bound by limitations. They are:

- Trend for a single balance sheet or income statement is seldom very informative.

- It does not give accurate result if accounting principles followed by the accountants is not consistent over the period of study.
- Price level change adversely affects the comparison.
- Selected base year for some of the items in the statements may not be typical.

#### **d) Ratio Analysis**

Ratio analysis is carried out to develop meaningful relationship between individual items or group of items usually shown in the periodical financial statements. An accounting ratio shows the relationship between the two interrelated figures. Ratios are guides or shortcuts that are useful in evaluating the financial position and operation of a company when the relationship between two figures in the balance sheet is established. Ratio may be expressed in the form of quotient, percentage or proportion.

Ratio analysis involves two types of comparisons for the useful interpretation of the financial statement. A ratio itself doesn't indicate the favorable or unfavorable position. Most commonly used standards to evaluate the ratios are:

Comparison of present ratio with past or expected future ratios.

Comparison of the ratio of the firm with other similar firms over the period of time or with industry average at the same point of time.

With the help of ratio, one can judge financial performance of a business concern over a period of time and against the industry average. The ratio helps the analyst to form the judgment whether the performance of the firm is good, questionable or poor. Management of the firm can take strategic decisions on the basis of position revealed by ratio. Investors can decide about the future of their investment. Creditors judge whether the firm is able to meet its obligations and whether the more lending would be beneficial for them or not.

Liquidity ratio measures the ability of the firm to meet its current obligations. Leverage ratio evaluates the long-term financial position of the firm. Activity ratios are employed to evaluate the efficiency with which the firm manages and

utilizes its assets. Finally, profitability ratios are calculated to measure the operating efficiency of the company. Though ratio analysis is powerful technique of financial analysis, it should be used with extreme care and considered judgment because it suffers from certain drawbacks. The drawbacks of the ratio analysis are listed below:

- It is difficult to decide the proper basis of comparison.
- It calls interpretation to certain aspects of the business, which needs detailed investigation before arriving any financial conclusion.
- Unless there is a consistency in adoption of accounting methods, ratios may not prove of greater use in case of inter-firm comparison.
- The price level changes make the interpretation of ratios invalid.
- The ratios are generally calculated from past financial statements and thus, are no indicators of future.

## **2.2 Review of related studies**

### **2.2.1 Review of policy documents**

Central Bank is an important financial institution in every sovereign independent state in modern times. It is the apex body of Banking System. Of the various banks, most or the supreme bank is the central Bank. The central bank plays an important role in the economic development of a country. This bank is established to develop banking through strategy on its own to issue the notes, to control the credit, to act as the bank of banks, in each country. Central Bank is the lender of the last resort. Having felt the need of development of banking sector and to help the government formulate monetary policies, Nepal Rastra Bank (NRB)-central Bank, was set up in 2013/1/14. Since then, it has been functioning as the government's bank and has contributed to the growth of financial sector. Commercial banks, including JVBs, established under the company Act 2021 may perform various functions aimed at ensuring the economic interests and convenience of the public, facilitating the supply of credit to agriculture, industry

and commerce by making available the banking and financial services to the people as mentioned in the preamble of the 2031 Commercial Bank Act, and subject to Nepal Rastra Bank Act 2012, Foreign Exchange Regulation Act 2019 along with the current Nepalese law.

### **NRB regulatory issues for operation of JVBs**

1. Banks are required to open two '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 potential.
2. Banks are required to lend certain percentage of their loan to 'Priority Sector' and 'Deprived Sector'. 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 Nepal Rastra Bank is committed to reduce the number of expatriates in joint venture banks in order to create opportunities for local staffs.
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 JVBs are free to set their own interest rates on loans/deposits, they are required to publish a schedule of rates for various types of loan/deposits. There is no prime rate or base rate in Nepal at any bank.
6. The government has been actively encouraging the development of the banks. At present, there are 17 Commercial Banks. The increased number in these banks 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.

**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 Nepal Rastra Bank. 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 bank.

**Commercial Bank Act 2031** – (Amended to Commercial Bank Act, 2049)

▪ **Establishment of Bank**

1. A Bank shall be established under the Company Act with the recommendation of the NRB. For obtaining such recommendation, an application shall be filed, along with the particulars prescribed by the NRB. Only in case the Rastra Bank so recommends shall such bank be registered according to the Company Act for working under this Act.
2. The NRB may prescribe necessary conditions while recommending the establishment of a bank under sub-section (1), and it shall be the duty of the concerned bank to fulfill the conditions so prescribed.
3. The bank may determine the location of its head office with the approval of the NRB.
4. The banks shall be an autonomous corporate body with the perpetual succession. It may sue or be sued in its own name.
5. Subject to this Act and other current Nepal Law, the bank may acquire, use, and sell movable and immovable properties.
6. Any bank may open or shift the location of, or close branches depots or other offices with the approval of the NRB.

▪ **Establishment of Branches of Joint Venture Foreign Banks**

1. In case any foreign commercial bank desires to open a branch, representative office or liaison office in the Kingdom of Nepal, it may register such branch under the Company Act with the approval of NRB, and provisions of this Act shall apply to such foreign bank.
2. The NRB shall obtain the consent of Nepal Government before granting such 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 the NRB.

### **Nepal Rastra Bank Act 2012** – (Amended to NRB Act, 2049)

As per the provisions of the NRB Act, 2012, Rastra Bank may issue directives from time to time to commercial banks regarding banking, currency and credit. It shall be the duty of the commercial banks to comply with such directives.

### **2.2.2 Review of Thesis**

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 MBA/ MBS are reviewed. References of these studies have been very useful to complete this dissertation and it is believed that these studies have contributed significantly towards identifying the **Strength** and **Weakness** of the concerned JVBs.

The study conducted by Mr. Vikram Chandra Gurung entitled “A financial Study of Joint venture bank in Nepal- with reference to Nepal Grindlays Bank limited and Nepal Indosuez Bank Ltd.” concludes that the liquidity position of NGBL is unsatisfactory which is below the standard and that can not meet the liabilities obligation. According To Mr. Gurung, Activity ratios of both the banks show that they are efficient in utilization of their total assets. Profitability trend is increasing but yet to be satisfactory. The bank has been maintaining sound capital adequacy ratio as directed by the central bank (NRB)<sup>30</sup>

Mr. K.R. Joshi in his thesis “A study on financial performance of commercial banks” has concluded that the liquidity position of local commercial banks have been found relatively highly leveraged as compared to other joint venture banks.

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<sup>30</sup> Vikram Chandra Gurung, “A Financial Study of Joint Venture Banks in Nepal-A comparative study of Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd.” –An unpublished Masters Degree Dissertation, T.U. 1995

Loans and Advances have been the main form of the investment. Two thirds of the assets have been used for earning purpose. Profitability position of NABIL is stronger than that of other commercial banks.<sup>31</sup>

Another study entitled “A comparative financial statement analysis of HBL & NGBL” by Mr. Rajendra Lamshal has concluded that liquidity ratios of both the banks are fluctuating and are unsatisfactory. So the banks are suggested to keep the reasonable amount of liquidity in order to maintain their short-term solvency position. The capital adequacy position of HBL is not satisfactory. HBL is suggested to involve in social activities. Both the banks are advised to open their branches in the remote areas and offer cheaper banking services affordable to the general public.<sup>32</sup>

The study conducted by P. Dhungana entitled “A study of the Joint Venture Banks’ Profitability” has revealed that interest income of NIBL was highest. NABIL’s other operating income appeared higher than that compared to other commercial banks. NGBL has the highest EPS.<sup>33</sup>

Mr. Bohora<sup>34</sup> has conducted a research on “Comparative study of the financial performance of NABIL & NIBL”. The basic objectives of his study were to highlight the financial performance and role of JVBs in the liberalized Nepalese economy. His attempts of analyzing financial performance were concentrated in ‘Ratio Analysis’ and he derived the strength and weakness of two major JVBs by calculating important ratios. He had come out with some valuable suggestions to the JVBs which are outlined below:

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<sup>31</sup> *Joshi, K.R., “A study on Financial Pattern of Nepalese Commercial Banks”-An unpublished Masters Degree Thesis, T.U.*

<sup>32</sup> *Lamshal Rajendra, “A comparative financial statement analysis of Himalayan Bank Ltd. and Nepal Grindlays Bank Ltd.” –An unpublished Masters Degree Dissertation, T.U.*

<sup>33</sup> *Dhungana P., “A Study of Joint Venture Banks’ Profitability” –An unpublished Masters Degree Dissertation, T.U.*

<sup>34</sup> *Bhoj Raj Bohora, “A comparative study of the financial performance of NABIL and NIBL” (Unpublished Masters Degree Thesis, T.U., Kirtipur)*

JVBs need to make balance between disbursing of cash dividend and issuing of bonus shares.

They need to increase their equity base to maintain the capital adequacy.

JVBs need to increase operational profit by concentrating in consistent earnings rather than fluctuating earnings.

They need to maintain liquidity in the form of Cash Reserve Ratio (CRR) as per the regulation of NRB.

Mr. Shakya<sup>35</sup>, in his study has introduced the hypothesis test in the process of evaluating the financial performance of the JVBs. He had set the null hypothesis as ‘There is no significant difference in the mean values of each selected ratio of NABIL and NGBL’. By establishing the relationships between various Balance Sheet and Profit & Loss a/c figures, and calculating the correlation between them, he was successful in deriving a true financial position of the two JVBs. After analyzing various ratios, Mr. Shakya’s main finding was that ‘There is a significant difference between mean values of the selected ratios of NABIL and NGBL except in the cases of Fixed Deposits to Total Deposits Ratio, Loans & Advances to Total Deposits Ratio and Loans & Advances to Total Assets Ratio.’” After testing the correlation between mean values and analyzing the various ratios, Mr. Shakya has come out with various recommendations which are summarized below:

1. To get out with the pressure of deposit collection, with the increase in competition, both the JVBs are suggested to:
  - Simplify present complicated and lengthy depositing process;
  - Set a more convenient minimum balance requirement to open an account;
  - Provide incentives to attract new fixed depositors

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<sup>35</sup> *Dinesh Raj Shakya, “Financial Analysis of JVBs in Nepal; with the Reference to NABIL and NGBL”- Unpublished Masters Degree Thesis, T.U., Kirtipur.*

2. In spite of decrease in interest rates on loans and advances, NABIL's and NGBL's average 'Deposits Utilization Rates' are only 50.04% and 34.01% respectively. To overcome this situation, Mr. Shakya recommends:
  - Follow liberal lending policy;
  - Develop a special investment promotion unit for seeking new profitable investment opportunities and identifying promising small entrepreneurs lacking any contact and approach;
  - Grant mid-term loans for more deposits utilization.
3. They should open the new branches in non-representing urban areas for more deposit collection and the utilization of the same.
4. Mr. Shakya recommends NABIL to increase its Cash and Bank Balance as well as Money at Call (or Placement) for improving its liquidity position. Whereas NGBL is recommended to provide incentives for customers for fixed deposits.
5. With NABIL and NGBL both investing considerable percentage of their total deposits on the heading Investment (which includes investment on government securities, development bonds, shares of companies etc.). So, both the banks are recommended to alter their present investment portfolios by reducing investment on these securities and increasing their lending (Risk Assets).
6. NABIL's all three capital adequacy ratios, according to Mr. Shakya, are in declining trend, hence it is recommended to increase its shareholder's fund for maintaining proper capital adequacy position. NGBL, however, with its favorable capital adequacy position, is recommended to maintain the same.
7. NABIL's profitability ratios are in fluctuating trend as compared to that of NGBL's. Hence, it is recommended to utilize its Risk Assets and Shareholders' Fund more efficiently for generating more profit margins.
8. Both the banks are recommended by Mr. Shakya to sponsor the socially motivated programs in order to maintain good public image in the country.

Finally, Mr. Shakya, in line with government's objective of permitting the JVBs to operate in Nepal, recommends both the major JVBs to increase the foreign investment to enhance the economic development in the nation.

### **2.3 Research Gaps**

Research Gap is the difference between previous works done and the present research work. Earlier works conducted by the superiors in the matching topic 'Comparative Analytical Performance of Commercial Banks' are very useful and appreciated by personnel in various related fields, including academicians, bankers, shareholders and the general public. Those dissertations, in a great extent have been successful in highlighting the **strengths** and **weaknesses** of the concerned JVBs. The suggestions and recommendations given by the preceding researchers to improve and strengthen the financial decisions have been really benefiting to the relevant banks.

However, all the previous works were basically focused in highlighting the financial performance of the related banks in the competitive environment. They have somehow, overlooked the bank's prominent role in the economy and failed to give the specific financial decisions which directly or indirectly influence the pace of economic development of the nation. Further, this **SWOT** analysis would not just reveal the comparative **strengths** and **weaknesses** but in addition would provide insights on **opportunities** for the relevant JVBs and **threats** facing those JVBs. Besides, there has been a long gap in the continuation of the same topic which would help us to know the very recent situation.

## **CHAPTER-THREE**

### **RESEARCH METHODOLOGY**

Research methodology is a systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps (along with a rationale of each step) to be adopted by a researcher in studying a problem with certain objectives in view.<sup>36</sup> Thus the overall approach to the research is presented in this chapter. This chapter consists of research design, sample size and selection process, data collection procedure and data processing techniques and tools.

#### **3.1 RESEARCH DESIGN**

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern or framework for the project that stipulates what information is to be collected, from which sources and by what procedures.<sup>37</sup> Thus a research design is a plan for the collection and analysis of data. For research there exist different types of research design like; Historical research, Descriptive research, Case study research, Field study research, Analytical research, True experimental research and so on. This study is mainly concerned with historical research. If applicable, sometimes descriptive and analytical approach may also be used. But generally, to analyze the comparative **SWOT** of the commercial JVBs, past historical data are used. The relevant and needed data have been collected from various publications of different commercial banks and Nepal Rastra Bank. The study is based on the wide range of variables and factors influencing financial decisions of the JVBs.

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<sup>36</sup> Kothari, C.R., (1994), "Research Methodology, Methods and Techniques", Vikash Publication House Pvt. Ltd, New Delhi, p. 9

<sup>37</sup> Paul, E. Green and Donald. S. Till; Research for Marketing Decisions.

Comparative data of JVBs are presented in such a way, so as to make the research actually informative to the readers.

### **3.2 POPULATION AND SAMPLE**

The term “population” or universe for research means the universe of research study in which the research is based.<sup>38</sup> Since the research topic is about Comparative SWOT Analysis of Nepalese Commercial JVBs, all the Commercial Banks in Nepal are the member of population study. The population for the study basically comprises 17 commercial banks. Out of these, three JVBs, namely NABIL, SCBNL and HBL are selected as sample for the purpose of this study. The coherent reason for selecting these JVBs is that they account for the significant market share of the Banking Sector. The recommendations and suggestions derived from this study will be equally useful to the other JVBs operating in Nepal.

### **3.3 SOURCES OF DATA**

For this study, mainly secondary data are used. These secondary data are collected mainly from official publication of the relevant JVBs.

- Annual Reports of Nepal Arab Bank Limited (NABIL)
- Annual Reports of Standard Chartered Bank Nepal Limited (SCBNL)
- Annual Reports of Himalayan Bank Limited (HBL)
- Previous related research and dissertations.
- Books, Magazines, Newspapers and Journals.
- Internet and Other sources.

Other than the above mentioned sources, the information collected through verbal communications with the staffs of related Banks has also been used in the research.

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<sup>38</sup> Wolf, Howard K. & Pant, P.R. (2000), “*Social Science Research & Thesis Writing*” second edition, Buddha Academic Enterprises Pvt. Ltd, Kathmandu, p. 75

### **3.4 DATA COLLECTION TECHNIQUES**

The research consists of both primary and secondary data, basically the latter one. Since the nature of these two types of data is different, the data collection procedure also varies. To collect the secondary data, published materials are viewed in various spots. Books by different writers, unpublished thesis reports, journals, magazines, internet, and AGM reports of the relevant JVBs etc. are reviewed. To collect these secondary data, the researches visited NCC library, Central library, NRB library and library of Shankar Dev. On the other hand, the primary data are collected through questionnaire with the staffs of concerned JVBs.

### **3.5 DATA ANALYSIS TOOLS**

In order to get the concrete results from this research, data are analyzed using different types of tools. As per topic requirements, emphasis is given on financial tools. In addition, statistical tools are also used where applicable. The methods used for the **Comparative SWOT Analysis of JVBs** are outlined below:

➤ **FINANCIAL TOOLS:**

The considerable assistance of Financial Ratios has been taken to measure the Strengths and Weaknesses of the JVBs. Further, Return on Assets and Cost of Funds are computed to analyze the Gross Spread of each JVB selected for this study.

➤ **STATISTICAL TOOLS:**

In order to analyze the future trends of financial results of JVBs, Trend Analysis has been used as a part of statistical tools in this research.

### **3.5.1 FINANCIAL TOOLS**

This study is related to financial SWOT Analysis. So, financial tools are more useful. They help to identify the financial Strengths & Weaknesses of the firm. In spite of various financial tools available, the research has primarily stressed on Ratio Analysis assuming it to be the most suitable one.

A ratio is a number expressed in terms of other number and it expresses quantitative relation between any two variable.<sup>39</sup>

Moreover, it is used as a technique to quantify the relationship between two sets of financial data taken from either profit & loss a/c or balance sheet. It provides information relating to Strengths & Weaknesses of financial data in relation to others.<sup>40</sup>

Ratio can be calculated between any two items of financial statements. It means there may be as many ratios as there is the number of items. But under the ratio analysis technique, it is not practical to work out all the ratios. Hence only the required ratios have been worked out. The calculated ratios have been grouped into the following headings:

#### **3.5.1.1 PROFITABILITY RATIOS**

The primary object of the JVBs operating in Nepal is the maximization of the profit. Profit is essential for their survival and future growth. The various profitability ratios, which reflect the operating efficiency of the Bank, have been analyzed comparatively for the three JVBs.

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<sup>39</sup> C.R. Kothari, "Quantitative Techniques", Vikash Publishing House Pvt. Ltd. New Delhi, p-187

<sup>40</sup> Lawrence, J. Uithan, "Principal of Managerial Finance," San Diego University, Haper anoing Publishers, 1988, p-275

**a) RETURN ON TOTAL ASSETS**

**(NET PROFIT TO TOTAL ASSETS)**

The Return on Total Assets Ratio is calculated by dividing Net Profit by the Total Assets.

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

*Total Assets*

Return on Total Assets Ratio measures the profitability with respect to the total assets. In the present study, this ratio is examined to measure the profitability of all the financial resources invested in the Bank's Assets.

The higher 'Return on Assets' ratio reflects the efficiency of the bank in utilizing its overall resources. A higher ratio also indicates 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 assets structure.

**b) RETURN ON TOTAL DEPOSITS**

**(NET PROFIT TO TOTAL DEPOSITS)**

The Return on Total Deposits Ratio is calculated by dividing Net Profit by the Total Deposits.

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

*Total Deposits*

Deposits collected by the banks are one of the major sources of funds. These collected deposits have to be mobilized into loans and advances in an efficient way so as to maximize their return on deposits. The net profit to total deposit ratio enables to evaluate what extent the management has been successful to mobilize and utilize deposits in generating profit.

Higher return on deposit ratio signifies better utilization of deposits. Higher volumes of deposits employed by the bank means higher degree of leverage and hence the higher risk. Therefore, the adequate return on deposit should be earned to offset the risk borne by the bank.

### **c) RETURN ON NET WORTH**

#### **(NET PROFIT TO TOTAL SHARE HOLDERS' FUND)**

The Return on Net worth Ratio is calculated by dividing Net Profit by the Total Shareholder's Fund.

$$\text{Return on Total Assets} = \frac{\text{Net Profit}}{\text{Total Shareholder's Fund}}$$

One of the many objectives of any firm is its shareholders' wealth maximization. Shareholders wealth can be maximized by earning an adequate return on the shareholder's fund. Return on Net worth ratio expresses the capacity of the banks to utilize its owner's fund. This ratio is important as it judges whether the firm has earned a satisfactory return for its equity-holders or not. It reveals how well the

firm has deployed the resources of the owners to earn profit. So, higher the ratio, the more favorable it is for the stockholders which represents the sound management and efficient mobilization of the owners' equity.

**d) INTEREST EARNED ON TOTAL ASSETS**

The interest earned to total assets ratio is calculated by dividing interest income by the total assets.

$$\text{Interest earned on Total Assets} = \frac{\text{Interest Income}}{\text{Total Assets}}$$

Interest income forms the major portion of the JVBs' total revenue. Banks earn interest from loans, advances and investments, hence higher proportion of Risk Assets and Investments in the Assets structure of the bank lead to higher Interest Earned to Total Assets Ratio.

The ratio measures the percentage of interest earned in relation to total assets of the banks. Thus, it signifies the mobilization of its assets in interest generating purposes. The ratio plays an important role in evaluating the JVBs efficiency in earning assets.

Higher ratio reflects the better efficiency in utilizing the resources in interest generating sectors and vice-versa.

**e) RETURN ON RISK ASSETS**

**(NET PROFIT TO LOANS / ADVANCES)**

The Return on Risk Assets Ratio is calculated by dividing Net Profit by Risk Assets.

$$\text{Return on Risk Assets} = \frac{\text{Net Profit}}{\text{Risk Assets}}$$

Return on Risk Assets Ratio measures the percentage of net profit earned in relation to the volumes of loans and advances. The ratio shows the capacity of JVBs to mobilize risk assets in the income generating purposes. A higher ratio signifies that bank is able to disburse good loans in a higher proportion, whereas lower ratio indicates lower net profit resulting from advancing of downgraded loans.

### **3.5.1.2 LIQUIDITY RATIOS**

It is very important for a firm to be able to meet its obligations as they become due. Liquidity ratios measure the ability of the firm to meet its current obligations. A firm should ensure that it does not suffer from the liquidity crunch, and also that it is not too much highly liquid. The failure of a company to meet its obligations, due to the lack of sufficient liquidity, will result in bad credit image and loss of creditor's confidence. A very high degree of liquidity is also bad; idle or non performing assets earn nothing. The firm's funds will be unnecessarily tied up in the current assets. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity.

Adequate liquidity is a must in the banking sector in order to protect its solvency and to honor its short term obligations or liabilities. Failing to do so, banks might have to go for the liquidation, and hence to protect the creditor's interest, NRB has directed all the banks to maintain adequate Cash Reserve Ratio (CRR). A bank must ensure that it has a sound liquidity position to face the instant claims by its

creditors. In other words, current liabilities should be fully backed by its current assets to build good credit image and gain creditor's confidence.

Liquidity ratio measures the ability to meet the short-term obligations and reflects the short-term financial strength and solvency of the bank. Since the depositors of the banks are interested in the short-term solvency or liquidity of the firm, it is regarded as one of the most important ratios. The following ratios are evaluated under liquidity ratios-

**a) CURRENT RATIO**

**(CURRENT ASSETS TO CURRENT LIABILITIES)**

The Current Ratio is calculated by dividing Current Assets by Current Liabilities.

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

Current Assets include cash and those assets which can be converted into cash within a year, such as investments in the government securities, money at call, bills for collection, loans and advances and customer acceptances. Similarly, current liabilities include obligations maturing within a year, such as current, saving and short deposits, borrowings, accrued expenses, bills for collections and customer acceptances.

The current ratio is a measure of the bank's short term solvency. It indicates the availability of current assets (in percentage) to the current liabilities. A ratio greater than 100% means that the bank has more current assets than its current claims. As a conventional rule, a current ratio of 200% or more is considered satisfactory. The rule is based on the worst case scenario, even if the value of

current assets becomes half, the bank will be able to meet its obligations. However, an arbitrary Current Ratio standard of 2:1 should not be blindly followed, because it only measures the quantity but not the quality of assets.

**b) CASH & BANK BALANCE TO DEPOSITS RATIO**  
**(Excluding FIXED DEPOSITS)**

The Cash & Bank Balance to Deposits Ratio is calculated by dividing Cash & Bank Balance by Deposits (excl. Fixed deposits)

$$\text{Cash \& Bank Balance to Deposits Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposits (excl. FDs)}}$$

A bank must ensure that it is liquid enough to face heavy deposit withdrawals, or in other words, it has to maintain adequate balances in the form of cash and bank balance in order to honor the large withdrawals by its customers.

This ratio indicates the ability of the banks to immediately fund the withdrawals of their current, savings, short and margin deposits. A high ratio represents the greater ability to cover their deposits (excluding fixed deposits) and vice versa and it is advantageous as it provides cushion or safety to the depositors. However, too high ratio is disadvantageous as funds will be tied up in unproductive assets, such as cash and bank balance.

**3.5.1.3 ACTIVITY (UTILIZATION) RATIOS**

The funds of creditors and owners of the bank, which are reflected under Liabilities side of the Balance Sheet, form the sources of Fund, whereas the loans and advances and investments, reflected under the Assets side of Balance Sheet

are the Uses of Funds. These funds are invested by the banks in various assets to generate profit margins. The better the management of assets, the larger the amount of utilization of the available funds. Activity ratios are employed to evaluate the efficiency with which the bank manages and utilizes the funds.

Activity ratios indicate the degree of efficiency in Asset management; hence they are often referred as efficiency ratios. Some of the efficiency ratios are calculated to assess the JVB's efficiency in utilizing the available resources.

#### **a) LOANS & ADVANCES TO TOTAL DEPOSIT (C/D) RATIO**

The Ratio is calculated by dividing total loans and advances by total deposits.

$$\text{Loans \& Adv. to Total Deposit Ratio} = \frac{\text{Total Loans \& Advances}}{\text{Total Deposits}}$$

The core banking function is to mobilize the funds from the depositors to the borrowers. Banks make profit by lending or utilizing the deposited funds by charging a higher rate of interest to the borrowers than they pay to the depositors. Hence they are known to be efficient in utilizing the funds if they can advance a greater proportion of the deposited funds into Risk Assets.

Loans & Advances to Total Deposit or Total Credit to Total Deposit ratio measures the extent to which the banks are successful to mobilize the outsider's fund, i.e., total deposits in loans and advances for the purpose of profit generation.

#### **b) PERFORMING ASSETS TO TOTAL ASSETS RATIO**

Performing assets to total assets ratio is calculated by dividing performing assets by total assets.

$$\text{Performing Assets to Total Assets Ratio} = \frac{\text{Performing Assets}}{\text{Total Assets}}$$

Performing Assets include those assets which have been invested in loans & advances, bills purchased and discounted, investments and money at call. Higher ratio indicates the higher utilization of resources in relation to the total assets and yields a higher return for the banks.

Non-performing Assets are very harmful for the banks, so they should try to reduce their proportion in the asset structure.

### **c) PERFORMING ASSETS TO TOTAL DEBT RATIO**

The ratio is calculated by dividing performing assets by total debts.

$$\text{Performing Assets to Total Debt Ratio} = \frac{\text{Performing Assets}}{\text{Total Debts}}$$

Debtors of the bank are concerned towards the asset structure of the bank. Higher performing assets to debts ratio provide a cushion of safety for depositors. Higher investment in the non-performing assets decrease the rate of return on investments and the solvency of the banks will be in danger.

#### **d) INVESTMENTS TO TOTAL DEPOSITS RATIO**

The ratio is calculated by dividing Investments by total deposits.

$$\text{Investments to Total Deposits Ratio} = \frac{\text{Investments}}{\text{Total Deposits}}$$

Investment function or funds management is gaining a widespread importance in the banking sector. Treasury of the bank is involved in investing the surplus fund with the bank in the income generating investments. Bank cannot utilize whole of its fund, raised through deposits and borrowings, into loans and advances. In order to fill this gap between borrowing and lending, bank rather goes for investments such as treasury bills, government securities, development bonds, FCY overseas placements and interbank lendings.

These investments earn a lower rate of return in comparison of loans and advances, but they, under most of the circumstances, generate higher return than their cost of funds, hence would prove beneficial to the banks.

#### **3.5.1.4 LEVERAGE RATIOS**

The use of the fixed-charge sources of funds, such as debt along with the owner's equity in the capital structure is described as 'financial leverage' or trading on equity. The term 'leverage' is used to represent the proportionate relationship between debt and equity. The long term investment proposals of a bank can be financed either by increasing owner's claim, i.e., by issuing common shares or by retaining the earnings or by increasing creditor's claims, i.e., by accepting long term borrowings and deposits from creditors. The various means used to raise

funds represent the 'Financial Structure' of the bank and whenever funds have to be raised to finance investments; a capital structure decision is involved.

Employment of debt or outsider's fund involves risk to the bank, because the rate of interest on debt is fixed irrespective of the bank's rate of return on assets.

Moreover, the bank has a legal binding to pay interest on debt. Hence, the financial leverage employed by a bank is intended to earn more on the fixed-charges funds than their costs. The surplus or deficit will increase or decrease the return on the owner's equity, i.e., the rate of return on the owner's equity is levered above or below the rate of return on total assets.

Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of 'outsider's fund' and 'shareholder's fund' of the bank. The leverage ratios given below for the major JVBs has been planned to analyze the long-term financial health, debt servicing capacity and strengths and weaknesses of the concerns.

#### **a) TOTAL DEBTS TO TOTAL ASSETS RATIO**

Total Debts to Total Assets ratio is calculated by dividing total outsider's fund by total assets.

$$\text{Total Debts to Total Assets Ratio} = \frac{\text{Total Outsider's Fund}}{\text{Total Assets}}$$

The ratio signifies the extent of debt financing on total assets and measures the financial security to the outsiders. Despite of higher risk, owners of the bank

prefer a high debt ratio because it magnifies their earnings on the one hand and enables them to maintain their concentrated control over the bank on the other. The creditors, however, prefer a low debt ratio as it provides a sufficient cushion against losses in the event of liquidation.

#### **b) LONG TERM DEBTS TO TOTAL ASSETS RATIO**

Total Long Term Debts to Total Assets ratio is calculated by dividing total fixed deposits by total assets.

$$\text{Long Term Debts to Total Assets Ratio} = \frac{\text{Total Fixed Deposits}}{\text{Total Assets}}$$

Long term debts in the form of fixed deposits cost higher rate of interest for the banks, and the bank, which relies more on long term debts and less to short term debts, is said to have adopted a conservative financing policy. Banks can utilize long term debts (fixed deposits) towards granting of term loans. Term loans generally have a maturity period of more than one year.

The long term debts to total assets ratio measures the percentage of total assets that has been financed by long-term debts.

#### **c) TOTAL DEBTS TO NET WORTH (SHAREHOLDER'S FUND) RATIO**

The ratio is calculated by dividing total debts by total shareholder's fund.

$$\text{Total Debts to Net worth Ratio} = \frac{\text{Total Debts}}{\text{Total Shareholder's Fund}}$$

Bank's total fund, which is invested in various income generating assets, consist of debts as well as shareholder's fund. Debts for the banks usually include deposits

and borrowings from the customers whereas shareholder's fund includes equity capital and reserves. Debtors and owners of the bank expect return for investing their funds.

Debts to net worth ratio measures the relative claims of outsiders and owners over the bank's assets, indicating the extent of debt financing in the bank compared to net worth financing. In other words, the debt to equity ratio indicates the relative contribution of debt and equity fund to the total investment.

A very low debt to net worth ratio is disadvantageous from the owner's point of view, especially in the situation where the bank is earning a higher return on capital employed. Since with the increase in debt, bank can enhance its return on total fund, 'trading on equity' policy is very much favored in this kind of situation.

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

#### **d) LONG TERM DEBTS TO NET WORTH (SHAREHOLDER'S FUND) RATIO**

The ratio is calculated by dividing total fixed deposits by total shareholder's fund.

*Long Term Debts to Net worth Ratio =  $\frac{\text{Total Fixed Deposits}}$*

*Total Shareholder's Fund*

Long term debts in the form of fixed deposits cost higher rate of interest to the banks, but at the same time, can be invested in the higher income generating term loans.

The ratio measures the relative proportion of long-term debts in relation to the shareholder's fund. This ratio is helpful in determining whether the long term debt financing is adequate to strengthen the profitability of the bank. Higher long-term debt to net worth ratio is disadvantageous, when the bank is incurring losses, or the overall rate of earning is lower than the interest payable to the debt holders and vice versa.

**e) NET FIXED ASSETS TO NET WORTH (SHAREHOLDER'S FUND) RATIO**

The ratio is calculated by dividing total net fixed assets by total shareholder's fund.

$$\text{Net Fixed Assets to Net worth Ratio} = \frac{\text{Total Fixed Assets} - \text{Depreciation}}{\text{Total Shareholder's Fund}}$$

Fixed assets of a bank include land, building, vehicles, machinery, equipment, furniture etc. These assets are known as 'non performing assets' of the bank because they don't generate income directly, rather they are instrumental in increasing bank's profit by enhancing the operating efficiency.

The acquisitions of fixed assets involve a capital expenditure, and the costs of these assets are allocated in the form of depreciation over their useful lives. Capital expenditures are generally financed by the net worth or shareholder's fund.

Net fixed assets to net worth ratio measures the contribution of owner's fund to the fixed assets. In other words, it explains how much owner's fund has been involved in financing fixed assets. Generally, higher ratio indicates the greater involvement of owner's equity in financing fixed assets and vice-versa.

**f) CAPITAL ADEQUACY RATIO  
(CAPITAL FUND TO TOTAL DEPOSITS)**

The ratio is calculated by dividing total capital fund (net worth) by total deposits.

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital Fund (Shareholder's Fund)}}{\text{Total Deposits}}$$

Capital Adequacy has remained one of the biggest single issues in the banking industry, and the appropriate capital adequacy ratio for commercial banks has always been a controversial issue. According to the capital adequacy principle, safety and stability of the fragile financial system ultimately rests upon the confidence of the depositors and creditors. Nepal Rastra Bank emphasizes upon capital as a cushion to absorb unexpected losses arising from various risks that can create instability in bank earnings. NRB prescribes the capital adequacy to be maintained by the commercial banks through various directives and circulars. Extremely high or low capital adequacy ratio is not desirable in terms of lower return and lower solvency respectively.

**3.5.1.5 OTHER FINANCIAL INDICATORS**

All the above ratios throw light on various aspects of the bank. Different stakeholders, management, investors and creditors can get information regarding their interest. Some other financial indicators are dealt here in order to provide more information about the effective performance of the bank. They are listed below:

**a) LOAN LOSS COVERAGE RATIO  
(LOAN LOSS PROVISION TO TOTAL RISK ASSETS)**

The ratio is calculated by dividing loan loss provision by total risk assets.

$$\text{Loan loss coverage Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Risk Assets}}$$

Banks disburse their loans and advances into various sectors, and the possibility of their loans going bad can not be fully ruled out. In case of borrowers going bankrupt, banks have no choice, but to write off their loans. In order to maintain bank's profitability, and to protect them from the possible loan loss in future, NRB has classified all the credits into different categories, assigning each category a risk grade. Banks are required to maintain a certain percentage for each category as loan loss provision.

Loan loss provision provides a cushion for banks in case of borrower's default in payment of loans and ensures the continued solvency of the banks. Loan loss coverage ratio measures the proportion of the loan loss provision in relation to the total assets.

## **b) OTHER PERFORMANCE INDICATORS**

In the process of analyzing the financial performance of JVBs, some of the important financial indicators have been examined below:

### **i. Dividend Payout Ratio**

The ratio is calculated by dividing cash dividends per share by earnings per share.

$$\text{Dividend Payout Ratio} = \frac{\text{Cash Dividend's per Share}}{\text{Earnings per Share}}$$

Profit after tax earned by the banks has to be distributed among the shareholders. Banks usually do not distribute 100% of the earnings; they tend to retain certain

portion in order to expand their business. The retained portion in relation to the dividend payout ratio is known as 'retention ratio'. Cash dividends paid in relation to the earnings per share constitutes the dividend payout ratio. Profits are retained in the bank if these retained earnings can earn higher return than the opportunity cost of these funds. Otherwise, earnings are paid out as dividends, decreasing the shareholder's fund.

Higher dividend payout ratio indicates lower retained profits and higher cash dividends to the shareholders.

## **ii. Earning Per Share**

Earning per share is calculated by dividing profit after tax by total number of shares.

$$\text{Earning per share} = \frac{\text{Profit after Tax}}{\text{Total No. of Shares}}$$

The main concentration of shareholders lies in the bottom line of the bank, i.e., its profit after tax. It doesn't matter whether the earnings are retained or distributed; higher earning per share enhances the value of the shareholder's wealth. Higher profitability of the bank results in the higher earnings per share.

## **3.5.2 STATISTICAL TOOLS**

Quantitative or numerical information may be found almost everywhere in business, economics and many other areas. It is probably more common to refer to data in quantitative form as 'statistical data'. But not all numerical data is statistical. The large volume of numerical information gives rise to the need for

systematic methods which can be used to organize, present, analyze and interpret the information effectively. Following are the statistical tools used for the analysis:

### 3.5.2.1 ARITHMETIC MEAN (X)

An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for a whole group of which is a part, as typical of all the values in the group (Waugh A.E.). Out of the various measures of the central tendency, arithmetic mean is one of the useful tools applicable here. It is easy to calculate, understand and is based on all observations.

Arithmetic mean of a given set of observations is their sum divided by the number of observations. In general,  $X_1, X_2, X_3, \dots, X_n$  are the given  $n$  observations, then their arithmetic mean, usually denoted by  $\bar{X}$ , is given by:

$$\text{Mean} (\bar{X}) = \frac{(X_1 + X_2 + X_3 + \dots + X_n)}{n}$$

or,  $\text{Mean} (\bar{X}) = \frac{X}{n}$

Where  $\bar{X}$  = Mean

$X$  = Sum of all the Variable X  
 $n$  = Variables involved

### 3.5.2.2 TREND ANALYSIS(From Least Square Method)

Trend analysis is a statistical tool, which will highlight the previous trend of the financial performance, and in a great extent becomes instrumental in forecasting the future financial results of these JVBs.

The straight-line trend implies that irrespective of the seasonal and cyclic swings and irregular fluctuations, the trend values increases or decreases by a constant

absolute amount 'b' per unit of time. Hence, the linear trend values form a series in arithmetic progression, the common difference being 'b' the slope of the trend line.

The straight line trend between the dependent variable 'y' and the independent variable 'x' (i.e., time) is represented by the equation:

$$Y_c = a + bx$$

Where,  $Y_c$  = Estimated value of 'Y' for any given value of independent variable 'x'.

$a$  = Y-intercept or value of Y when  $x = 0$ .

$b$  = slope of the trend line or amount of change in 'y' per unit change in 'x'

In order to determine the values of the constants 'a' and 'b', the following two normal equations are to be solved.

$$Y = Na + b X \dots\dots\dots (i)$$

$$XY = a X + b X^2 \dots\dots\dots (ii)$$

Where  $N$  represents number of years (months or any other period) for which data are given.

It should be noted that the first equation is merely the summation of the given function, the second is the summation of  $X$  multiplied by the given function.

We can measure the variable  $X$  from any point of time in origin such as the first year. But the calculations are very much simplified when the mid-point in time is taken as the origin because in that case the negative values in the first half of the series balance out the positive values in the second half so that  $\sum X = 0$ . In other words, the time variable is measured as a deviation from its mean. Since  $\sum X = 0$  the above two normal equations would take the form-

$$Y = Na \dots\dots\dots (i)$$

$$XY = b X^2 \dots\dots\dots (ii)$$

The values of 'a' and 'b' can now be determined easily.

$$a = Y/N$$

$$b = XY/ X^2$$

The constant 'a' is simply equal to the mean of Y values and the constant 'b' gives the rate of change.

It should be noted that in case of odd number of years, when the deviations are taken from the middle year X would always be zero provided that there is no gap in the data given. However, in case of even years also X will be zero if the X origin is placed midway between the two middle years.

## CHAPTER-FOUR

### DATA PRESENTATION AND ANALYSIS

This is the section where, the filtered data are presented and analyzed. This is one of the major chapters of this research because it includes detail analysis and interpretation of data from which concrete result of Nepalese Commercial JVBs can be obtained. In this chapter, the relevant data and information necessary for the study are presented and analyzed keeping the objectives set in mind. This chapter consists of various calculations made for the analysis of **Strengths & Weaknesses** of concerned JVBs and the probable **Opportunities & Threats** relating these JVBs. To make our study effective and precise as well as easily understandable, this chapter is categorized in three parts; presentation, analysis and interpretation. The analysis is fully based on secondary data available. In presentation section data are presented in terms of table, graph chart of figures, according to need. The presented data are then analyzed using different financial & statistical tools earlier mentioned in chapter three. At last the results of analysis are interpreted. Though there is no distinct line of demarcation for each section (like presentation section, analysis section & interpretation section) but the arrangement of writing is made by afore mentioned way. Similarly it is also noted that almost all data used for analysis are of secondary type.

For our simplicity, in this thesis, presentation, analysis and interpretation of data are made according to the nature. At first, Analysis is done through Tabular & Graphical Presentation. Then after, various ratios are calculated and analyzed as earlier mentioned in Analysis of Ratios. Lastly Trend Analysis is done using the statistical tool.

## 4.1 ANALYSIS THROUGH TABULAR & GRAPHICAL PRESENTATION

In this section, Comparative financial results of JVBs (for the period of five years, i.e. from 2000/2001 to 2004/2005) are presented in the Tabular form, along with the Graphical presentations of major financial highlights. These presentations will help to measure the comparative financial position of the JVBs.

**Table no:4.1**  
**Comparative Financial Results of JV Banks as on 2064/065**

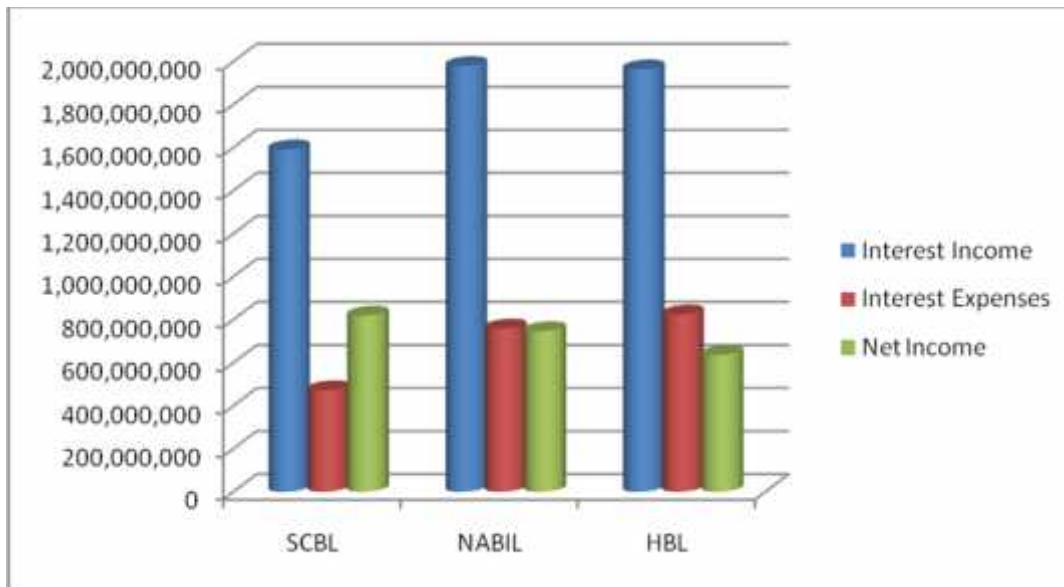
<b>Liabilities</b>	<b>SCBL</b>	<b>NABIL</b>	<b>HBL</b>
Share Capital	620,784,000	689,216,000	1013512500
Reserves and Funds	1,871,763,996	1,747,982,989	1499479102
Non Controlling Interest			
Debentures and Bonds	-	240,000,000	860000000
Borrowings	-	1,360,000,000	83177973
Deposits	29,743,998,794	31,915,047,467	31842789356
Bills Payables	87,397,021	238,421,890	102669796
Proposed Dividend	506,366,940	437,373,004	263076319
Income Tax Liabilities - -	2,051,550	38,776,869	19131036
Other Liabilities	503,426,025	465,940,930	491695555
<b>Total Capital &amp; Liabilities</b>	<b>33,335,788,326</b>	<b>37,132,759,149</b>	<b>36175531637</b>
<b>Assets:-</b>			
Cash Balance	414,875,467	511,426,584	278183489
Balance with Nepal Rastra Bank	1,266,273,524	1,829,470,769	935841697
Balance with Banks / Financial Institutions	369,094,223	330,243,702	234117704
Money at Call and Short Notice	2,197,537,600	1,952,360,700	518529500
Investments	13,902,819,011	9,939,771,428	13340176785
Loan Advances and Bills Purchase	13,718,597,132	21,365,053,318	19497520482
Fixed Assets	117,272,258	598,038,998	795309700
Non - Banking Assets 15 - -	-	-	10306683
Other Assets	1,349,319,111	606,393,650	565545597
<b>Total Assets</b>	<b>33,335,788,326</b>	<b>37,132,759,149</b>	<b>36175531637</b>
<i>PROFIT &amp; LOSS A/C</i>			
1. Interest Income	1,591,195,526	1,978,696,727	1963647472
2. Interest Expenses	471,729,700	758,436,212	823744838

<b>Net Interest Income</b>	<b>1,119,465,826</b>	<b>1,220,260,515</b>	<b>1139902634</b>
3. Commission and Discount	276,432,255	159,319,857	1878199833
4. Other Operating Income	32,594,085	94,359,475	62103241
5. Exchange Fluctuation Income	345,653,020	196,487,415	207669178
<b>Total Operating Income</b>	<b>1,774,145,186</b>	<b>1,670,427,262</b>	<b>1597495036</b>
6. Staff Expenses	225,256,195	262,907,576	292213138
7. Other Operating Expenses	230,571,409	220,750,570	344320784
8. Exchange Fluctuation Loss	-	-	0
<b>Operating Profit before Provision for Possible Losses</b>	<b>1,318,317,582</b>	<b>1,186,769,116</b>	<b>960961114</b>
9. Provision for Possible Losses	69,885,338	64,055,186	6007608
<b>Operating Profit</b>	<b>1,248,432,244</b>	<b>1,122,713,930</b>	<b>954953506</b>
10. Non-Operating Income/(Loss)	1,682,509	24,083,737	9700477
11. Loan Loss Provision Written-Back	90,634,940	11,100,529	131682971
<b>Profit from Regular Operations</b>	<b>1,340,749,693</b>	<b>1,157,898,196</b>	<b>1096336954</b>
12. Profit/(Loss) from Extra-ordinary Activities	-28,039,437	39,990,808	-52614217
<b>Net Profit after considering all Activities</b>	<b>1,312,710,256</b>	<b>1,197,889,004</b>	<b>1043722737</b>
13. Staff Bonus Provision	119,337,296	108,899,000	94883886
14. Tax Provision	374,451,952	342,521,610	312970332
a) Current Years	381,493,368	340,625,244	309154692
b) Previous Year's Additional Tax	-	52,872	0
c) Deferred Tax	-7,041,416	1,843,494	3815640
15. Share of Non-Controlling Interest in the Profit of Subsidiary	0	0	
<b>Net Profit/(Loss)</b>	<b>818,921,008</b>	<b>746,468,394</b>	<b>635888519</b>
Return on Total Assets	2.46%	2.01%	1.76%
Return on Total Deposits	2.75%	2.34%	1.76%
Return on Net Worth	32.85%	30.63%	32.59%
Interest Earned to Total Assets	11.45%	19.91%	4.77%
Market Price Per Share	6830	5275	1980
Book Value Per Share	402	354	247.95

At the end of FY 2064/65, the Profit before Tax of SCBNL was highest at NRS Rs. 818,921,008 due to lower interest expense and higher exchange earning coupled with higher interest earning in investment as compared to NABIL and HBL. Return on the Net Worth decreased for NABIL standing at 30.63% compared to 32.85% and 32.59% of SCBNL and NABIL respectively. The Book Value per

share of SCBNL was highest at NRS 402 compared to NRS 354 and NRS 247.95 of NABIL and HBL respectively.

The components of Profit before Tax for the review period 2064/65 are shown comparatively in the following graph.

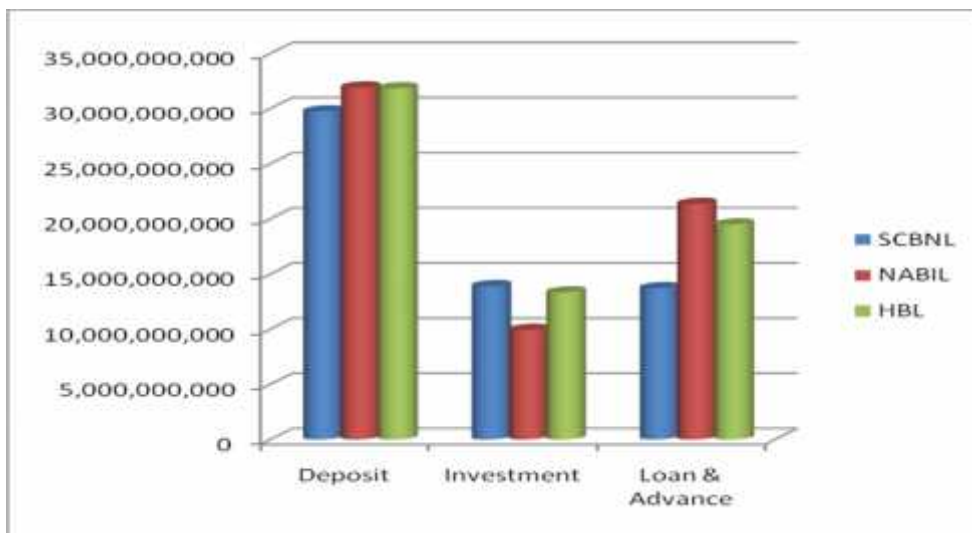


Graph # 1 Gross Income, Total Expenses & Profit before Tax –2064/65

Due to mobilization of highest deposit during the year 2064/65, HBL was able to increase its loan and advances volume to NRS 21,365,053,318 matching with the profitable lending opportunities in the country. During this year, HBL recorded an increment of 24.78 % over previous year due to its aggressive lending policy and stood at NRS 9,015 M. SCBNL and NABIL had recorded increment of 18.65% and 13.09% respectively in lending over previous year. C/D ratio of NABIL for the review period 200 stood highest at 52.56% against 51.42% and 37.35% of HBL and SCBNL respectively.

Due to excess liquidity and increased rate of investment market, the investment in treasury bills and overseas placement was increased for three JVBs. Total investments at the end of FY 2065/66 for SCBNL was highest at NRs 9,559 M over NRS 7,704 M and NRS 4,083 M of NABIL and HBL respectively.

The comparative graphical presentation of ‘Investments and Loans to Total Deposits’ of JV Banks as at 2065/66 has been shown below:



Graph# 2 Investment & Loans & Advances to Customers' Deposit – 2064/65

**Table no:4.2**  
**Comparative Financial Results of JV Banks as on 2065/066**

Liabilities	SCBL	NABIL	HBL
1. Share Capital	931,966,400	965,747,000	1216215000
2. Reserves and Funds	2,120,503,331	2,164,493,637	1903665537
<b>Shareholder's Fund</b>	<b>3,052,469,731</b>	<b>3,130,240,637</b>	<b>3119880537</b>
Non Controlling Interest	0	0	0
3. Debentures and Bonds	-	300,000,000	500000000
4. Borrowings	300,000,000	1,681,305,000	0
5. Deposits	35,871,721,127	37,348,255,840	34681345179
6. Bills Payables	72,941,748	463,138,615	113509140
7. Proposed Dividend	476,296,048	361,325,024	162096954
8. Income Tax Liabilities - -	4,262,601	80,232,454	10163115
9. Other Liabilities	809,776,754	502,899,934	733327144
<b>Total Liabilities</b>	<b>37,534,998,278</b>	<b>40,737,156,867</b>	<b>36200441532</b>
<b>Total Capital &amp; Liabilities</b>	<b>40,587,468,009</b>	<b>43,867,397,504</b>	<b>42440202606</b>
<b>ASSETS:</b>			
1. Cash Balance	463,345,996	674,395,434	473759695
2. Balance with Nepal Rastra Bank	1,851,132,637	2,648,596,348	2328405821
3. Balance with Banks / Financial Institutions	822,684,902	49,520,689	246361272
4. Money at Call and Short Notice	2,055,549,000	552,888,297	1170793650

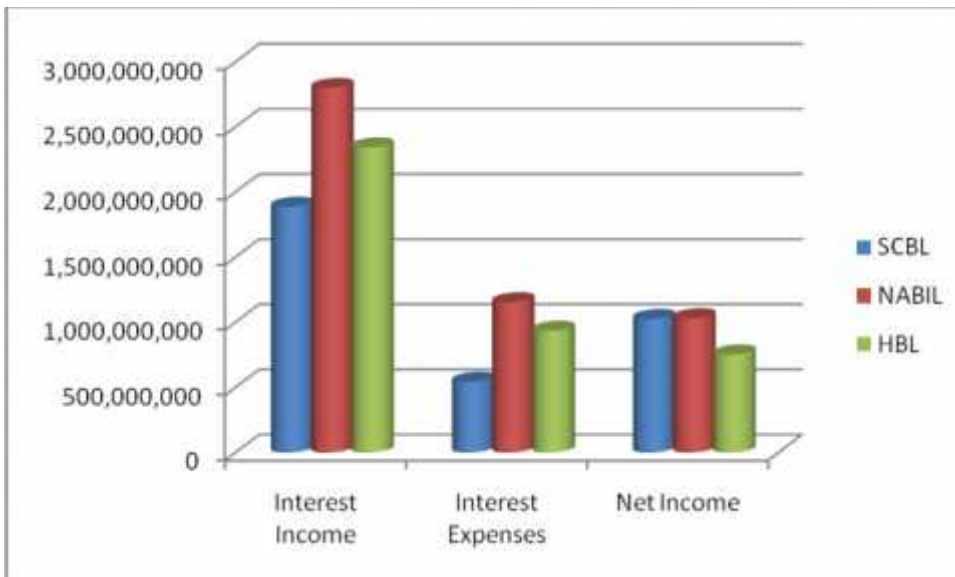
5. Investments	20,236,121,082	10,826,379,001	8710690646
6. Loan Advances and Bills Purchase	13,679,756,990	27,589,933,041	24793155269
7. Fixed Assets	137,292,540	660,988,986	952196395
8. Non - Banking Assets 15 - -	-	-	22694688
9. Other Assets	1,341,584,862	864,695,708	622264633
<b>Total Assets</b>	<b>40,587,468,009</b>	<b>43,867,397,504</b>	<b>39320322069</b>
<i>PROFIT &amp; LOSS A/C</i>			
1. Interest Income	1,887,221,257	2,798,486,196	2342198179
2. Interest Expenses	543,786,600	1,153,280,052	934778015
<b>Net Interest Income</b>	<b>1,343,434,657</b>	<b>1,645,206,144</b>	<b>1407420164</b>
3. Commission and Discount	235,468,846	179,693,027	284302277
4. Other Operating Income	33,191,251	144,164,143	46342872
5. Exchange Fluctuation Income	480,030,913	251,919,712	249982606
<b>Total Operating Income</b>	<b>2,092,125,667</b>	<b>2,220,983,026</b>	<b>1988047919</b>
6. Staff Expenses	253,055,504	339,897,913	360980641
7. Other Operating Expenses	276,326,674	265,158,033	398316556
8. Exchange Fluctuation Loss	-	-	0
<b>Operating Profit before Provision for Possible Losses</b>	<b>1,562,743,489</b>	<b>1,615,927,080</b>	<b>1228750712</b>
9. Provision for Possible Losses	56,634,631	45,722,434	68805514
<b>Operating Profit</b>	<b>1,506,108,858</b>	<b>1,570,204,646</b>	<b>1159945198</b>
10. Non-Operating Income/(Loss)	22,098,317	2,190,102	3810145
11. Loan Loss Provision Written-Back	101,075,167	10,617,867	19484655
<b>Profit from Regular Operations</b>	<b>1,629,282,342</b>	<b>1,583,012,615</b>	<b>1183239998</b>
12. Profit/(Loss) from Extra-ordinary Activities	-15,356,059	43,521,866	-9973406
<b>Net Profit after considering all Activities</b>	<b>1,613,926,283</b>	<b>1,626,534,481</b>	<b>1173266592</b>
13. Staff Bonus Provision	146,720,571	147,866,771	10660599
14. Tax Provision	442,091,176	447,614,612	313771258
a) Current Years	443,119,138	470,701,921	340776052
b) Previous Year's Additional Tax	-	918,745	568826
c) Deferred Tax	-1,027,962	-24,006,054	-27573620
15. Share of Non-Controlling Interest in the Profit of Subsidiary		0	0
<b>Net Profit/(Loss)</b>	<b>1,025,114,536</b>	<b>1,031,053,098</b>	<b>752834735</b>
Return on Total Assets	2.53%	2.35%	1.91%
Return on Total Deposits	2.86%	2.76%	1.91%
Return on Net Worth	33.58%	32.94%	32.86%
Interest Earned to Total Assets	9.33%	25.85%	8.64%
Market Price Per Share	6010	4899	1760

Book Value Per Share	328	324	256.52
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Table # 2 Comparative Financial Highlights of JVBs –2065/66

The comparative financial results for FY 2065/66 showed that the Profit before Tax of NABIL was highest at NRS. 1,626,534,481 as compared to NRS. 1,613,926,283 & NRS. 1173266592 of SCBNL & HBL respectively. The net income of HBL is lowest among the SCBL an NABIL. Likewise, Return on the Net worth of NABIL was lower than SCBL but higher than that of NBL

The components of Profit before Tax for the review period 2065/66 are shown comparatively in the following graph.



Graph# 3 Gross Income, Total Expenses and Net Income – 2065/66

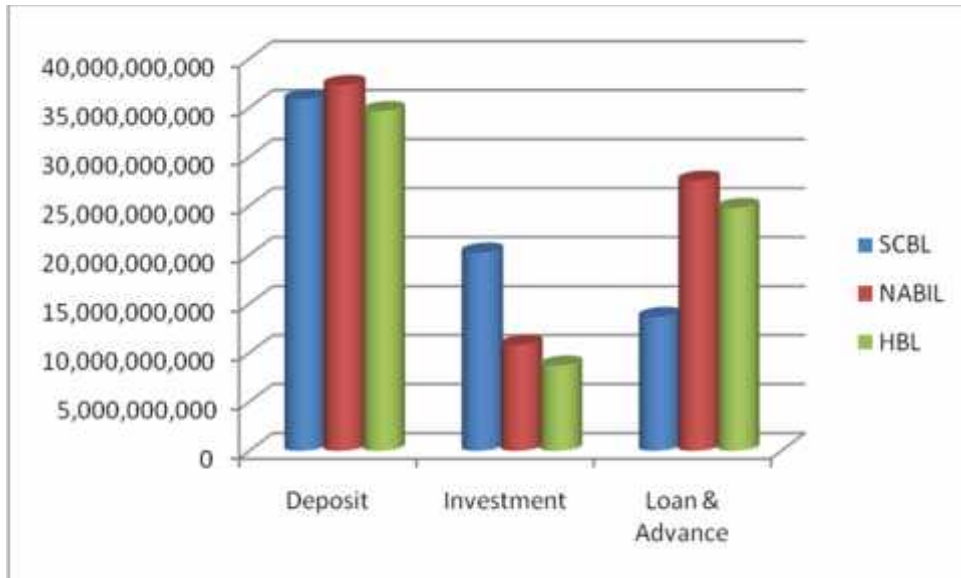
**Table no:4.3**  
**Comparative Financial Results of JV Banks as on 2066/067**

<b>Comparative Financial Results of JV Banks</b>			
<b>as on 2066/67</b>			
<i>Balance Sheet</i>			
<b>Liabilities</b>	<b>SCBL</b>	<b>NABIL</b>	<b>HBL</b>
1. Share Capital	1608256140	2028773600	2000000000
2. Reserves and Funds	1761453304	1805452329	1439205130
<b>Shareholder's Fund</b>	<b>3,369,709,444</b>	<b>3,834,225,929</b>	<b>3439205130</b>
Non Controlling Interest	0	0	0
3. Debentures and Bonds	-	300000000	500000000
4. Borrowings	-	74900000	0
5. Deposits	35182721454	46340700628	37611202274
6. Bills Payables	89219655	425443908	216158879
7. Proposed Dividend	769165980	434737200	189473600
8. Income Tax Liabilities --	-	24904405	0
9. Other Liabilities	802503393	644813627	761084730
<b>Total Liabilities</b>	<b>36,843,610,482</b>	<b>48,245,499,768</b>	<b>39277919483</b>
<b>Total Capital &amp; Liabilities</b>	<b>43583029370</b>	<b>55913951626</b>	<b>46156329743</b>
<b>ASSETS:</b>			
1. Cash Balance	509031174	635986600	514223569
2. Balance with Nepal Rastra Bank	819508706	549454618	2604790901
3. Balance with Banks / Financial Insitutions	600766640	214656586	747476214
4. Money at Call and Short Notice	1669460000	3118144000	308840000
5. Investments	19847511025	13600916613	8444910165
6. Loan Advances and Bills Purchase	15956955268	32268873283	27980628760
7. Fixed Assets	118539974	781480397	1061870757
8. Non - Banking Assets 15 --	-	0	0
9. Other Assets	691547139	910213600	1054384247
<b>Total Assets</b>	<b>40213319926</b>	<b>52079725697</b>	<b>42717124613</b>
<i>PROFIT &amp; LOSS A/C</i>			
1. Interest Income	2,870,970,682	4,049,714,179	3,148,605,196
2. Interest Expenses	1,007,198,992	1,960,107,902	1,553,530,687
<b>Net Interest Income</b>	<b>1,863,771,690</b>	<b>2,089,606,277</b>	<b>1595074509</b>
3. Commission and Discount	267,766,400	215,481,543	270,258,732
4. Other Operating Income	38,354,654	184,024,512	112,346,425
5. Exchange Fluctuation Income	468,556,720	276,964,251	180,278,743
<b>Total Operating Income</b>	<b>2,638,449,464</b>	<b>2,766,076,583</b>	<b>2157958409</b>
6. Staff Expenses	386,823,372	367,162,384	414,983,894
7. Other Operating Expenses	349,224,868	334,668,678	471,102,966
8. Exchange Fluctuation Loss	-	-	0
<b>Operating Profit before Provision for Possible Losses</b>	<b>1,902,401,224</b>	<b>2,064,245,521</b>	<b>1,271,871,549</b>
9. Provision for Possible Losses	208,251,274	355,829,115	692,640,089
<b>Operating Profit</b>	<b>1,694,149,950</b>	<b>1,708,416,406</b>	<b>579,231,460</b>
10. Non-Operating Income/(Loss)	567,904	6,454,723	12,382,440
11. Loan Loss Provision Written-Back	190,917,635	39,755,319	265,542,038
<b>Profit from Regular Operations</b>	<b>1,885,635,489</b>	<b>1,754,626,448</b>	<b>857,155,938</b>
12. Profit/(Loss) from Extra-ordinary Activities	-42,576,698	34,321,844	-25,855,926
<b>Net Profit after considering all Activities</b>	<b>1,843,058,791</b>	<b>1,788,948,292</b>	<b>831,300,012</b>

13. Staff Bonus Provision	167,550,799	162,518,278	75,572,728
14. Tax Provision	506,540,495	485,907,180	246,929,091
a) Current Years	510,927,100	472,823,385	246,070,406
b) Previous Year's Additional Tax	3,608,882	831,939	1,454,373
c) Deferred Tax	-7,995,487	12,251,856	-595,688
15. Share of Non-Controlling Interest in the Profit of Subsidiary	0	-	
<b>Net Profit/(Loss)</b>	<b>1,168,967,497</b>	<b>1,140,522,834</b>	<b>508,798,193</b>
Return on Total Assets	2.91%	2.19%	1.19%
Return on Total Deposits	3.32%	2.46%	1.19%
Return on Net Worth	34.69%	29.75%	33.99%
Interest Earned to Total Assets	14.47%	29.78%	6.02%
Market Price Per Share	3279	2384	816
Book Value Per Share	241	265	816

For the year 2066/67, Customer's Deposit stood highest for NABIL at NRS. 37,348,255,840 as compared to NRS. 35,871,721,127 & NRS. 34681345179 for SCBNL & NABIL respectively. Quite obviously, NABIL had to mobilize that huge deposit. So, NABIL increased its loans & Advances by 6%. During this same year, HBL recorded an increment of 124.27 % in Investment over previous year due to its aggressive Investment policy which stood at NRS 9,157 M. However, SCBNL stood at first position with NRS. 9276 M in Investment.

The comparative graphical presentation of 'Investments and Loans to Total Deposits' of JV Banks as at 2065/66 has been shown below:

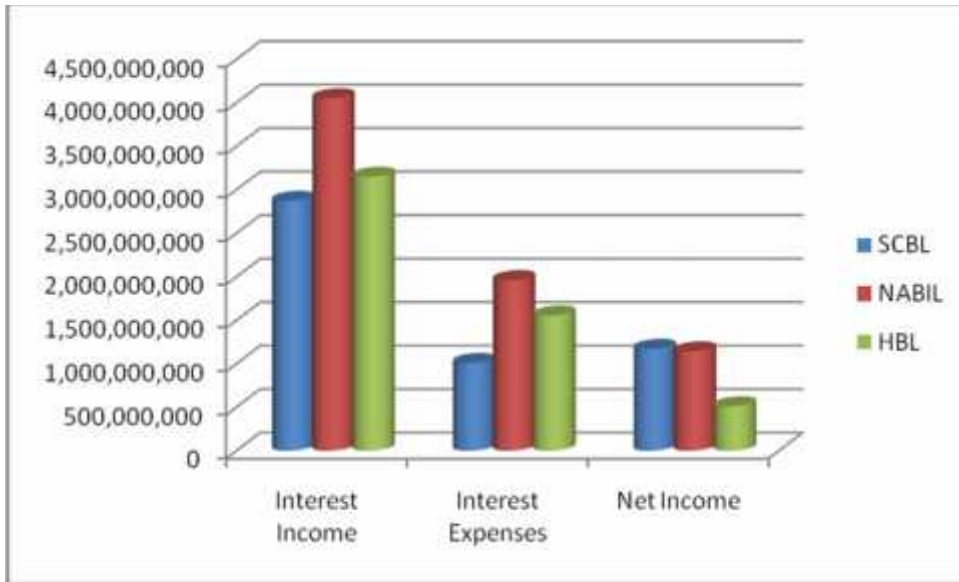


Graph # 4 Investment & Loans & Advances to Customers' Deposit – 2066/067

At the end of FY 2066/67, the net income of SCB was highest at NRS 1168 M mainly due to lower interest expense together with higher commission and exchange earnings as compared to NABIL and HBL. The interest expense of SCB was lowest at NRS 1007 M compared to NRS.1960 M & NRS.1553 of HBL and NABIL respectively.

Return on the Net Worth increased for NABIL standing at 34.69%. However, it decreased for SCBNL & HBL standing at 29.75% and 33.99% respectively. However, the Book Value per share of SCBNL was lowest at NRS 241 compared to NRs 265 and NRS 816 of NABIL and HBL respectively.

The components of Profit before Tax for the review period 2066/67 are shown comparatively in the following graph.

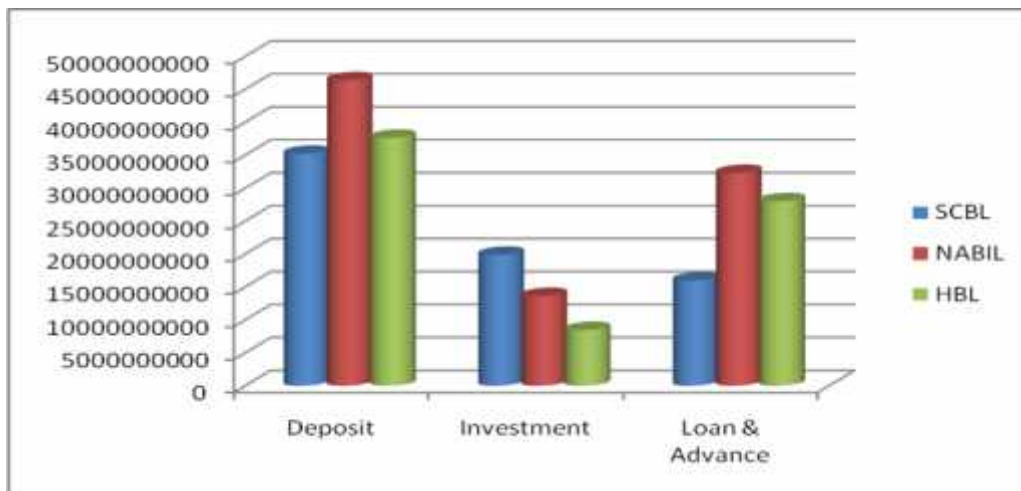


*Graph #5 Gross Income, Total Expenses & Profit before Tax –2066/67*

The credit volume remained highest in case of NABIL during the year 2066/67, which was at NRS 46,340 M as compared to NRS 35183 M and NRS 37611 M SCB and NABIL respectively.

The credit volume of NABIL stood at second position. Investment volume of SCBNL was highest at NRS 19847 M compared to NRS. 13600 M & NRS. 8444 M of NABIL & HBL respectively.

The comparative graphical presentation of ‘Investments and Loans to Total Deposits’ of JV Banks as at 2066/67 has been shown below:



Graph# 6 Investment & Loans & Advances to Customers' Deposit – 2066/67

**Table no:4.4**  
**Comparative Financial Results of JV Banks as on 2067/068**

<b>Comparative Financial Results of JV Banks as on 2067/68</b>			
<i>Balance Sheet</i>			
<b>Liabilities</b>	<b>SCBL</b>	<b>NABIL</b>	<b>HBL</b>
1. Share Capital	1610168000	2029769400	2400000000
2. Reserves and Funds	2067609062	2542286821	1595478273
<b>Shareholder's Fund</b>	<b>3,677,777,062</b>	<b>4,572,056,221</b>	<b>3995478273</b>
Non Controlling Interest	0	28917414	0
3. Debentures and Bonds	-	300000000	500000000
4. Borrowings	350000000	1650599178	10000000
5. Deposits	37999242310	49608376346	40920627030
6. Bills Payables	65966151	415767753	31655586
7. Proposed Dividend	805084000	608930820	336842000
8. Income Tax Liabilities - -	-	46529177	0
9. Other Liabilities	912450141	868442933	941600995
<b>Total Liabilities</b>	<b>40,132,742,602</b>	<b>53,527,563,621</b>	<b>42740725611</b>
<b>Total Capital &amp; Liabilities</b>	<b>47488296726</b>	<b>62671676063</b>	<b>50731682157</b>
<b>ASSETS:</b>			
1. Cash Balance	610690895	744592259	632046156
2. Balance with Nepal Rastra Bank	1638276594	1473986407	1390625787
3. Balance with Banks / Financial Institutions	726827789	239970924	941979378
4. Money at Call and Short Notice	4280888000	2452511778	734000000
5. Investments	17258682472	13003205527	8769938671
6. Loan Advances and Bills Purchase	18427270491	38034097554	31566976755
7. Fixed Assets	106071182	941257815	1187493049

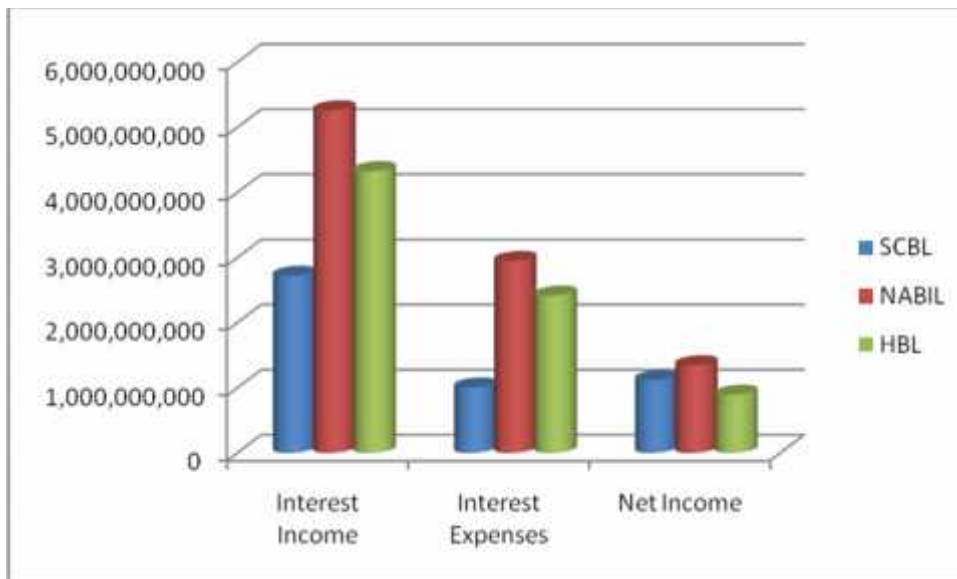
8. Non - Banking Assets 15 - -	-	0	0
9. Other Assets	761812241	1209997578	1513144088
<b>Total Assets</b>	<b>43810519664</b>	<b>58099619842</b>	<b>46736203884</b>
<i>PROFIT &amp; LOSS A/C</i>			
1. Interest Income	2,718,698,856	5,258,269,627	4,326,140,588
2. Interest Expenses	1,003,100,293	2,946,691,281	2,414,807,243
<b>Net Interest Income</b>	<b>1,715,598,563</b>	<b>2,311,578,346</b>	<b>1911333345</b>
3. Commission and Discount	314,673,993	290,855,057	350,365,112
4. Other Operating Income	36,753,257	183,444,757	129,516,981
5. Exchange Fluctuation Income	394,231,099	276,102,798	195,528,538
<b>Total Operating Income</b>	<b>2,461,256,912</b>	<b>3,061,980,958</b>	<b>2586743976</b>
6. Staff Expenses	365,986,423	455,616,099	517,591,827
7. Other Operating Expenses	305,215,112	403,992,554	582,209,813
8. Exchange Fluctuation Loss	-	-	0
<b>Operating Profit before Provision for Possible Losses</b>	<b>1,790,055,377</b>	<b>2,202,372,305</b>	<b>1,486,942,336</b>
9. Provision for Possible Losses	82,739,161	109,470,414	471,728,863
<b>Operating Profit</b>	<b>1,707,316,216</b>	<b>2,092,901,891</b>	<b>1,015,213,473</b>
10. Non-Operating Income/(Loss)	6,445,465	6,981,078	15,855,933
11. Loan Loss Provision Written-Back	67,159,308	7,101,374	228,145,590
<b>Profit from Regular Operations</b>	<b>1,780,920,989</b>	<b>2,106,984,343</b>	<b>1,259,214,996</b>
12. Profit/(Loss) from Extra-ordinary Activities	-22,764,594	3,148,475	102,292,025
<b>Net Profit after considering all Activities</b>	<b>1,758,156,395</b>	<b>2,110,132,818</b>	<b>1,361,507,021</b>
13. Staff Bonus Provision	159,832,400	192,007,714	123,773,366
14. Tax Provision	479,152,709	572,394,411	344,618,512
a) Current Years	485,713,290	570,933,629	338,351,341
b) Previous Year's Additional Tax	-	212,364	813,229
c) Deferred Tax	-6,560,581	1,248,418	5,453,942
15. Share of Non-Controlling Interest in the Profit of Subsidiary	0	1,551,273	0
<b>Net Profit/(Loss)</b>	<b>1,119,171,286</b>	<b>1,344,179,420</b>	<b>893,115,143</b>
Return on Total Assets	2.55%	2.31%	1.91%
Return on Total Deposits	2.95%	2.71%	1.91%
Return on Net Worth	30.43%	29.40%	28.01%
Interest Earned to Total Assets	15.75%	40.44%	10.18%
Market Price Per Share	1800	1252	575
Book Value Per Share	228	225	199.77

*Comparative Financial Highlights of JVBs –2067/68*

At the end of FY 2067/68, the Net Profit of Nabil was highest at NRS 1344 M due to lower interest expense ratio and higher exchange earning coupled with higher interest earning in investment as compared to NABIL and HBL.

Return on the Net Worth is 30.43 %, 29.40 % and 28.01 % of SCBNL, NABIL and HBL respectively in the fiscal year 2067/68. The Book Value per share of SCB was highest at NRS 228 compared to NRS 225 and NRS 199.77 of NABIL and HBL respectively.

The components of Profit before Tax for the review period 2067/68 are shown comparatively in the following graph.



Graph # 7 Gross Income, Total Expenses & Profit before Tax –2067/68

NABIL continued to be the JVB with the highest deposit (among these three) in the year 2066/67. Due to mobilization of highest deposit during the year 2067/68, NABIL was able to further increase its loan and advances volume to NRS 38034 M. During the year 2067/68, HBL again recorded an increment of 19.13 % over previous year due to its aggressive lending policy. SCB and NABIL had recorded increment of 17.52% and 10.22% in lending respectively over previous year. C/D

ratio of NABIL for the review period 2067/68 stood highest at 60.55% against 58.70% and 31.63% of HBL and SCB respectively.

The comparative graphical presentation of ‘Investments and Loans to Total Deposits’ of JV Banks as at 2067/68 has been shown below:



Graph # 8 Investment & Loans & Advances to Customers' Deposit – 2067/68

**Table no:4.5**  
**Comparative Financial Results of JV Banks as on 2068/069**

<b>Comparative Financial Results of JV Banks</b>			
<b>as on 2068/69</b>			
<i>Balance Sheet</i>			
<b>Liabilities</b>	<b>SCBL</b>	<b>NABIL</b>	<b>HBL</b>
1. Share Capital	1851693200	2435723280.00	2760000000
2. Reserves and Funds	2270475759	3024800828	1872010133
<b>Shareholder's Fund</b>	<b>4,122,168,959</b>	<b>5,460,524,108</b>	<b>4632010133</b>
Non Controlling Interest	0	30336486	0
3. Debentures and Bonds	-	300000000	500000000
4. Borrowings	-	311080000	0
5. Deposits	35965630744	54905676208	47730993909
6. Bills Payables	86378524	179142358	19003372
7. Proposed Dividend	724575600	811907760	322106400
8. Income Tax Liabilities - -	-	51106490	0
9. Other Liabilities	778298533	1207599073	1160314068
<b>Total Liabilities</b>	<b>37,554,883,401</b>	<b>57,796,848,375</b>	<b>49732417749</b>
<b>Total Capital &amp; Liabilities</b>	<b>45799221319</b>	<b>68717896591</b>	<b>58996438015</b>
<b>ASSETS:</b>			

1. Cash Balance	509677917	1050668504	951333515
2. Balance with Nepal Rastra Bank	4833920464	3681980327	3979163789
3. Balance with Banks / Financial Insitutions	1022634688	-438602825	1431798854
4. Money at Call and Short Notice	2126035000	826435677	264600000
5. Investments	12938215774	14076850055	10031580497
6. Loan Advances and Bills Purchase	19575968330	41605682634	34965433862
7. Fixed Assets	89633207	894495291	1305364357
8. Non - Banking Assets 15 - -	-	0	0
9. Other Assets	580966980	1559862820	1435153008
<b>Total Assets</b>	<b>41677052360</b>	<b>63257372483</b>	<b>54364427882.00</b>
<i>PROFIT &amp; LOSS A/C</i>			
1. Interest Income	2,042,109,322	6,145,750,888	4,724,887,323
2. Interest Expenses	575,740,660	3,152,940,354	2,816,441,404
<b>Net Interest Income</b>	<b>1,466,368,662</b>	<b>2,992,810,534</b>	<b>1908445919</b>
3. Commission and Discount	338,298,109	367,676,396	510,840,279
4. Other Operating Income	34,479,473	207,295,626	182,028,635
5. Exchange Fluctuation Income	458,564,032	447,070,485	309,897,962
<b>Total Operating Income</b>	<b>2,297,710,276</b>	<b>4,014,853,041</b>	<b>2911212795</b>
6. Staff Expenses	312,964,286	50,500,888,894	634,228,832
7. Other Operating Expenses	295,304,522	432,880,991	714,436,436
8. Exchange Fluctuation Loss	-	0	0
<b>Operating Profit before Provision for Possible Losses</b>	<b>1,689,441,468</b>	<b>3,076,963,156</b>	<b>1,562,547,527</b>
9. Provision for Possible Losses	76,974,254	413,948,680	505,491,167
<b>Operating Profit</b>	<b>1,612,467,214</b>	<b>2,663,014,476</b>	<b>1,057,056,360</b>
10. Non-Operating Income/(Loss)	36,268,280	9,939,751	8,005,610
11. Loan Loss Provision Written-Back	58,292,849	0	859,976,635
<b>Profit from Regular Operations</b>	<b>1,707,028,343</b>	<b>2,672,954,227</b>	<b>1,925,038,605</b>
12. Profit/(Loss) from Extra-ordinary Activities	-17,024,392	3,036,749	-397,037,895
<b>Net Profit after considering all Activities</b>	<b>1,690,003,951</b>	<b>2,669,917,478</b>	<b>1,528,000,710</b>
13. Staff Bonus Provision	153,636,723	243,074,316	138,909,155
14. Tax Provision	450,495,534	723,698,440	430,453,295
a) Current Years	465,685,661	731,904,979	450,548,218
b) Previous Year's Additional Tax	22,675	0	377,880
c) Deferred Tax	-15,212,802	-8,206,539	-20,472,803
15. Share of Non-Controlling Interest in the Profit of Subsidiary	0	2,769,072	0
<b>Net Profit/(Loss)</b>	<b>1,085,871,694</b>	<b>1,700,375,650</b>	<b>958,638,260</b>
Return on Total Assets	2.61%	2.69%	1.76%
Return on Total Deposits	3.02%	3.10%	1.76%

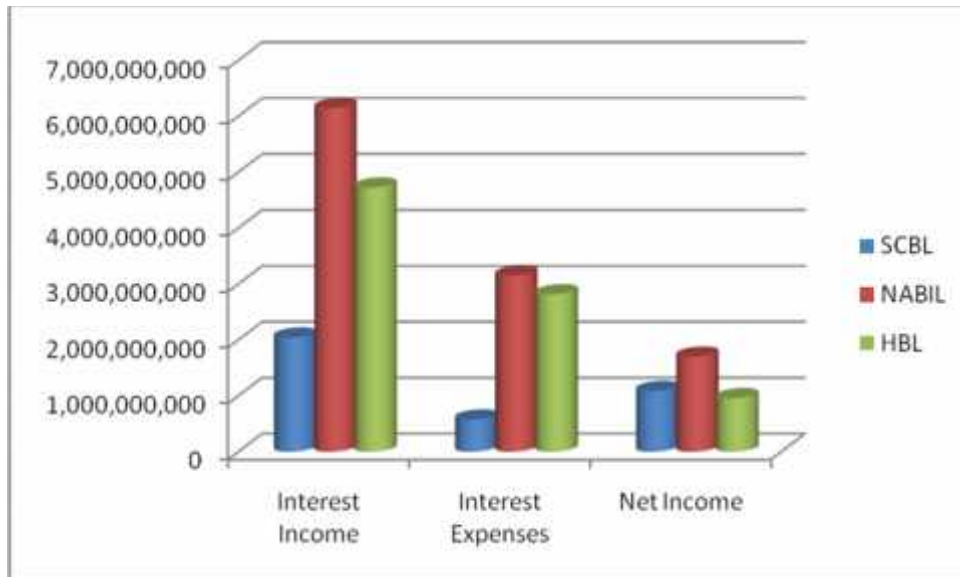
Return on Net Worth	26.34%	31.14%	23.44%
Interest Earned to Total Assets	15.78%	43.66%	9.56%
Market Price Per Share	1799	1355	653
Book Value Per Share	256	269	193

*Comparative Financial Highlights of JVBs –2068/69*

SCBNL continued dominating the Banking business by generating highest Profit before Tax and after Tax as well. At the end of FY 2068/69, the net profit of NABIL was highest at NRS 1700 M chiefly due to higher commission and exchange earnings as compared to NABIL and HBL. The net Profit of HBL and NABIL were NRS. 958 M & NRS. 1086 M correspondingly.

Return on the Net Worth for three JVBs stood at 26.34%, 31.14% and 23.44%, for SCBNL, NABIL and HBL respectively. The Book Value per share of Rs. 256, Rs.269 and Rs. 193 of SCBNL, NABIL and HBL are respectively.

The components of Profit before Tax for the review period 2068/69 are shown comparatively in the following graph.

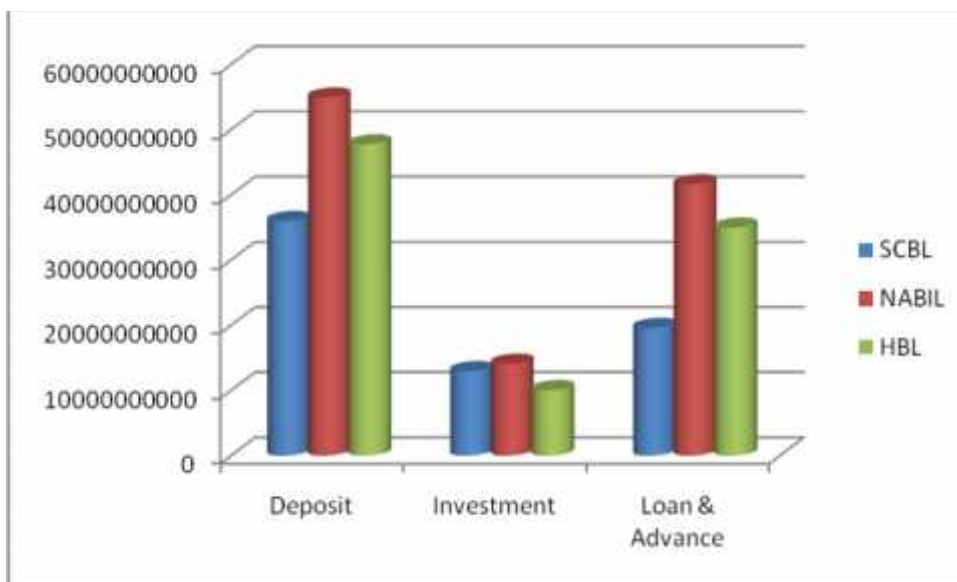


*Graph # 9 Gross Income, Total Expenses & Profit before Tax –2068/69*

The credit volume remained highest in case of NABIL during the year 2068/69, which was at NRS 54,905 M as compared to NRS 35,965 M and NRS 47,731 M of SCB and HBL respectively. The credit volume of HBL increased and stood at second position.

The investment in this period was highest for NABIL at NRS. 14,076 M compared to NRS.12,938 M of SCB & NRS. 10,031 M of HBL.

The comparative graphical presentation of ‘Investments and Loans to Total Deposits’ of JV Banks as at 2068/69 has been shown below:



*Graph # 10 Investment & Loans & Advances to Customers’ Deposit – 2068/069*

### **ANALYSIS OF GRAPH**

The above analysis of gross income, total cost and profit before tax and loans & advances, investments and deposits of three JVBS has been able to show the comparative **Strengths** and **Weaknesses** of these banks over the period of five years.

## **4.2 ANALYSIS OF RATIOS**

As earlier mentioned in the Chapter three, various ratios are calculated and analyzed to determine the comparative **Strengths & Weaknesses** of these JVBs.

#### 4.2.1 PROFITABILITY RATIOS

##### a) RETURN ON TOTAL ASSETS

(NET PROFIT TO TOTAL ASSETS)

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

*Total Assets*

**Table no:4.6**

#### Return on Total Assets

##### SCBNL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Net Profit	<b>818,921,008</b>	<b>1,025,114,536</b>	<b>1,168,967,497</b>	<b>1,119,171,286</b>	<b>1,085,871,694</b>
Total Assets	<b>33,335,788,326</b>	<b>40,587,468,009</b>	<b>40,213,319,926</b>	<b>43,810,519,664</b>	<b>41,677,052,360</b>
ROA	2.46%	2.53%	2.91%	2.55%	2.61%

##### NABIL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Net Profit	<b>746,468,394</b>	<b>1,031,053,098</b>	<b>1,140,522,834</b>	<b>1,344,179,420</b>	<b>1,700,375,650</b>
Total Assets	<b>37,132,759,149</b>	<b>43,867,397,504</b>	<b>52,079,725,697</b>	<b>58,099,619,842</b>	<b>63,257,372,483</b>
ROA	2.01%	2.35%	2.19%	2.31%	2.69%

##### HBL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Net Profit	<b>635888519</b>	<b>752834735</b>	<b>508,798,193</b>	<b>893,115,143</b>	<b>958,638,260</b>
Total Assets	<b>36175531637</b>	<b>39320322069</b>	<b>42717124613</b>	<b>46736203884.00</b>	<b>54364427882.00</b>
ROA	1.76%	1.91%	1.19%	1.91%	1.76%

The comparative ratios depicted above shows that SCBNL's Return on Assets is highest during the span of five years. This means that SCBNL is relatively efficient in utilizing its overall resources.

The Return on assets of SCBNL is 2.46%, 2.53 %, 2.91 %, 2.55 % and 2.61% in fiscal year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively. In the same way, ROA is 2.01 % ,2.35%, 2.19 %,2.31 % and 2.69 % respectively in the fiscal year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively. ROA of HBL is 1.76%, 1.91 %, 1.19%, 1.91% and 1.76% in fiscal year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively. From the above table, we can conclude that the ROA is fluctuating of all the banks but among them the ROA of SCBNL is the highest among all.

**b) RETURN ON TOTAL DEPOSITS  
(NET PROFIT TO TOTAL DEPOSITS)**

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

**Table no :4.7**

**Return on total deposits**

**SCBNL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Net Profit	<b>818,921,008</b>	<b>1,025,114,536</b>	<b>1,168,967,497</b>	<b>1,119,171,286</b>	<b>1,085,871,694</b>
Total Deposit	29,743,998,794	35,871,721,127	35182721454	37999242310	35965630744

Return on Total Deposit	2.75%	2.86%	3.32%	2.95%	3.02%
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## NABIL

<b>HB L</b>	F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
	Net Profit	<b>746,468,394</b>	<b>1,031,053,098</b>	<b>1,140,522,834</b>	<b>1,344,179,420</b>	<b>1,700,375,650</b>
	Total Deposit	31,915,047,467	37,348,255,840	46340700628	49608376346	54905676208
	Return on Total Deposit	2.34%	2.76%	2.46%	2.71%	3.10%
F/Y	2064/65	2065/66	2066/67	2067/68	2068/69	
Net Profit	<b>635888519</b>	<b>752834735</b>	<b>508,798,193</b>	<b>893,115,143</b>	<b>958,638,260</b>	
Total Deposit	<b>36175531637</b>	<b>39320322069</b>	<b>42717124613</b>	<b>46736203884.00</b>	<b>54364427882.00</b>	
Return on Total Deposit	1.76%	1.91%	1.19%	1.91%	1.76%	

Return on Deposit ratio of SCBNL is relatively higher than other JVBs in the first two years under study. But in the later years, NABIL has higher rate of return on deposit ratio. This denotes that the NABIL is in better position in utilizing its deposits in generating adequate yield.

Return on Deposit of NABIL had been proportionate with the increase in its deposits. Return on Deposit ratio of NABIL stood at in the range of 3.02 % to 2.75 % for the review period.

Despite the highest Deposit trend of HBL, Return on Deposit of HBL was found low during the review period between the ranges of 3.10 % to 2.34 %, which shows it was weak in mobilizing its deposits in purpose of making profit out of it. Return on Deposit ratio is very much affected by volume of interest free deposits employed by the banks. The higher volumes of free-costs deposits tend to lower interest cost and contributes to increase the profits, which leads to higher return on Deposit.

### c) RETURN ON NET WORTH

(NET PROFIT TO TOTAL SHARE HOLDERS' FUND)

*Return on Shareholder's Fund =  $\frac{\text{Net Profit}}{\text{Total Shareholder's Fund}}$*

*Total Shareholder's Fund*

**Table no:4.8**

**Return on Net Worth**

**SCBNL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Net Profit	<b>818,921,008</b>	<b>1,025,114,536</b>	<b>1,168,967,497</b>	<b>1,119,171,286</b>	<b>1,085,871,694</b>
Sharholder's Fund	<b>2,492,547,996</b>	<b>3,052,469,731</b>	<b>3,369,709,444</b>	<b>3,677,777,062</b>	<b>4,122,168,959</b>
Return on Shareholder's fund	32.85%	33.58%	34.69%	30.43%	26.34%

**NABIL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Net Profit	<b>746,468,394</b>	<b>1,031,053,098</b>	<b>1,140,522,834</b>	<b>1,344,179,420</b>	<b>1,700,375,650</b>
Sharholder's Fund	<b>2,437,198,989</b>	<b>3,130,240,637</b>	<b>3,834,225,929</b>	<b>4,572,056,221</b>	<b>5,460,524,108</b>
Return on Shareholder's fund	30.63%	32.94%	29.75%	29.40%	31.14%

**HBL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Net Profit	<b>818,921,008</b>	<b>1,025,114,536</b>	<b>1,168,967,497</b>	<b>1,119,171,286</b>	<b>1,085,871,694</b>
Sharholder's Fund	<b>2512991602</b>	<b>3119880537</b>	<b>3439205130</b>	<b>3995478273</b>	<b>4632010133</b>

Return on Total Deposit	32.59%	32.86%	33.99%	28.01%	23.44%
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Return on Net Worth ratios of three JVBs have been calculated above. SCBNL's Return on Net Worth has been highest in the year 2065/66, i.e. 33.58%.

Further, SCBNL has the highest range over the comparison period.

NABIL's Return on Net Worth has increased from 30.63 % in 2064/65 to 32.94 % in 2065/66. However, it decreased to 29.75 % and 29.40 % in the years 2066/67 and 2067/68 respectively. This clarifies that NABIL was not able to earn the proportionate increase in its net profits to increase the Shareholders' Fund.

HBL was able to earn highest return of 33.99 % in the year 2065/66, which later on decreased to 28.01 % in 2067/68 and 23.44 % in 2068/69.

Therefore, JVBs should increase their Equity Funds by issuing bonus shares or retaining their profits in the form of reserves only if they can earn adequate return on net worth, otherwise it will be beneficial for them to distribute cash dividend.

#### **d) INTEREST EARNED ON TOTAL ASSETS**

*Interest earned on Total Assets = Interest Income*

*Total Assets*

**Table no:4.9**  
**Interest Earned to Total Assets**

#### **SCBNL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Interest Earned	1,591,195,526	1,887,221,257	2,870,970,682	2,718,698,856	2,042,109,322
Total Investment	13,902,819,011	20,236,121,082	19847511025	17258682472	12938215774

Interest Earned To Total Assets	11.45%	9.33%	14.47%	15.75%	15.78%
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### **NABIL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Interest Earned	1,978,696,727	2,798,486,196	4,049,714,179	5,258,269,627	6,145,750,888
Total Investment	9,939,771,428	10,826,379,001	13600916613	13003205527	14076850055
Interest Earned To Total Assets	19.91%	25.85%	29.78%	40.44%	43.66%

### **HBL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Interest Earned	635888519	752834735	508,798,193	893,115,143	958,638,260
Total Investment	13340176785	8710690646	8444910165	8769938671	10031580497
Interest Earned To Total Assets	4.77%	8.64%	6.02%	10.18%	9.56%

The Interest Earned to Total Assets is the highest in the year 2068/69 of SCBNL and NABIL are 15.78% and 43.66 % in respectively. The interest Earned to Total Assets of HBL is the highest 10.18 % in fiscal year 2067/68. NABIL bank is the best among SCBNL and HBL.

This indicates that these JVBs have failed to earn a consistent interest income in relation to their total assets. The reason for lower ratio of interest can be attributed to increased non-performing assets in the assets structure.

#### **e) RETURN ON RISK ASSETS**

**(NET PROFIT TO LOANS / ADVANCES)**

*Return on Risk Assets =  $\frac{\text{Net Profit}}{\text{Risk Assets}}$*

*Risk Assets*

**Table no:4.10**

## Return On Risk Assets

### SCBNL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Net Profit	818,921,008	1,025,114,536	1,168,967,497	1,119,171,286	1,085,871,694
Loan & Advance	13,718,597,132	13,679,756,990	15956955268	18427270491	19575968330
Return on Loan & Advance	5.97%	7.49%	7.33%	6.07%	5.55%

### NABIL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Net Profit	<b>746,468,394</b>	<b>1,031,053,098</b>	<b>1,140,522,834</b>	<b>1,344,179,420</b>	<b>1,700,375,650</b>
Loan & Advance	21,365,053,318	27,589,933,041	32268873283	38034097554	41605682634
Return on Loan & Advance	3.49%	3.74%	3.53%	3.53%	4.09%

### HBL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Net Profit	<b>818,921,008</b>	<b>1,025,114,536</b>	<b>1,168,967,497</b>	<b>1,119,171,286</b>	<b>1,085,871,694</b>
Loan & Advance	19497520482	24793155269	27980628760	31566976755	34965433862
Return on Loan & Advance	4.20%	4.13%	4.18%	3.55%	3.11%

SCBNL's Return on Risk Assets ratio was highest at 5.97%, 7.49%, 7.33 %, 6.07%, 5.55 % during the year ends 2064/65, 2065/66,2066/67, 2067/68 and 2068/69 respectively as compared to other JVBs.

It is noticeable that Net Profit to Loan and Advances ratio of NABIL and HBL are lower than that of SCBNL, despite their high volume of Risk Asset than SCBNL through out the review period. This implies that SCBNL's interest income from Risk Assets is lower as compared with others, whereas its net profit among other JVBs is attributable to the higher interest received from investments, commissions and exchange earnings.

## 4.2.2 LIQUIDITY RATIOS

Current Ratio, in case of Bank, is not of much significance. Thus, it has not been calculated.

### a) CASH & BANK BALANCE TO DEPOSITS RATIO

$$\text{Cash \& Bank Balance to Deposits Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposits}}$$

**Table no: 4.11**

### Cash & Bank Balance To Deposits Ratio

#### SCBNL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Cash & Bank	2050243214	3137163535	1929306520	2975795278	6366233069
Total Deposit	29,743,998,794	35,871,721,127	35182721454	37999242310	35965630744
Cash & Bank Balance to Deposit	6.89%	8.75%	5.48%	7.83%	17.70%

#### NABIL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Cash & Bank	2671141055	3372512471	1400097804	2458549590	4294046006
Total Deposit	31,915,047,467	37,348,255,840	46340700628	49608376346	54905676208

Cash & Bank Balance to Deposit	8.37%	9.03%	3.02%	4.96%	7.82%
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### **HBL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Cash & Bank	1448142890	3048526788	3866490684	2964651321	6362296158
Total Deposit	31842789356	34681345179	37611202274	40920627030	47730993909
Cash & Bank Balance to Deposit	4.55%	8.79%	10.28%	7.24%	13.33%

All JVBs have maintained adequate funds against the deposits, which stood at 17.70 %, 7.82 % and 13.33 % respectively for SCBNL, NABIL, and HBL in the year end 2068/69. The ratio showed the fluctuation at same level during the review period of all JVBs which implies that JVBs have properly monitored their liquidity knowing that a very high ratio indicates the unwise investment decision.

## **4.2.3 ACTIVITY (UTILIZATION) RATIOS**

### **a) LOANS & ADVANCES TO TOTAL DEPOSIT (C/D) RATIO**

$$\text{Loans \& Adv. to Total Deposit Ratio} = \frac{\text{Total Loans \& Advances}}{\text{Total Deposits}}$$

**Table no:4.12**  
**Credit Deposit Ratio**

### **SCBNL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Loan & Advance	13,718,597,132	13,679,756,990	15956955268	18427270491	19575968330
Total Deposit	29,743,998,794	35,871,721,127	35182721454	37999242310	35965630744
Loan & Advance to Total Deposit Ratio	46.12%	38.14%	45.35%	48.49%	54.43%

### **NABIL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Loan & Advance	21,365,053,318	27,589,933,041	32268873283	38034097554	41605682634
Total Deposit	31,915,047,467	37,348,255,840	46340700628	49608376346	54905676208
Loan & Advance to Total Deposit Ratio	66.94%	73.87%	69.63%	76.67%	75.78%

### **HBL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Loan & Advance	19497520482	24793155269	27980628760	31566976755	34965433862
Total Deposit	31842789356	34681345179	37611202274	40920627030	47730993909
Loan & Advance to Total Deposit Ratio	61.23%	71.49%	74.39%	77.14%	73.26%

Credit Deposit ratio of NABIL has been highest among three JVBs over the review period. The ratios stood at 66.94 %,73.87 %,69.63 %, 76.67 % & 75.78 % respectively during 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively. The Credit Deposit ratio of HBL has been the second highest for the review period, which indicates that it too was successful in maintaining the favorable portion of its deposits towards Loan and Advances.

NABIL and HBL both had moderate Credit Deposit ratio during the study period. NABIL has been maintaining the Credit Deposit Ratio ranging from 66.94 % to 75.78 % during the study period.

However, SCBNL, the highest profit making JVB has the lowest Credit Deposit ratios standing at 46.12% , 38.14% %, 45.35%, 48.49% and 54.43% respectively during 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively.

The SCBNL has the significant volume of foreign currency deposit in its deposit structure, which was placed in the foreign currency overseas placement. Therefore, CD ratio calculated for SCBNL including both Local and Foreign Currency Deposit were lowest as compared with the other JVBs.

### **b) PERFORMING ASSETS TO TOTAL ASSETS RATIO**

*Performing Assets to Total Assets Ratio= Performing Assets*

*Total Assets*

**Table no: 4.13**

**Performing Assets To Total Assets Ratio**

**SCBNL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Performing Assets	29818953743	35971427072	37473926293	39966840963	34640219104
Total Assets	33,335,788,326	40,587,468,009	40213319926	43810519664	41677052360
Performing Assets to Total Assets	89.45%	88.63%	93.19%	91.23%	83.12%

**NABIL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Performing Assets	33257185446	38969200339	48987933896	53489814859	56508968366
Total Assets	37,132,759,149	43,867,397,504	52079725697	58099619842	63257372483
Performing Assets to Total Assets	89.56%	88.83%	94.06%	92.07%	89.33%

**HBL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Performing Assets	33356226767	34674639565	36734378925	41070915426	45261614359
Total Assets	36175531637	39320322069	42717124613	46736203884.00	54364427882.00
Performing Assets to Total Assets	92.21%	88.19%	85.99%	87.88%	83.26%

Performing Assets to Total Assets Ratio has been highest in case of SCBNL & NABIL as compared to HBL. However, all the three JVBs under study are found to have maintained consistency in this ratio, more or less.. Similarly the ratios of SCBNL in the following years were also favorable as compared to other JVBs. This can be regarded as one of the major factors for SCBNL's highest profit in the later years of the review period.

**c) PERFORMING ASSETS TO TOTAL DEBT RATIO**

The ratio is calculated by dividing performing assets by total debts.

$$\text{Performing Assets to Total Debt Ratio} = \frac{\text{Performing Assets}}{\text{Total Debts}}$$

**Table no :4.14**

**Performing Assets To Total Debt Ratio**

**SCBNL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Performing Assets	29818953743	35971427072	37473926293	39966840963	34640219104
Total Debt	30,843,240,330	37,534,998,278	36,843,610,482	40,132,742,602	37,554,883,401
Performing Assets to Total Debt	96.68%	95.83%	101.71%	99.59%	92.24%

**NABIL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
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Performing Assets	33257185446	38969200339	48987933896	53489814859	56508968366
Total Debt	34,695,560,160	40,737,156,867	48,245,499,768	53,527,563,621	57,796,848,375
Performing Assets to Total Debt	95.85%	95.66%	101.54%	99.93%	97.77%

### HBL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Performing Assets	33356226767	34674639565	36734378925	41070915426	45261614359
Total Debt	33662540035	36200441532	39277919483	42740725611	49732417749
Performing Assets to Total Debt	99.09%	95.79%	93.52%	96.09%	91.01%

Ratios of all the JVBs have been higher during the review period. This implies that all of these JVBs are capable of utilizing outsiders' fund towards performing assets, which generates income for them and their solvency position is better. SCBNL, NABIL have been able to utilize cent percent of the outsiders' fund in the performing assets.

### d) INVESTMENTS TO TOTAL DEPOSITS RATIO

*Investments to Total Deposits Ratio =  $\frac{\text{Investments}}{\text{Total Deposits}}$*

*Total Deposits*

**Table no: 4.15  
Investments To Total Deposits Ratio**

### SCBNL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Investment	13,902,819,011	20,236,121,082	19847511025	17258682472	12938215774
Total Deposit	29,743,998,794	35,871,721,127	35182721454	37999242310	35965630744

Investment to Total Deposit	46.74%	56.41%	56.41%	45.42%	35.97%
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### **NABIL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Investment	9,939,771,428	10,826,379,001	13600916613	13003205527	14076850055
Total Deposit	31,915,047,467	37,348,255,840	46340700628	49608376346	54905676208
Investment to Total Deposit	31.14%	28.99%	29.35%	26.21%	25.64%

### **HBL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Investment	13340176785	8710690646	8444910165	8769938671	10031580497
Total Deposit	31842789356	34681345179	37611202274	40920627030	47730993909
Investment to Total Deposit	41.89%	25.12%	22.45%	21.43%	21.02%

Investment to Total Deposit Ratios of SCBNL has been highest during the review period which stood at 46.74 %, 56.41 %, 56.41 %, 45.42 % and 35.97 % in 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively. The Ratios of NABIL has been average at 31.14 %, 28.99 %, 29.35 %, 26.21 % and 25.64 % in 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 during the review period. And HBL's ratios during the whole review period stood at 41.89 %, 25.12 %, 22.45 %, 21.43% and 21.02 % respectively.

This indicates that except HBL, other two JVBs are relying significantly on the Investments to mobilize the surplus deposits volume.

## **4.2.4 LEVERAGE RATIOS**

### **a) TOTAL DEBTS TO TOTAL ASSETS RATIO**

*Total Debts to Total Assets Ratio = Total Outsider's Fund*

*Total Assets*

**Table no:4.16**

**Total Debts To Total Assets Ratio**

**SCBNL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Total Debt	30,843,240,330	37,534,998,278	36,843,610,482	40,132,742,602	37,554,883,401
Total Assets	33,335,788,326	40,587,468,009	40,213,319,926	43,810,519,664	41,677,052,360
Debt to Assets Ratio	92.52%	92.48%	91.62%	91.61%	90.11%

**NABIL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Total Debt	34,695,560,160	40,737,156,867	48,245,499,768	53,527,563,621	57,796,848,375
Total Assets	37,132,759,149	43,867,397,504	52,079,725,697	58,099,619,842	63,257,372,483
Debt to Assets Ratio	93.44%	92.86%	92.64%	92.13%	91.37%

**HBL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Total Debt	33,662,540,035	36,200,441,532	39,277,919,483	42,740,725,611	49,732,417,749
Total Assets	36,175,531,637	39,320,322,069	42,717,124,613	46,736,203,884.00	54,364,427,882.00
Debt to Assets Ratio	93.05%	92.07%	91.95%	91.45%	91.48%

of all three JVBs, debt financing had always almost exceeded 90 % of the Total Assets over the review period, which indicates the excessively geared capital structure of these banks, which signifies the excessive use of debt to finance Total Assets.

The high 'Total Outsiders' Fund to Total Assets' ratio implies bank's success in exploiting debts to the more profitable assets. Since all the JVBs had been extensively using debt financing to the total assets, it can be concluded that these banks are highly levered.

## b) LONG TERM DEBTS TO TOTAL ASSETS RATIO

*Long Term Debts to Total Assets Ratio=  $\frac{\text{Total Fixed Deposits}}{\text{Total Assets}}$*

*Total Assets*

**Table no: 4.17**  
**Long Term Debts To Total Assets Ratio**

### SCBNL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Fixed Deposit	3,301,013,939	7,101,697,629	9,175,070,477	10,136,244,465	4,661,260,883
Total Assets	33,335,788,326	40,587,468,009	40213319926	43810519664	41677052360
Long term debt to total assets	9.90%	17.50%	22.82%	23.14%	11.18%

### NABIL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Fixed Deposit	8,464,086,113	8,310,708,297	14,711,158,487	16,840,831,154	14,044,887,821
Total Assets	37,132,759,149	43,867,397,504	52079725697	58099619842	63257372483
Long term debt to total assets	22.79%	18.95%	28.25%	28.99%	22.20%

### HBL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Fixed Deposit	6,423,874,108	6,377,132,497	11,328,635,821	13,507,370,421	11,866,679,120
Total Assets	36175531637	39320322069	42717124613	46736203884.00	54364427882.00

Long term debt to total assets	17.76%	16.22%	26.52%	28.90%	21.83%
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**c) TOTAL DEBTS TO NET WORTH (SHAREHOLDER'S FUND) RATIO**

*Total Debts to Net worth Ratio=  $\frac{\text{Total Debts}}{\text{Total Shareholder's Fund}}$*

*Total Shareholder's Fund*

**Table no:4.18  
Total Debts To Net Worth (Shareholder's Fund) Ratio**

**SCBNL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Total Debt	30,843,240,330	37,534,998,278	36,843,610,482	40,132,742,602	37,554,883,401
Shareholder's Fund	2,492,547,996	3,052,469,731	3,369,709,444	3,677,777,062	4,122,168,959
Total Debt to Networth	12.37	12.30	10.93	10.91	9.11

**NABIL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Total Debt	34,695,560,160	40,737,156,867	48,245,499,768	53,527,563,621	57,796,848,375
Shareholder's Fund	2,437,198,989	3,130,240,637	3,834,225,929	4,572,056,221	5,460,524,108
Total Debt to Networth	14.24	13.01	12.58	11.71	10.58

**HBL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Total Debt	33662540035	36200441532	39277919483	42740725611	49732417749
Shareholder's Fund	2512991602	3119880537	3439205130	3995478273	4632010133
Total Debt to Networth	13.40	11.60	11.42	10.70	10.74

HBL has been the highest Debt to Net worth Ratio holder among these three JVBs during the review period.

Ratios of the other two banks have been in increasing trend over the first three years and fluctuating during the last two years.

The above ratios show that the Total Debt to Net worth Ratio of all three JVBs is significantly high or these JVBs are highly levered. In other words, the outsiders' claim exceed far more than that of the owners over the bank's assets. The extensive use of debt financing by these JVBs is due to increased volumes of deposits. Since the banking business is basically based on mobilization of deposits, and extending the same as loans and advances to the borrowers, increase in deposits is considered to be increase in the business, provided banks can extend those deposits towards good loans.

Hence, it can be said that the highly geared capital structure has been good mix for selected JVBs as they have been able to give higher return to shareholders' funds. Nevertheless, extensive use of debts, coupled with failure in extending good loans can endanger the solvency of these banks. Therefore, they are required to assess the risk asset portfolios, before accepting the interest bearing deposits in order to maintain an optimum Debt to Net worth Ratio, thereby avoiding the financial risk.

**d) LONG TERM DEBTS TO NET WORTH (SHAREHOLDER'S FUND) RATIO**

$$\text{Long Term Debts to Net worth Ratio} = \frac{\text{Total Fixed Deposits}}{\text{Total Shareholder's Fund}}$$

**Table no : 4.19  
Long Term Debts To Net Worth (Shareholder's Fund) Ratio**

**SCBNL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
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Fixed Deposit	3,301,013,939	7,101,697,629	9,175,070,477	10,136,244,465	4,661,260,883
Shareholder's Fund	2,492,547,996	3,052,469,731	3,369,709,444	3,677,777,062	4,122,168,959
Total Debt to Networth	1.32	2.33	2.72	2.76	1.13

### **NABIL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Fixed Deposit	8,464,086,113	8,310,708,297	14,711,158,487	16,840,831,154	14,044,887,821
Shareholder's Fund	2,437,198,989	3,130,240,637	3,834,225,929	4,572,056,221	5,460,524,108
Total Debt to Networth	3.47	2.65	3.84	3.68	2.57

### **HBL**

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Fixed Deposit	6,423,874,108	6,377,132,497	11,328,635,821	13,507,370,421	11,866,679,120
Shareholder's Fund	2512991602	3119880537	3439205130	3995478273	4632010133
Total Debt to Networth	2.56	2.04	3.29	3.38	2.56

### **e) NET FIXED ASSETS TO NET WORTH (SHAREHOLDER'S FUND)**

#### **RATIO**

*Net Fixed Assets to Net worth Ratio=  $\frac{\text{Total Fixed Assets} - \text{Depreciation}}{\text{Total Shareholder's Fund}}$*

*Total Shareholder's Fund*

**Table no:4.20**

#### **Net Fixed Assets To Net Worth (Shareholder's Fund) Ratio**

##### **SCBNL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Net Fixed Assets	117,272,258	137,292,540	118539974	106071182	89633207
shareholder's Fund	2,492,547,996	3,052,469,731	3,369,709,444	3,677,777,062	4,122,168,959
Net Fixed Assets to Net Worth	4.70%	4.50%	3.52%	2.88%	2.17%

##### **NABIL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Net Fixed Assets	598,038,998	660,988,986	781480397	941257815	894495291
shareholder's Fund	2,437,198,989	3,130,240,637	3,834,225,929	4,572,056,221	5,460,524,108
Net Fixed Assets to Net Worth	24.54%	21.12%	20.38%	20.59%	16.38%

### **HBL**

<b>F/Y</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Net Fixed Assets	795309700	952196395	1061870757	1187493049	1305364357
shareholder's Fund	2512991602	3119880537	3439205130	3995478273	4632010133
Net Fixed Assets to Net Worth	31.65%	30.52%	30.88%	29.72%	28.18%

Net Fixed Assets to Net worth Ratio of HBL has been highest during the first two years of review period. The SCBNL has lowest ratios during the entire review period.

The higher ratio means the lower return for the shareholders. The above table reveals that all the JVBs have limited their Net Fixed Assets to Net worth Ratio at adequate level. Banks being the non-manufacturing enterprises have the minimal investment of owners' equity in the fixed assets, hence it is advisable to HBL to further decrease its Fixed Assets to reduce their non-performing assets in order to maximize the return on shareholders' fund.

### **f) CAPITAL ADEQUACY RATIO (CAPITAL FUND TO TOTAL DEPOSITS)**

*Capital Adequacy Ratio=  $\frac{\text{Total Capital Fund (Shareholder's Fund)}}{\text{Total Deposits}}$*

*Total Deposits*

**Table no:4.21**

## Capital Adequacy Ratio (Capital Fund To Total Deposits)

### SCBNL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Shareholder's Fund	2,492,547,996	3,052,469,731	3,369,709,444	3,677,777,062	4,122,168,959
Total Deposit	29,743,998,794	35,871,721,127	35182721454	37999242310	35965630744
Shareholder's Fund to Total Deposit	8.38%	8.51%	9.58%	9.68%	11.46%

### NABIL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Shareholder's Fund	2,437,198,989	3,130,240,637	3,834,225,929	4,572,056,221	5,460,524,108
Total Deposit	31,915,047,467	37,348,255,840	46340700628	49608376346	54905676208
Shareholder's Fund to Total Deposit	7.64%	8.38%	8.27%	9.22%	9.95%

### HBL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Shareholder's Fund	2512991602	3119880537	3439205130	3995478273	4632010133
Total Deposit	31842789356	34681345179	37611202274	40920627030	47730993909
Shareholder's Fund to Total Deposit	7.89%	9.00%	9.14%	9.76%	9.70%

SCBNL & NABIL had maintained capital adequacy ratio ranging from 7.64 % to 11.46 % during the review period. HBL's ratios were lower ranging from 7.80 % to 9.76 %.

According to the unified directives of NRB-068/69, Commercial Banks are required to maintain core capital of 6% and Capital Fund of 12% on the basis of their risk weighted assets. Hence it is advisable to all JVBs to increase their Capital Fund to Total Deposits ratio further as prescribed by NRB.

However, extremely high or low capital adequacy ratio is not desirable in terms of lower return and lower solvency respectively.

#### 4.2.5 OTHER FINANCIAL INDICATORS

##### a) LOAN LOSS COVERAGE RATIO

##### (LOAN LOSS PROVISION TO TOTAL RISK ASSETS)

*Loan loss coverage Ratio=  $\frac{\text{Loan Loss Provision}}{\text{Total Risk Assets}}$*

*Total Risk Assets*

**Table no:4.22  
Loan Loss Coverage Ratio**

##### SCBNL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Provision for possible loss	69,885,338	56,634,631	208,251,274	82,739,161	76,974,254
Total Risk Assets	27738688401	34053170612	35923006267	35792024145	32603817311
Loan Loss Coverage Ratio	0.25%	0.17%	0.58%	0.23%	0.24%

##### NABIL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Provision for possible loss	64,055,186	45,722,434	355,829,115	109,470,414	413,948,680
Total Risk Assets	31304824746	38416312042	45869789896	51037303081	55682532689
Loan Loss Coverage Ratio	0.20%	0.12%	0.78%	0.21%	0.74%

##### HBL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
Provision for possible loss	6007608	68805514	692,640,089	471,728,863	505,491,167
Total Risk Assets	32837697267	33503845915	36425538925	40336915426	44997014359

Loan Loss Coverage Ratio	0.02%	0.21%	1.90%	1.17%	1.12%
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Table # 22 Loan loss coverage Ratio

Loan Loss Coverage Ratio of SCBNL was lowest during the first year of the study period. Its ratio was 0.58 % as compared to 0.78 % & 1.90 % of NABIL & HBL respectively. However, its loan loss coverage ratio increased in subsequent years, with the increase in non-performing risk assets.

### OTHER PERFORMANCE INDICATORS

In the process of analyzing the financial performance of JVBs, some of the important financial indicators have been examined below:

#### iii. Dividend Payout Ratio

$$\text{Dividend Payout Ratio} = \frac{\text{Cash Dividends per Share}}{\text{Earnings per Share}}$$

#### iv. Earnings Per Share

$$\text{Earnings per share} = \frac{\text{Profit after Tax}}{\text{Total No. of Shares}}$$

**Table no :4.23**  
**EPS, DPS, DP Ratio and BVPS**

#### SCBNL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
EPS	131.92	109.99	77.65	69.51	72.6
DPS	210	150	125	100	105
D P Ratio	62.82%	73.33%	62.12%	69.51%	69.14%
BVPS	402	328	241	228	256

## NABIL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
EPS	115.86	113.44	83.81	70.67	83.57
DPS	160	120	100	60	100
D P Ratio	72.41%	94.53%	83.81%	117.78%	83.57%
BVPS	354	324	265	225	269

## HBL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
EPS	62.74	61.9	31.8	44.66	39.94
DPS	70	55.56	48.68	53.68	41.84
D P Ratio	89.63%	111.41%	65.32%	83.20%	95.46%
BVPS	247.95	256.52	226.79	199.77	193

EPS of SCBNL is in decreasing trend. The EPS of SCBNL has been decreased in fiscal year 2065/66,2066/67,2067/68 . But it increased in 2068/69. The EPS of NABIL has also decreased in 2065/66, 2066/67 and 2067/68 but it increased in fiscal year 2068/69. The EPS of HBL is in fluctuating by year.

The DPS of SCBNL, NABIL and HBL is also decreasing each year. But the DPS of SCBNL is highest than that of NABIL and HBL. Dividend pay out ration of NABIL bank is highest 117.78 % in fiscal year 2067/68.

The above indicators tabulated and described above reflect the *strengths* and *weakness* of the JVBs selected for the study and shows the efficiency of these banks in maximizing the shareholders' wealth.

## 4.3 TREND ANALYSIS

(From Least Square Method)

This method is most widely used in practice. It is a mathematical method and with its help a trend line is fitted to the data.

In this section of analysis, trends of three basic financial indicators have been analyzed:

- Profit Before Tax;
- Loans & Advances; and
- Total Deposits.

These are very crucial financial variables with which we can relate the financial performance. So these indicators have been chosen. The trend of previous five years have been analyzed separately for each bank selected for the study, and the expected future trend for the period of next three years have been calculated for each JVB. This analysis would help to assess the better-performing-bank in the coming years.

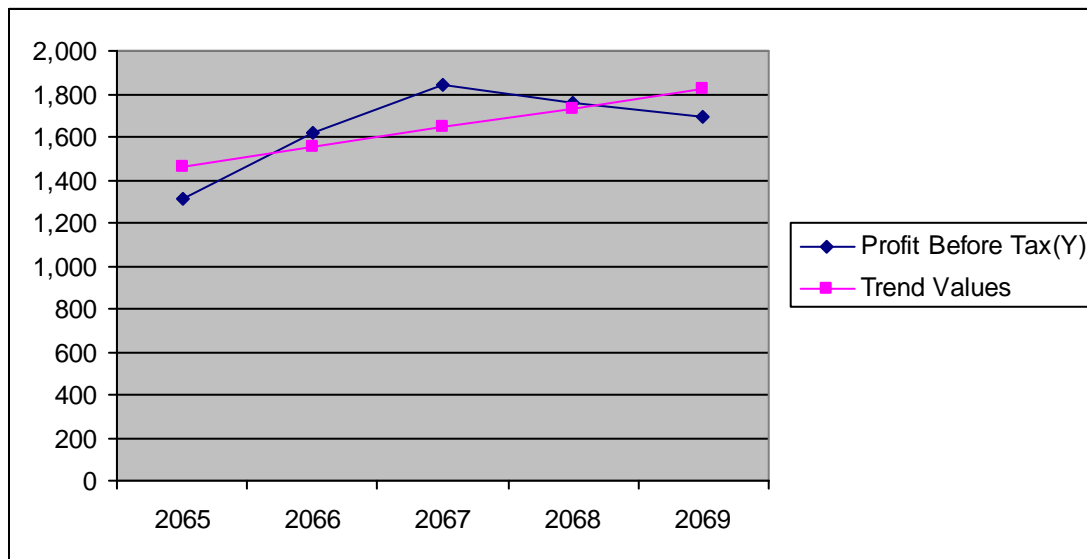
### 4.3.1 TREND ANALYSIS OF PROFIT BEFORE TAX

#### a) STANDARD CHARTERED BANK NEPAL LTD.

Table no:4.24

#### Trend Analysis- Profit Before Tax of SCBNL

Year (x)	Profit Before Tax(Y)	X=x-2067	X <sup>2</sup>	XY	Trend Values Yc=a+bX
2065	1,313	-2	4	-	1463.81
2066	1,614	-1	1	-	1553.69
2067	1,843	0	0	0	1643.57
2068	1,758	1	1	1758.156395	1733.45
2069	1,690	2	4	3380.007902	1823.33
<b>Total</b>	<b>Y=8,218</b>	<b>X=0</b>	<b>X<sup>2</sup>=10</b>	<b>XY =899</b>	<b>0</b>
					0
2070		3			1913.21
2071		4			2003.09
2072		5			2092.97



Graph # 11 Trend Line of Profit before Tax for SCBNL

Now,

$$a = Y / N$$

$$= 8218 / 5 = 1643.57$$

$$b = XY / X^2$$

$$= 899 / 10 = 89.9$$

On the basis of the above calculations, we can predict the future Profit before Tax of SCBNL.

The trend equation is  $Yc = a + bX$

When  $x = 2070$ ,  $X=3$ ,

Thus  $Yc = 1643.57 + 89.9 \times 3 = \text{Rs. } 1913.21$

When  $x = 2071$ ,  $X=4$ ,

Thus  $Y_c = 1643.57 + 89.9 \times 4 = \text{Rs. } 2003.09$

When  $x = 2072$ ,  $X = 5$ ,

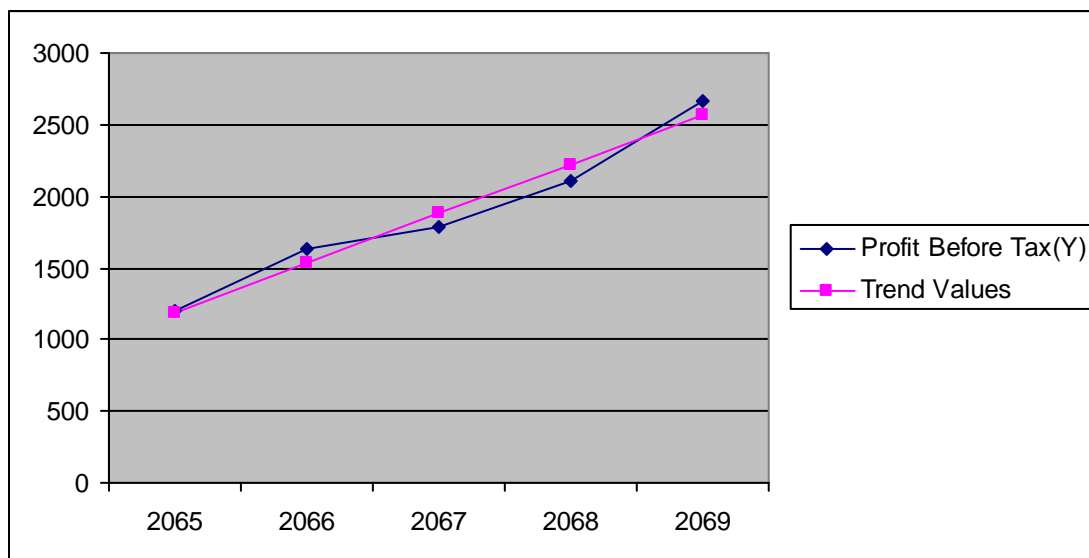
Thus  $Y_c = 1643.57 + 89.9 \times 5 = \text{Rs. } 2092.97$

### b) NABIL BANK LTD.

Table no:4.25

#### Trend Analysis- Profit Before Tax of NABIL

Year (x)	Profit Before Tax(Y)	$X = x - 2067$	$X^2$	XY	Trend Values $Y_c = a + bX$
2065	1198	-2	4	-2396	1193
2066	1627	-1	1	-1627	1536
2067	1789	0	0	0	1879
2068	2110	1	1	2110	2222
2069	2670	2	4	5340	2565
Total	$Y = 9,394$	$X = 0$	$X^2 = 10$	$XY = 3,427$	0
2070		3			2908
2071		4			3251
2072		5			3594



Graph # 12 Trend Line of Profit before Tax for NABIL  
Now,

$$a = Y / N$$

$$= 9394 / 5 = 1879$$

$$b = XY / X^2$$

$$= 3427 / 10 = 343$$

On the basis of the above calculations, we can predict the future Profit before Tax of NABIL.

The trend equation is  $Y_c = a + bX$

When  $x = 2070$ ,  $X = 3$ ,

Thus  $Y_c = 1879 + 343 * 3 = Rs. 2908$ .

When  $x = 2071$ ,  $X = 4$ ,

Thus  $Y_c = 1879 + 343 * 4 = Rs. 3251$ .

When  $x = 2072$ ,  $X = 5$ ,

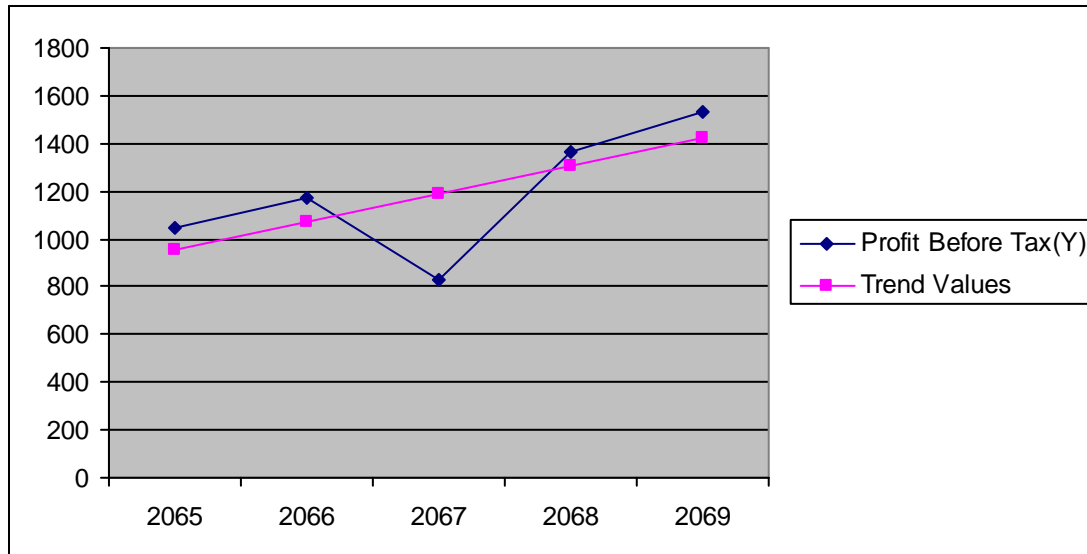
Thus  $Y_c = 1879 + 343 * 5 = Rs. 3594$ .

### c) HIMALAYAN BANK LTD.

Table no:4.27

#### Trend Analysis- Profit Before Tax of HBL

Year (x)	Profit Before Tax(Y)	X=x-2067	X <sup>2</sup>	XY	Trend Values Y <sub>c</sub> =a+bX
2065	1044	-2	4	-2088	956
2066	1173	-1	1	-1173	1072
2067	831	0	0	0	1188
2068	1362	1	1	1362	1304
2069	1528	2	4	3056	1420
Total	Y= 5,938	X=0	X <sup>2</sup> =10	XY =1,157	0
2070		3			1536
2071		4			1652
2072		5			1768



Graph # 13 Trend Line of Profit before Tax for HBL

Now,

$$\begin{aligned}
 a &= Y/N \\
 &= 5938 / 5 = 1188 \\
 b &= XY / X^2 \\
 &= 1157 / 10 = 116
 \end{aligned}$$

On the basis of the above calculations, we can predict the future Profit before Tax of HBL.

The trend equation is  $Y_c = a + bX$

When  $x = 2070$ ,  $X=3$ ,

Thus  $Y_c = 1188 + 116*3 = Rs. 1536$ .

When  $x = 2071$ ,  $X=4$ ,

Thus  $Y_c = 1188 + 116*4 = Rs. 1652$ .

When  $x = 2072$ ,  $X=5$ ,

Thus  $Y_c = 1188 + 116*5 = Rs. 1768$ .

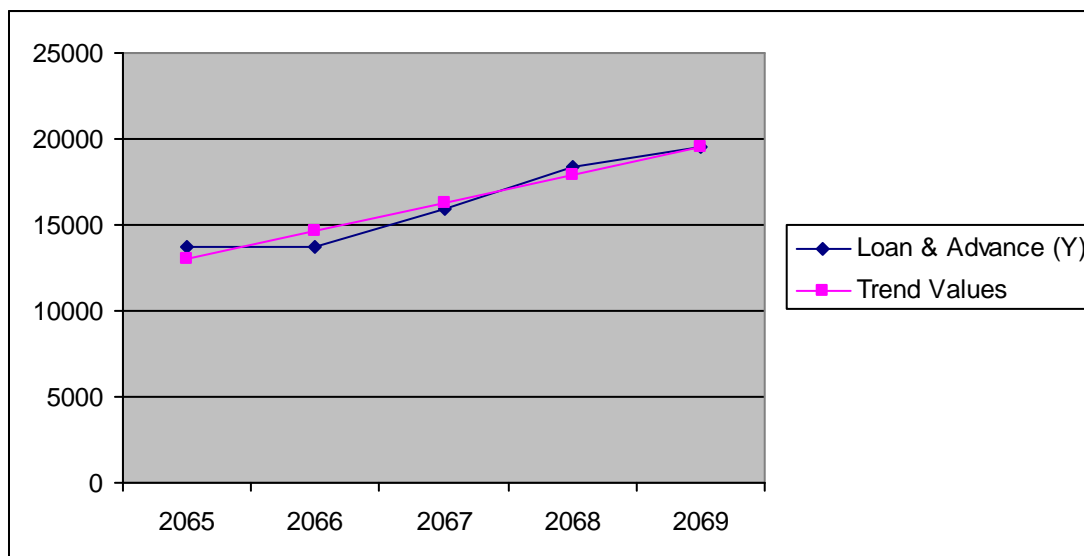
### 4.3.2 TREND ANALYSIS OF LOANS & ADVANCES

#### a) STANDARD CHARTERED BANK NEPAL LTD.

Table no:4.27

Trend Analysis- loan and Advances of SCBNL

Year (x)	Loan & Advance (Y)	$X=x-2067$	$X^2$	$XY$	Trend Values $Y_c=a+bX$
2065	13719	-2	4	-27438	12979.6
2066	13680	-1	1	-13680	14625.7
2067	15957	0	0	0	16271.8
2068	18427	1	1	18427	17917.9
2069	19576	2	4	39152	19564
Total	$Y = 81,359$	$X=0$	$X^2 = 10$	$XY = 16,461$	
2070		3			21210.1
2071		4			22856.2
2072		5			24502.3



Graph # 14 Trend Line of Loans & Advances for SCBNL

Now,

$$a = Y/N$$

$$= 81359 / 5 = 16271.8$$

$$b = XY / X^2$$

$$= 16461 / 10 = 1646.10$$

On the basis of the above calculations, we can predict the future Loans & Advances of SCBNL.

The trend equation is  $Y_c = a + bX$

When  $x = 2070$ ,  $X=3$ ,

Thus  $Y_c = 16271.8 + 1646.1 * 3 = Rs. 21210.1$ .

When  $x = 2071$ ,  $X=4$ ,

Thus  $Y_c = 16271.8 + 1646.1 * 4 = Rs. 22856.20$ .

When  $x = 2072$ ,  $X=5$ ,

Thus  $Y_c = 16271.8 + 1646.1 * 5 = Rs. 24502.30$

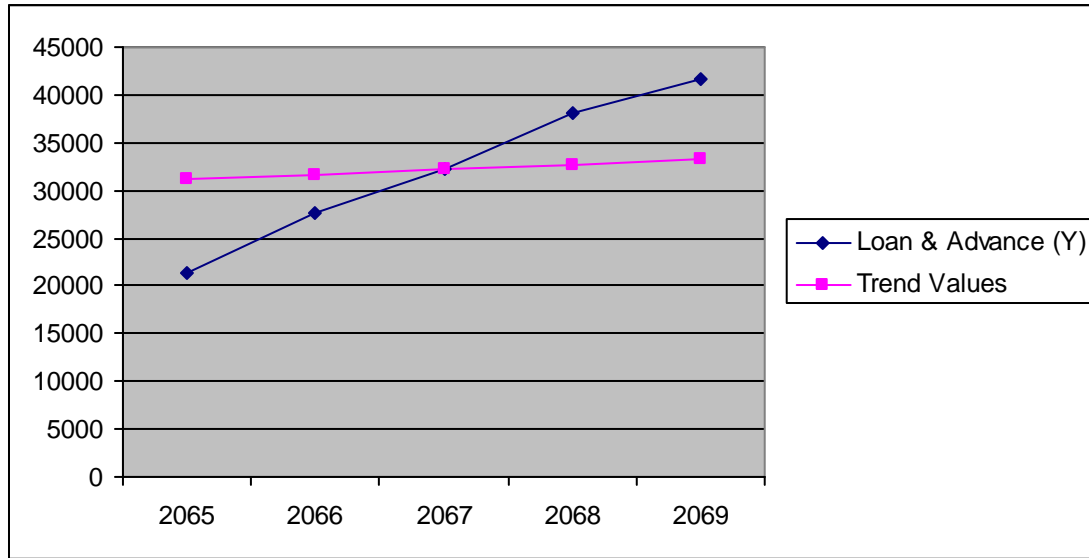
### b) NABIL BANK LTD.

Table no:4.28

#### Trend Analysis- loan and Advances of NABIL

Year (x)	Loan & Advance (Y)	$X=x-2067$	$X^2$	XY	Trend Values $Y_c=a+bX$
2065	21365	-2	4	-42730	31153.6
2066	27590	-1	1	-27590	31663.2
2067	32269	0	0	0	32172.8
2068	38034	1	1	38034	32682.4
2069	41606	2	4	83212	33192
Total	$Y=160,864$	$X=0$	$X^2=10$	$XY$	0

				=50,926	
2070		3			33701.6
2071		4			34211.2
2072		5			34720.8



Graph # 15 Trend Line of Loans & Advances for NABIL

Now,

$$a = Y/N$$

$$= 160864 / 5 = 32172.8$$

$$b = XY / X^2$$

$$= 50926 / 10 = 5092.60$$

On the basis of the above calculations, we can predict the future Loans & Advances of NABIL.

The trend equation is  $Yc = a + bX$

When  $x = 2070$ ,  $X=3$ ,

Thus  $Yc = 32172.8 + 5092.60 * 3 = Rs.33701.60$ .

When  $x = 2071$ ,  $X=4$ ,

Thus  $Yc = 32172.8 + 5092.60 * 4 = Rs.34211.20$ .

When  $x = 2072$ ,  $X=5$ ,

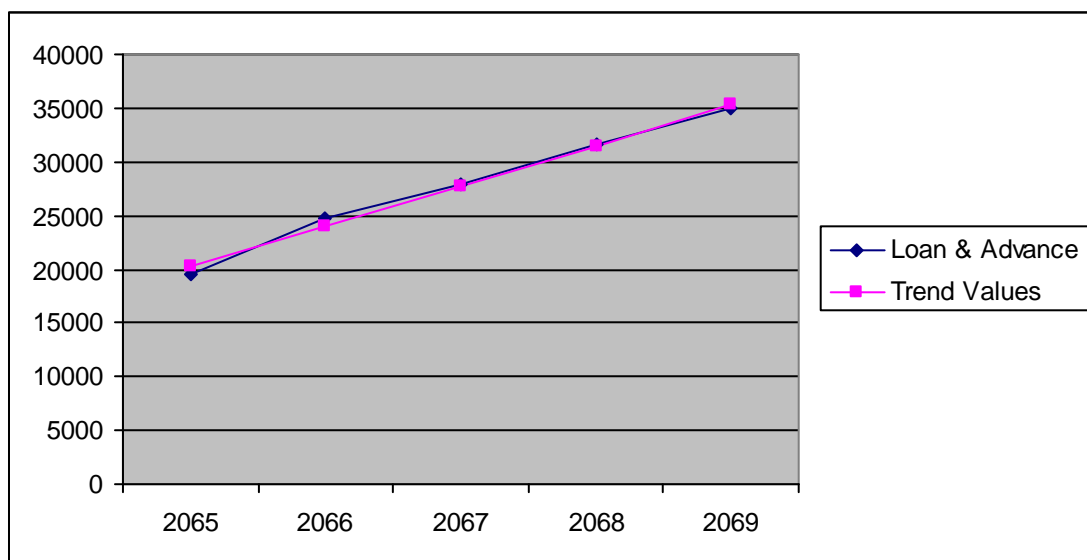
Thus  $Y_c = 32172.8 + 5092.60 * 5 = Rs.34720.80$ .

**b) HIMALAYAN BANK LTD.**

**Table no:4.29**

**Trend Analysis- loan and Advaces of HBL**

Year (x)	Loan & Advance (Y)	$X=x-2067$	$X^2$	$XY$	Trend Values $Y_c=a+bX$
2065	19498	-2	4	-38996	20219.2
2066	24793	-1	1	-24793	23990
2067	27981	0	0	0	27760.8
2068	31567	1	1	31567	31531.6
2069	34965	2	4	69930	35302.4
Total	$Y=138,804$	$X=0$	$X^2=10$	$XY=37,708$	0
2070		3			39073.2
2071		4			42844
2072		5			46614.8



*Graph # 16 Trend Line of Loans & Advances for HBL*

Now,

$$a = Y/N$$

$$= 138804 / 5 = 27760.80$$

$$b = XY / X^2$$

$$= 37708 / 10 = 3770.80$$

On the basis of the above calculations, we can predict the future Loans & Advances of HBL.

The trend equation is  $Y_c = a + bX$

When  $x = 2070$ ,  $X = 3$ ,

$$\text{Thus } Y_c = 27760.80 + 3770.80 * 3 = \text{Rs.}39073.20 .$$

When  $x = 2071$ ,  $X = 4$ ,

$$\text{Thus } Y_c = 27760.80 + 3770.80 * 4 = \text{Rs.}42844..$$

When  $x = 2072$ ,  $X = 5$ ,

$$\text{Thus } Y_c = 27760.80 + 3770.80 * 5 = \text{Rs.}46614.80.$$

### 4.3.3 TREND ANALYSIS OF TOTAL DEPOSITS

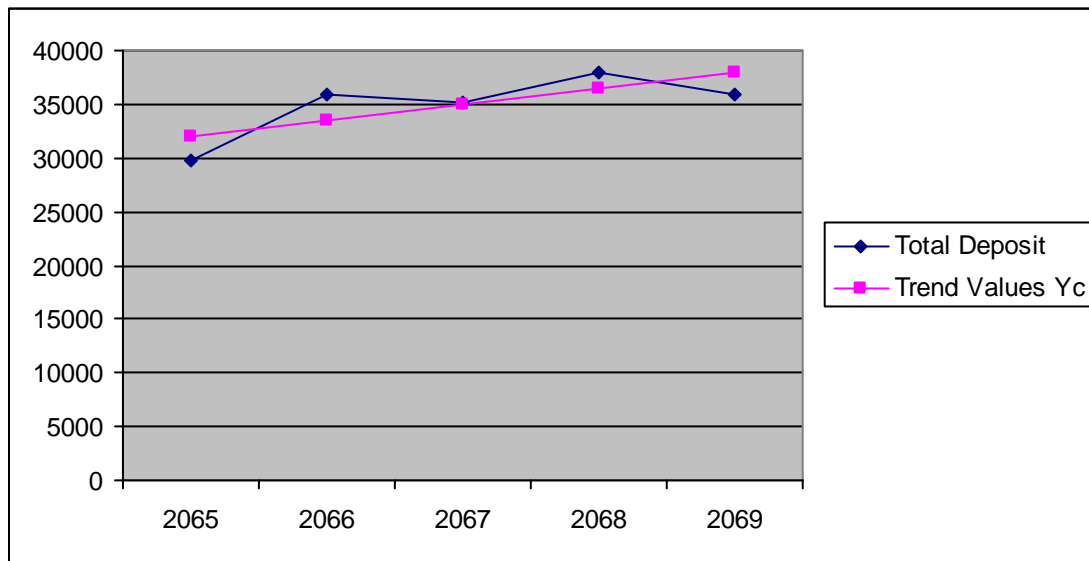
#### a) STANDARD CHARTERED BANK NEPAL LTD.

Table no:4.30

Trend Analysis- Total Deposit of SCBNL

Year (x)	Total Deposit (Y)	X=x-2067	X <sup>2</sup>	XY	Trend Values Y <sub>c</sub> =a+bX
2065	29744	-2	4	-59488	32038.6

2066	35872	-1	1	-35872	33495.7
2067	35183	0	0	0	34952.8
2068	37999	1	1	37999	36409.9
2069	35966	2	4	71932	37867
Total	<b>Y=174,764</b>	<b>X=0</b>	<b>X<sup>2</sup>=10</b>	<b>XY =14,571</b>	
2070		3			39324.1
2071		4			40781.2
2072		5			42238.3



*Graph # 17 Trend Line of Total Deposits for SCBNL*

Now,

$$a = Y / N$$

$$= 174764 / 5 = 34952.80$$

$$b = XY / X^2$$

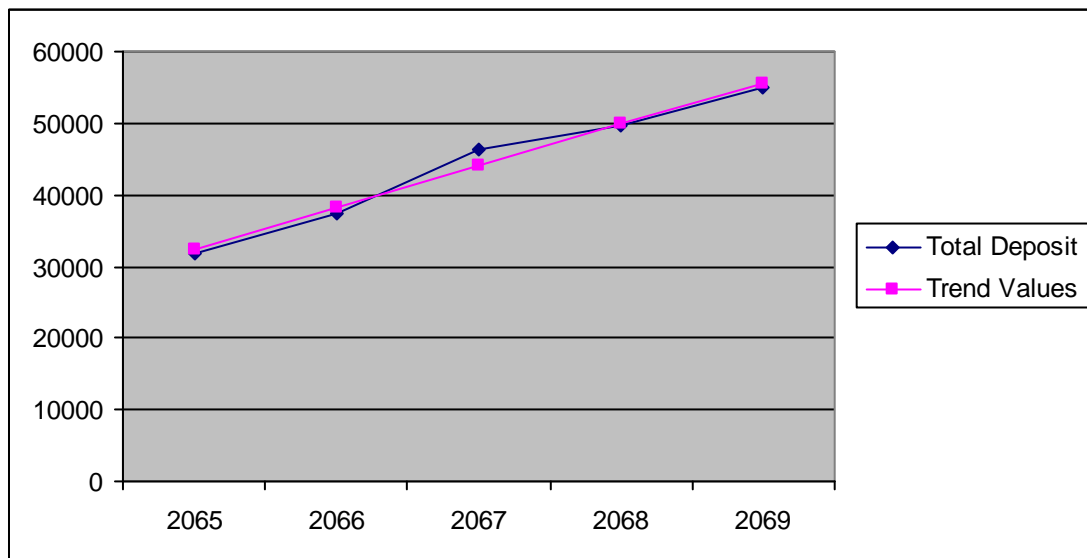
$$= 14571 / 10 = 1457.10$$

## **b) NABIL BANK LTD.**

**Table no:4.31**

### Trend Analysis- Total Deposit of NABIL

Year (x)	Total Deposit (Y)	X=x-2067	X <sup>2</sup>	XY	Trend Values Yc=a+bX
2065	31915	-2	4	-63830	32375.2
2066	37348	-1	1	-37348	38199.4
2067	46341	0	0	0	44023.6
2068	49608	1	1	49608	49847.8
2069	54906	2	4	109812	55672
Total	Y=220,118	X=0	X <sup>2</sup> =10	XY =58,242	0
2070		3			61496.2
2071		4			67320.4
2072		5			73144.6



*Graph # 18 Trend Line of Total Deposits for NABIL*

Now,

$$a = Y/N$$

$$= 220188 / 5 = 44023.6$$

$$b = XY / X^2$$

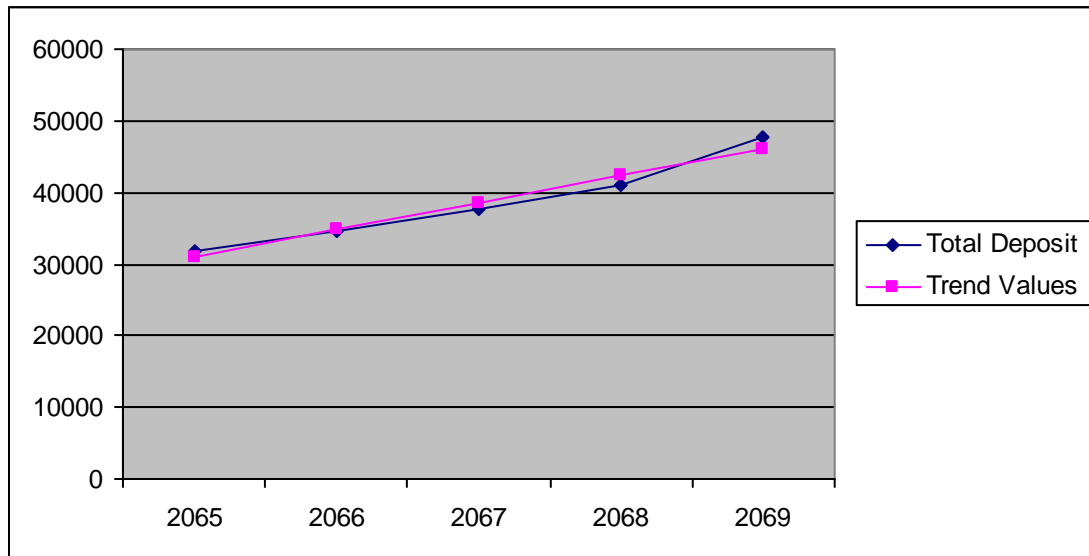
$$= 58242 / 10 = 5824.20$$

c) HIMALAYAN BANK LTD.

Table no:4.32

Trend Analysis- Total Deposit of HBL

Year (x)	Total Deposit (Y)	X=x-2067	X <sup>2</sup>	XY	Trend Values Yc=a+bX
2065	31843	-2	4	-63686	30954.2
2066	34681	-1	1	-34681	34755.8
2067	37611	0	0	0	38557.4
2068	40921	1	1	40921	42359
2069	47731	2	4	95462	46160.6
Total	Y=192,787	X=0	X <sup>2</sup> =10	XY =38,016	0
2070		3			49962.2
2071		4			53763.8
2072		5			57565.4



Graph # 19 Trend Line of Total Deposits for HBL

Now,

$$a = Y / N$$

$$= 192787 / 5 = 38557.40$$

$$b = XY / X^2$$

$$=38016 / 10 = 3801.6$$

The above trend analysis of *Profit before Tax, Loans & Advances and Total Deposits* is certainly helpful to find out the comparative *Strengths & Weaknesses* of the concerned JVBs. Further, this analysis would also help the Bankers and the concerned Banks in making strategies to improve their financial performance.

#### **4.4 MAJOR FINDINGS OF THE STUDY**

The major findings of this study has been summarized below-

- a) Comparative tabular presentation of Financial Highlights at the end of almost each year shows that general loan loss provision to total loan is highest for HBL as compared to SCBNL & NABIL. This might due to be the higher mobilization of deposits in Loans & Advances.
- b) Various activity of utilization ratios, such as Credit deposit ratio, Performing assets to Total assets ratio, Performing assets to Total debt ratio and Investments to Total deposit ratio were analyzed separately for the selected JVBs. Credit Deposit ratio of HBL stood highest at 77.14% as compared to 48.49% and 76.6% of SCBNL and NABIL respectively at the end of FY2067/68.
- c) The Total deposit trend of NABIL explains that its deposit is increasing each year and it will be Rs.73144.60. The Total deposits trend of HBL shows that the trend line almost fits with the actual Total deposits which have been increasing by NRs. 1795.42 million each year.
- d) In the trend analysis section, it is seen that HBL has been mobilizing a large portion of its Total deposits on Loans & Advances. The Loans & advances of

HBL is increasing by NRs. 1223.41 million every year as compared to NRs. 664.53 million & NRs. 599.14 million of SCBNL & NABIL respectively. The Loans & Advances of HBL has always been greater as compared to SCBNL & NABIL during this whole period under analysis.

- e) The analysis reveals that all the JVBs have limited their Net Fixed Assets to Net worth Ratio at adequate level. Banks being the non-manufacturing enterprises have the minimal investment of owners' equity in the fixed assets in order to maximize the return on shareholders' fund.
- f) The investments of all these JVBs are found to be more or less volatile. In some years, they are in the increasing trend whereas in other years, they are in the decreasing trend. The investment of SCBNL has decreased in fiscal year 2066/67, 2067/68 and 2068/69. Likewise, the investment of NABIL bank was in fluctuating trend.
- g) Other financial indicators like Earning per share (EPS), Dividend per share (DPS) and Book Value per share of SCBNL is found in the better position as compared to that of NABIL & HBL. The DPS of SCBNL & NABIL is in the increasing trend as compared to that of HBL, which is rather volatile.
- h) Among the leverage ratios analyzed, total debts to total assets ratios for each of the selected banks were above 88% for the whole period under study, which signifies the excessive use of debts or outsider's funds to finance the total assets. This shows that the selected JVBs are extremely levered. More specifically, the outsider's claim exceed far more than that of the owners over the bank's assets.

## **CHAPTER-FIVE SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

This chapter is the important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: Summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

### **5.1 SUMMARY**

A Bank is an institution, which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. To the greater extent, economic growth rate is based on the Banks and other financial institutions' performance in an economy. Many researches have revealed that Banks and economic condition are two wheels of the same chariot. Now-a-days, Banking activities are spreading all over the world. In the beginning of this thesis, there were onl 32 commercial banks operating in Nepal. Besides, some other development banks are in the process of their conversion into commercial banks and few other commercial banks are emerging too. This has led to the intense competition in the banking business. Only those banks providing better services and having a greater profit margin would survive in the long run. Joint venture Banks in Nepal were established with some specific objectives. Some of them are:

- | To welcome foreign investment in the country in the form of JVB's capital.
- | To mobilize the idle resources for income generating purpose in a most effective way.

- | To develop the Nepalese banking sector in order to make it proficient by sharing technical Foreign Service agreement with the help of expertise of the Nepalese personnel.

The primary objective of this study '*Comparative SWOT Analysis of Nepalese Joint Venture Commercial Banks*' is to highlight the hidden implications of the financial figures portrayed in the balance sheet and other financial data of the JVBS by interpreting their cause-effect relationships with regard to their financial performance and to identify their contribution in the National Economy. This analysis also helps to provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of their shareholders based on the findings of the study.

In second chapter, theoretical review as well as review of previous research has been made. Different views about Banks, theories about them, factors affecting the performance of the banks and so on are reviewed in that chapter. Review of different books related to finance, commercial banks and others has been done in the theoretical review section. Besides, review of some articles and journals has also been conducted in the same part. Review of various previous dissertations and some of the policy documents governing the Commercial Banks has been presented in the section of review of related studies.

Research design used is mainly analytical. Out of the total financial system, three Joint Venture commercial banks are chosen for sample purpose; mainly secondary data are used for the analysis. These are all done in the third chapter. Lastly, in the fourth chapter, collected data are presented in tabular and graphic form and analyzed using various financial and statistical tools.

## **5.2 CONCLUSIONS**

On the basis of the various studies and analysis conducted above, the following conclusions are reached out:

- i) Banks are primarily profit making organizations that provide a range of financial services to their customers. On the basis of the profitability, the selected JVBs are among the top five commercial Banks operating in the country, Standard Chartered Bank Nepal Ltd., being the top one. The profitability position of SCBNL & NABIL is better than that of HBL in terms of Return on total assets and total deposits.
- j) Interest incomes form the major portion of the total income in all these selected JVBs during this study period. Likewise, interest expenses cover the major portion of total expenses in these banks.
- k) During the study period, HBL is found to be the highest Deposit holding bank. In other words, Total deposits of HBL exceeded the other two banks under study, SCBNL & NABIL, in all of the years taken for this analysis. *In the trend analysis section*, it is noticeable that the Total Deposits for NABIL is in the decreasing trend. The Total deposits trend of NABIL explains that its deposit is increasing each year. The Total deposits trend of HBL shows that the trend line almost fits with the actual Total deposits which have been increasing year by year.
- l) NABIL has been seen to adopt the aggressive lending policy during the period of this analysis. It has been mobilizing a large portion of its Total deposits on Loans & Advances. The Loans & Advances of NABIL has always been greater as compared to SCBNL & HBL during this whole period under analysis.
- m) In case of all three JVBs, debt financing has always almost exceeded 90 % of the Total Assets over the review period, which indicates the excessively geared capital structure of these banks, which signifies the excessive use of debt to

finance Total Assets. The high 'Total Outsiders' Fund to Total Assets' ratio implies bank's success in exploiting debts to the more profitable assets. Since all the JVBs had been extensively using debt financing to the total assets, it can be concluded that these banks are highly levered.

- n) The analysis reveals that all the JVBs have limited their Net Fixed Assets to Net worth Ratio at adequate level. Banks being the non-manufacturing enterprises have the minimal investment of owners' equity in the fixed assets in order to maximize the return on shareholders' fund.
- o) The investments of all these JVBs are found to be more or less volatile. In some years, they are in the increasing trend whereas in other years, they are in the decreasing trend. This might be due to the instability in the political & economic situation of the country, which created an environment of chaos in the overall economy including the banking industry.
- p) Other financial indicators like Earning per share (EPS), Dividend per share (DPS) and Book Value per share of SCBNL is found in the better position as compared to that of NABIL & HBL. The DPS of SCBNL & NABIL is in the increasing trend as compared to that of HBL, which is rather volatile.
- q) The comparative *strength* of SCBNL is better as compared to NABIL & HBL as per data and as per the analysis done in the various sections. One the primary objective of the commercial bank is to maximize the profit. The SCBNL has dominated in this regard during almost the whole period of study except for one or two cases where NABIL took off. However, the profit before tax of all three banks is in the increasing trend.
- r) The loan loss provision of SCBNL has always been least (during the whole period under analysis) among these three selected Joint Venture Banks signifying that it has less amount of bad loans, which is obviously good for any

bank. This also proves the greater *strength* of SCBNL in mobilizing its deposits in the more beneficial manner.

- s) Since all the three Banks selected for study are among the top banks operating in Nepal, their relative financial strength is better in the economy as compared to the other banks. But while comparing these selected banks alone, SCBNL, NABIL & HBL can be ranked chronologically as banks with higher strengths and lower weaknesses. Opportunities & Threats are present in the external environment. It is very probable that the bank with higher strength can grasp excellent opportunities and avoid redundant treats present in the economy.

### **5.3 RECOMMENDATIONS**

Based on the analysis, interpretation & conclusions, some recommendations are made here so that the concerned authorities, future researchers, academicians, bankers can get some insights on the present conditions on above topics. It is assumed that this research will be profitable to improve the current situation as well as for the grounding of further researches. The major recommendations after this study are:

- a. NABIL & HBL are with excessive loan loss provisions as compared to SCBNL. Therefore, they are suggested to evaluate the financials of their borrowers in a more proficient way thereby identifying possibilities of risks prior granting the loans. This will help to decrease the volume of downgraded loans and finally the provisions will go down.
- b. Higher costs to income ratio in case of HBL and NABIL are the primary cause for the lower PBT (Profit before Tax). So, they should reduce operating costs to achieve the operational efficiency. Since by decreasing costs, profit of any

bank can grow considerably, they must search for loopholes in their operations where unnecessary costs are being incurred and should eliminate them.

- c. As Loans & Advances of HBL & NABIL are in the higher volume as compared to SCBNL, SCBNL should try to increase its credit portfolio by exploring the productive sectors. This will not only increase the weight of interest income from risk assets but will also facilitate in promoting the industries to develop the overall economic situation of the nation.
- d. In case of all three JVBs, debt financing has always almost exceeded 90 % of the Total Assets over the review period, which indicates the excessively geared capital structure of these banks. This shows the excessive use of debt to finance Total Assets. Nevertheless, extensive use of debts coupled with the failure in advancing good loans can jeopardize the solvency position of these banks. Therefore, it is suggested to the JVBs to assess the risk assets portfolio cautiously before accepting higher volumes of deposits.
- e. NABIL is suggested to increase its Deposits since the trend analysis depicts that NABIL's deposit is in the decreasing trend.
- f. Financial figures should show a consistency in their respective growths. The financial records observed in all these chosen JVBs are rather erratic. Therefore all these banks are suggested to predict a more accurate data in order to remain in the same position and to advance ahead.
- g. In order to generate more capital for the development of the economy, more deposit needs to be collected by the financial institutions. For this the selected JVBs are suggested to quote higher deposit interest rate as far as possible. Though this situation reduces their profit prospects in the short run, it will enhance the economic condition of the country in the long run.

- h. These JVBs should try to increase their gross spread so that they can afford to reduce the interest spread and the help the economy to achieve upper trends from the present recessionary situation. Gross spread can be increased mainly by:
- ) Decreasing the volumes of non performing assets;
  - ) Decreasing the volumes of down-graded loans, which results in lower volumes of loan loss provisions; and
  - ) Increasing the non-interest bearing external sources to compensate the interest bearing deposits, such as- current and margin deposits.
- i. Sample JVBs are also suggested to include their interest rate structure in their annual report. Further they are requested for the co-operation and sincere support to the research students.
- j. As this research work is primarily focused at the partial fulfillment of the Masters Degree program of T.U. and is prepared within the limited time frame, it can't be regarded as a masterpiece so it is suggested for further research.

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