"A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF JOINT VENTURE BANKS"

(With Special Reference to SCBNL and NABIL)

By

DURGA REGMI

Shanker Dev Campus

Campus Roll No: 1353/065

T.U Regd. No: 7-2-485-13-2005

2nd Year Symbol No: 390558

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirement for the Degree of

Master of Business Studies (MBS)

Kathmandu, Nepal

September, 2012

RECOMMENDATION

This is to certify that the thesis

Submitted by:

DURGA REGMI

Entitled:

"A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF JOINT VENTURE BANKS"

(With Special Reference to SCBNL and NABIL)

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

…….....	……..……	………..
Achyut Raj Bhattarai	Prof. Dr. Kamal Deep Dhakal	Asso. Prof. Prakash Singh Pradhan
(Thesis Supervisor)	(Head of Research Department)	(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce examination of the thesis presented

By:

DURGA REGMI

Entitled:

"A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF JOINT VENTURE BANKS"

(With Special Reference to SCBNL and NABIL)

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree in Business Studies (M.B.S.).

Viva-Voce Committee

Head of Research Department …….……..

Member (Thesis Supervisor) …..……..

Member (External Expert) …..……..…

DECLARATION

I hereby declare that the work reported in this thesis entitled **"A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF JOINT VENTURE BANKS" (With Special Reference to SCBNL and NABIL)** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Studies (M.B.S.) under the supervision of my thesis supervisor Achyut Raj Bhattarai of Shanker Dev Campus.

…..……

DURGA REGMI
Shanker Dev Campus
Campus Roll No: 1353/065
T.U Regd. No: 7-2-485-13-2005
2nd Year Symbol No: 390558

ACKNOWLEDGEMENT

I would like to extend my sincere gratitude to my respected supervisor Achyut Raj Bhattarai for his constrictive guidance, suggestion, timely supervision and kindly co-operation in completing of this thesis work. His guidance and helps has been a great source of encouragement and inspiration to me for bring out of this thesis.

I would like to extend my gratefulness to the professors and lecturers, staff of library and administration of Shanker Dev Campus. I also like to say thanks to the staff of NABIL Bank and SCBNL for their kind co-operation and providing a related data and lots of valuable information for completing of this thesis.

I would like to extend my heartily thanks to Pradip Khanal and Rishi Pokharel who directly support from beginning to ending by providing required material, guidance, valuable information, suggestion to completes the entire thesis. And also extend to my thanks to D.R. Pokharel. And other friends, relatives, well wishes who directly and indirectly support on the entire period of thesis preparation.

Finally, I would like to express my deep sense of indebtedness to my entire family members who inspired and support me in different ways to bring to this thesis in this shape.

Durga Regmi

Shanker Dev Campus

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

A.D.	:	Anno Domini
ATM	:	Automated Teller Machine
B.S.	:	Bikram Sambat
CD	:	Credit Deposit
C.V.	:	Co-efficient of Variation
CRR	:	Cash Reserve Ratio
DPS	:	Dividend Per share
e.g.	:	Exempli gratia
EPS	:	Earning Per Share
e.t.c.	:	Et Cetera
F/Y	:	Fiscal Year
FDI	:	Foreign Direct Investment
GOCB	:	Government Owned Commercial Bank
GDP	:	Gross Domestic Product
i.e.	:	That is
JVBs	:	Joint Venture banks
Ltd.	:	Limited
MVPS	:	Market Value per Share
NABIL	:	Nepal Arab Bank Ltd.
NEPSE	:	Nepal Stock Exchange
NPA	:	Non-Performing Assets
NPM	:	Net Profit Margin
NRB	:	Nepal Rastra Bank
P/E Ratio	:	Price-Earnings Ratio
ROA	:	Return on Assets
SCBNL	:	Standard Chartered Bank Nepal Limited
S.D.	:	Standard Deviation
S.N.	:	Serial Number

CHAPTER - I
INTRODUCTION

1.1 Background of the Study

Financial performance analysis can be considered as a heart of the financial decision. The growth and development of any enterprises is directly influenced by the financial policies. Rational evaluation of the financial performance of the financial management in public enterprise is too much involved in record keeping, raising necessary funds and maintaining relationship with the bank or other financial institutions. But financial aspect is one of the most neglected aspects of public enterprises in Nepal. However joint venture banks have analyzed financial performance for their corrective actions. But their analysis is limited within the banks themselves *(Srivastava; 2001:116)*.

Financial performance analysis as a part of the financial management is the main indicator of the success or failure of the firm. There are different persons/institutions that affect or are affected by the decision of the firm. Financial condition of business firm should be sound from the point of view of shareholder, debenture holders, financial institution and nation as whole.

Financial performance covers the financial analysis and other portfolio analysis of the banks under consideration. Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statements. The goal of financial analysis is to determine the efficiency and the performance of the firm's management as reflected in the financial records and reports *(Ojha; 2000:95)*.

Financial ratio has helped the researcher to make a qualitative analysis about the financial performance of the banks. The income and expenditure analysis is the percentage in relation to total assets or total sales, which has helped the researcher to study trends in financial statement items over time. Bankruptcy score is the statistical tool to predict the financial status of the firm with the help of the financial ratios.

A bank is a financial institution licensed by a central bank. Its primary activities include borrowing and lending money. Many other financial activities were allowed overtime. For example banks are important players in financial services such as investment funds. Banks are establishment for receiving the general public money on current, deposit, savings or other similar account repayable on demand.

Commercial banks are such financial institutions which mainly deal with the activities of trade, commerce, industry and agriculture that seek regular financial and other help from banks for growing and flourishing. The main objective of commercial bank is to mobilize idle resources in particular productive users after collecting them from scattered sources. Commercial banks as financial institutions transfer monetary sources from savers to users. They furnish necessary capital required for savings of the individual and institution. Normally banks play at public money therefore, they should pay more attention whether their money is properly utilized or not and is running at profit or loss. For the existence of the business firm, profit is the basic factor. A business firm becomes unable to provide its facilities in the long run if there is no profit. This profit can be distributed among the owners as dividend *(Pandey; 1999:205).*

Banks attract the inoperative saving of the public in the form of deposits. These deposits are maintained by banks as current accounts, saving accounts or fixed accounts according to the wish of their customers. Banks further invest these deposits or lend it to businessmen and traders for interest earning. Due to this function, bank is contributing a lot in boosting the economy of the nation in various activities of agricultural, commercial and industrial sectors. The commercial bank arranges the amount of foreign exchange required by various organizations and travelers. Moreover, foreign trade transactions are facilitating through the issuance of letter of credit. Locker facilities are also provided by banks to the customers to keep valuable ornaments and documents. Banks also provide references about the financial position of their customers as and when required. The bank works as an agent of its customers to receive and make payments, pay and collect rent, pay insurance premium, pay telephone bills etc. Internationally valid credit cards, debit cards and ATM cards are issued by commercial banks these days. Banks remit money from one place to another. Nowadays, banks perform wide verities of works.

The Banking System helps business entrepreneurs, industrialists and other people to get loan as they need. Therefore a Bank is an institution which accepts deposits from the public by providing with certain rate of interest and in turns advances loans to needy customers charging them certain rate of interest and earns some profit by doing this intermediation. Investment policy is one fact of the overall range of policies that guide banks investment operation. A healthy development of any bank depends upon its investment policy. A good policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. The commercial banks have several guided principles to provide loan such as profitability, liquidity, safety, purpose, length of time etc. These fundamental principles of commercial bank's investment are considered while making investment policy.

Effective and efficient fund mobilization and investment policy are two major factors for any developing country aspiring for a sustainable economic development. Investment activity is the one of the major activity of any financial institution because only deposit collection carries no meaning. The success and prosperity of the bank relies heavily upon the successful investment of collected resources to the important sectors of economy. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. Good investment policy has a positive impact on economic development of the country and vice versa. So, the investment policy of commercial banks should be in accordance with the spirit of the economic upliftment of the people.

There is much impression in the investment policies of commercial bank of Nepal, which affects their performance to the great extent. It becomes everybody's concern when their performance does not seem so satisfactory in terms of utilization of its resources efficiently in productive sectors. The study of commercial bank's investment policy focusing on interest rate structure, portfolio management and credit management will strive to disclose the internal weakness and furnish the ideas for improvement. Therefore the study has undertaken to study and analyze the performance of commercial banks especially joint venture banks and point out the defects inherent in it and provide package of suggestions for its improvement.

1.2 Focus of the Study

This study is focused on “A comparative study on financial performance of joint venture banks." The study mainly focuses the financial performance analysis of two joint venture banks: Standard Charted Bank Nepal Limited (SCBNL) and Nabil Bank Limited (NABIL).

1.2.1. Profile of Standard Chartered Bank Nepal Ltd.

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. The Bank enjoys the status the largest international bank currently operating in Nepal. An integral part of the only international banking Group currently operating in Nepal, the Bank enjoys an impeccable reputation of a leading financial institution in the country. Standard Chartered Bank Nepal Limited, offers a full range of banking products and services in Wholesale and Consumer banking, catering to a wide range of customers from individuals, to mid-market local corporate to multinationals and large public sector companies, as well as embassies, aid agencies, airlines, hotels and government corporations. The Bank has been the pioneer in introducing customer focused products and services in the country and aspires to continue to be a leader in introducing new products and highest level of service delivery. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the "Know Your Customer” procedure on all the customer accounts.

Table No. 1.1

Share Holding Patterns of SCBNL

Subscription	% Holding
Standard chartered Group	75
Nepalese Public Shareholders	25
Total	100

Source: Annual Report of SCBNL 2010/11

Table No. 1.2

Present Capital Structure of SCBNL

Share Structure	Amount (Rs.)
Authorized capital (20,000,000 share @ 100)	2,000,000,000
Issued capital (16101680 shares @ 100)	1,610,168,000
Paid up capital ((16101680 shares @ 100)	1,610,168,000

Source: Annual Report of SCBNL 2010/11

1.2.2. Profile of NABIL Bank Limited:

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services. Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele banking system.

Table No. 1.3

Share Holding Patterns of NABIL

Subscription	% Holding
Foreign Ownership	50.00
Other Licensed Institutions	6.15
Other Entities	10.00
General Public	30.00
Others (Including NIDC)	3.85
Total	100

Source: Annual Report of NABIL 2010/11

Table No.1.5

Present Capital Structure of NABIL

Share Structure	Amount (Rs.)
Authorized capital (21000000share @ 100)	2,100,000,000
Issued capital (20297694 share @ 100)	2,029,769,400
Paid up capital (20297694 share@ 100)	2,029,769,400

Source: Annual Report of NABIL 2010/11

1.3 Statement of the Problems

As we know Nepal is developing country and its economy is much depends on the agriculture. Most of the industries are based on the agriculture which provide employment opportunities and assist in improving national economy. Poverty has been a main problem in the country. Therefore, public enterprises are established but most of the public enterprises are not able to run in profit. Even though the government has given the subsidy to run public enterprises, they are not able to contribute to society at desirable rate.

In spite of full-fledge liberalization process conducted in Nepal, financial system faces a number of problems and challenges. Negative net worth and huge accumulated losses, higher proportions of NPA, high interest rate differential, large interest rate spread are the major ones. Nepalese banking industry is currently going through a phase of intense competition. Financial sector has really suffered because of the political and economical turmoil prevalent in the country. At present situation, country is facing poor performance in industrial, trading, tourism and in other fronts of the economy. The vicious circle of low income, low savings and low investment; which is the key factor responsible for low growth rate of the country enhances the need for vigorous efforts to increase the level of saving. The world economy has just recovered (some countries are still in the process) from the recession 2007-2009 that was mainly caused by failure of banking sector. Nepalese economy and banking sector cannot remain untouched from this devil in the present era of globalization. In the light of all above fact, the study is going to address following issues:

- How these banks have been managing their position relating to the liquidity?
- How these banks are being able to utilize the fund?

- In which way do these banks are managing to increase the value for sustainability or otherwise?
- What are the operational results to their profitability?
- What is the relationship between total deposit and total investment and between total deposit and loan and advance over the year?
- To what extent the operating profit is related to interest earned?

1.4 Objectives of the Study

The main objective of the study is to analyze, examine, compare and interpret the financial performance of joint venture banks (SCBNL and NABIL) of Nepal. To obtain the main objective following specific objectives are determined:

- To see the liquidity position to measure the strength of financial performance of selected banks.
- To see the activity and operation with reference to mobilization of the collected funds.
- To identify the relationship between total deposit and total investment and between total deposit and loan advance.
- To see the earning and profitability position of selected banks.
- To forecast the total deposit, total investment and net profit of selected banks.

1.5 Significance of the Study

Commercial banks are one of the major components of modern economy. They give greater contribution to GDP too. The production of finance and real-estate sub-sector is increasing comparatively. However, various financial sectors liberalization programmed such as SAP and ESAP has been initiated with the loan and assistance of World Bank, IMF and ADB. The banking sector continued to be in though in this situation too. The slowdown in the economic segments has a definite impact on the banking sector too. Globalization and accession to WTO, SAFTA and BIMSTEC membership has invited more challenges as well as opportunities. In addition, Branches of foreign companies already have entered the Nepalese market for modern services and wholesale banking since Jan.1, 2010.

At this situation, the commercial banks should be more competitive. They should become financially strength/healthy and must have growth potentiality. And they have to shape their plans and strategies accordingly. In such a situation, this study tried to analyze and indicate the overall financial health whether they are capable to compete the challenges and grab to opportunities or not. The government banks had their own originality and this originality had the deflationary impact on economic and commercial activities. The traditional way of operations, hyper dependencies on paper work, lack of sophisticated banking system, unskilled and inexperienced bankers etc. were the features of these banks. In this context, there is a great challenge to them to adopt modern banking practices using sophisticated technology. So they have now great challenge to improve their way of operation and financial performance to be side by side with private banks.

Hence, the study endeavors to evaluate the financial performance of joint venture banks by using various measures of financial and statistical tools. This study will be valuable to shareholders, stock brokers, management of the banks, depositors, perspective customers, investors, government and other policy making bodies which are concerned with banking business. Especially shareholders will have keen interest in how these banks are performing, whether their fund are better utilized or not. In terms of profitability, safety and liquidity all investors will be interested in the performance of the banks. This study, thus, also tries to recommend some suggestions for improvement in financial performance.

1.6 Limitations of the Study

Every study has its own limitations. This study is also not an exception. The following are the main limitations of the study:

- The study is carried out on the basis of the published financial documents such as balance sheet, P/L accounts, related journals, magazines and books. These published documents have their own limitations.
- The study considers only past five years data i.e. 2006/07 to 2010/11.
- The study analyses only financial aspects leaving cost and management aspects out of the banks.

- The study is mainly focused on the financial performance of the SCBNL, NABIL among various joint venture banks.

1.7 Organization of the Study

For the systematic presentation of the report, the research is divided into following five chapters:

Chapter-1: Introduction

It includes general background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter-2: Review of Literature

It contains conceptual review, review of related books, journals & articles, and past research works.

Chapter-3: Research Methodology

This chapter expresses the way and technique of the studying applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and methods of analysis.

Chapter-4: Presentation and Analysis of Data

This is the main body of research. In this chapter, collected and processed data are presented, analyzed and interpreted with using financial as well as statistical tools.

Chapter-5: Summary, Conclusion and Recommendation

It includes summary of whole study, main conclusion that flow from the study, and offers suggestions & recommendations for the improvement in future.

Recommendation sheet, Declaration, Acknowledgement, Table of contents, List of table, List of figure, Abbreviation has been included at the beginning of this report where as bibliography and appendixes have been included at the end.

CHAPTER - II
REVIEW OF LITERATURE

The review of literature is a crucial aspect of planning of the study. This chapter highlights the concept and review of existing literature that is available and related with this particular topic. Several books, dissertations, research papers, report, journals are review while preparing the review.

Review of the literature is focused and directed towards specific purposes. It is a selective subject. A researcher has to select the kind of literature to be reviewed and determine the purpose. It starts with the selections of a problem for research, continues through the various stages of the research process and end with report writing. Reviewing different available literature from various source are the major objective of this chapter. The prime focus for collecting external literacy information through various textbooks, research journals and research thesis.

2.1 Conceptual Framework

2.1.1 Historical Background of Bank

History shows the requirements of economic development of any country heavily dependent upon the banking system of the country. During its industrial development period, U.K. used bank credits to fulfill its working capital need. In 19th century, during the industrialization process of France and Germany, banks played an important role in industrial finance and growth of the nation. In general meaning, bank is an institution that deals with money. A bank performs several financial, monetary and economic activities, which are vital for economic development of a country. It is a monetary institutional vehicle for domestic resource mobilization of the country that accepts deposits from various sources and invests such accumulated resources in the fields of agriculture, trade, commerce etc. Generally, the term “Bank” refers to commercial banks. Commercial banks are the foundation of the national economy. They transfer monetary sources from savers to users. They involve in various functions like money creation, credit facilitating, foreign trade facilitating, safe keeping etc. Commercial banks have their own roles and contributions in the economic development. They are sources of economic development and they

maintain economic confidence of various segments and extend credits to the people. Thus, activities of commercial banks are to eliminate poverty, reduce unemployment problems and increase economic growth.

Modern commercial banks can be identified by different names, such as business banks, retail banks, clearing banks, joint venture banks and merchant banks etc. Regardless of the 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, there who do not have surplus money but wish to borrow for investment in productive purpose. Basically, by charging a rate of interest to borrowers slightly higher than they pay to lenders, banks make their profit. This is known as financial intermediary. Commercial banks provide the following major products and services:

Acceptance of deposits
Granting of advances
Remittance collection and distribution
Cash management
Issue of letters of credit and guarantee
Merchant banking business
Credit cards
Technology based services-internet banking services
Loan distribution
Authorized teller machines (ATM)
Handling government business
Safe keeping services/lockers

The first public bank "The Bank of Venice" was established in Italy in 1157 A.D. Different countries in the world followed the footsteps of this bank to incorporate banking institutions in their countries. The evolution of "The Bank of England" in the Kingdom of England in 1694 A.D. brought remarkable changes in the process of establishing banking institution in the world. The establishment of this bank was a big milestone in the history of banking development. It is believed that the idea of

commercial bank rapidly spread all over the world only after the inception of this bank. *(Munakarmi; 2002:41)*

On 30th Kartik, 1994, Nepal Bank Limited was established for the first time to provide modern and organized banking facilities. Up to B.S. 2012, only NBL provided services to the public as an organized bank. Later, NRB act 2012 was made to establish NRB as a central bank to manage, control and develop monetary system in Nepal. NRB was formally established on 14th Baisakh, 2013 and its capital at the starting time was 1 Core. Similarly, Rastriya Banijya Bank was set up in B.S. 2022 to fulfill the growing needs of the country. The birth of this bank brought a new landmark in the history of banking facility in Nepal. Like other developed countries, Nepal also took the policy to open and liberal economy to develop a good competition in the banking field. Hence, the joint venture banking policy was taken. Today 32 commercial banks are operating to provide modern banking services and facilities to boost the economic condition of the country.

The financial sector reform was initiated in mid-1980 under the liberal economic policy of government of Nepal. Under this policy; government first opened the banking sectors to foreign investors. In July 1985, commercial banks were allowed, for the first time to accept current and fixed deposits on foreign currency (U.S dollar and sterling pound). On May 26, 1986, NRB deregulated the commercial banks to fix interest rate at any level above its minimum prescribed levels. *(www.nrb.org)*

2.1.2 Concept of Commercial Bank

Commercial banks are those banks, which perform all kinds of banking functions as accepting deposits, advancing credits, credit creation and agency functions etc. They provide short-term credit, medium-term credit and long term credit for trade and industry. They also operate off-balance sheet functions such as issuing guarantee, bonds, letter of credit etc. In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries as they are considered as the main source of finance.

Without the development of sound commercial banking, underdeveloped countries cannot hope to join the rank of advanced countries. If industrial development requires the use of capital, the use of capital equipment will not be possible without the necessary capital. Industrial development will be impossible without the existence of market for the goods produced. On the other hand, the services of the commercial banks will help to extend the market. The commercial banks play important roles as follows:

- Help in business expansion
- Encourage to industries.
- Necessary for trade and industry.
- Transfer of surplus funds to needy
- Promotion of capital formation.

Commercial banks are those banks, which work to commercial viewpoint and perform all kinds of banking functions as accepting deposits, agency function. They provide short-term credit, medium term credit and long term credit to trade and industry. They also operate off-balance sheet functions such as issuing guarantee bonds, letter of credit etc. "Commercial bank" means a bank which operates currency exchanges transaction, accepts deposits, provide Loans, performs, dealing relating to commerce except the banks, which has been specified for the co-operative, agricultural, industry of similar other specific objective *(Nepal commercial Bank Act 2031 B.S).*

A financial institution authorized to provide a variety of financial services, including consumer and business loan (generally short term), credit cards, and saving accounts (www.definition of commercial bank). The commercial banks are those banks that pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means *(Srivastava; 2001:38).*

Commercial bank acts as an intermediary accepting deposits and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and as such they specialize in satisfying the short-term credit needs of business other than the long-term commercial banks are restricted to invest their funds in corporate securities. Their business is

confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant credits in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and Cheque safe keeping of valuables, financial advising etc to their customers.

Joint venture banks are the commercial banks firmed by joining the two or more enterprises. They are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantage by performing joint investment scheme between Nepalese investors, financial, non-financial institutes as well as private investors, their parent banks, which have been experienced highly mechanized and efficient modern banking management skill and international of banking institutions. Joint venture banks are established by joining two different forces and with ability to achieve common goal with each of the partners. They are more efficient and effective monetary institution in modern banking fields than other old types of bank in Nepalese context. The primary objective of the joint venture banks is always to earn profit by investing or granting the loans and advances to the people associated with trade, business, industry etc. That means they are required to mobilize their resources properly to acquire profit.

Joint venture is a joining of force between two or more enterprises for the purpose of carrying out a specific operation (Industrial and commercial investment production or trade. *(Hilton and Ronald; 2002:15)*

All the Nepalese JVBs are established and operated under the rules regulation and guidance of Nepal Rastra Bank. Nepal Bank had issued a certain directive to those banks, regarding the mandatory credit accusation to the priority sector, the Nepal Rastra Bank has directed to the government owned banks to invest 3% and the JVBs to invest 0.05% of the total outstanding credit to the priority sector.

“Nepal government’s deliberate policy of allowing foreign JVBs to operate in Nepal is basically targeted to enhance and encourage local, traditionally run commercial bank to enhance their bankable capacity through competition efficiency modernization and mechanization via computerization and prompt customer service".

Now days, there is much competition in banking market but less opportunity to make investment. In this condition, joint venture bank can take initiation in search of new opportunities, so that they can survive in the competitive market and earn profit. But investment is very risky job. For a purposeful, safe and profitable outcome, investment bank must follow sound investment and fund mobilizing policy.

2.1.3 Function of Commercial Banks

Commercial Banks are the important type of financial institution for the nation in term of aggregate assets. The business of banking is very broad in modern business age. The number and variety of services provided by commercial bank will probably expand. Recent innovation in banking includes the introduction of credit cards, accounting services in banking business firms, factoring, and leasing participation in the Euro dollar market and lock-box banking.

The function of commercial banks can be defined as accumulation of idle funds from several area and disburse the fund. They provide short-term credit, they offer several kinds of short- term investments, they serve as a fiduciary, they provide consulting services in cash management and other fields, they may provide as brokerage function that permits customers to buy and sell securities like commercial papers, bond and stocks, and they can offer some kinds of insurance. The following sections discuss some of these functions in more brief *(Hilton and Ronald; 2002:25).*

2.1.3.1 Depository Function

Banks offer several types of depository accounts. There are two basic types of depository accounts, time and demand. For time deposits, the cash in the account receives interest and must be held in a bank for a specified time period. Demand deposits may be withdrawn at any time by the account holder or other party on presentation of a valid draft or cheque drawn on the account.

2.1.3.2 Collection, Concentration, and Disbursement Functions

Banks serve as clearing house for cheque. When a firm receives a cheque in payment for some good or service, the firm deposits the cheque in a bank. The bank gives there firm credit for the cheque and returns the cheque to the bank on which it was drawn.

Banks also serve as initiating receiving points for wires and automated clearing house transfers.

After cash has been collected in one bank, the cash balance generation is usually concentrated or pooled into a larger account at a centralized bank. Banks offer a number of services to assist firms to concentrating their cash. On the outflow side, disbursement cheques sent to vendors are drawn on banks.

2.1.3.3. Short-Term Credit Function

Banks provide financing to corporations to help meet short-term cash needs. Since banks take in cash in the form of short-term deposits, they in turn led cash primarily in the form of short-term loans. The short-term loans may be as the form of a credit line, revolving credit line, and term loans acceptance financing, letter of credit etc.

2.1.3.4 Investment Function

In addition to be the interest-bearing deposits mentioned, commercial banks provide other opportunities for cash managers to invest short-term funds. They are major brokers of notes and bonds, government agency securities, and municipal notes and bonds. They also sell bank commercial paper and deal extensively in repurchase agreements.

2.1.3.5 Fiduciary Function

Many banks are empowered to operate a trust department. Banks that provide trust services invest, manage and distribute money as requested in wills, trusts, estates and retirement plans. A trust department may be appointed to serve as a corporate trustee or overseer for a corporate bond or preferred stock issue. The bank monitors compliance with indenture agreements, ensures that the corporation pays interest to the bondholders, and redeems bond as required by the agreement. In addition, a bank may serve as a transfer agent to deep records of the sale and purchase of a corporations stocks and bonds, or as a registrar to maintain lists of current stockholders and bondholders for the purpose for remitting dividend and interest payments.

2.1.3.6 Consulting Services Function

Large banks generally offer consulting services, especially in the area of cash management. Such services are used in designing optimal collection, disbursement and concentration systems.

2.1.3.7 Brokerage and Insurance Function

Banks were permitted to purchase brokerage firm to help their customers buy and sell stocks and bonds. The law states, however, that a bank can own only a discount brokerage firm one that performs transactions but does not give investment advice. Additionally, banks can now offer certain types of insurance to bank customers *(Pandey; 1999:32).*

2.1.4 Joint Venture Banks in Nepal

In generally, When two commercial banks, from different countries joint together to form an independent enterprise, it is called as joint venture bank. It can be said as the force between two or more enterprise for the purpose of carrying out specific operation such as industrial or commercial investment, production or trade. In Nepal, the foreign commercial banks have been formed under the company act 1964 and operated under the commercial bank act 1974.All Nepalese Joint Venture banks are operated under the rules, regulations and guidance of Nepal Rastra Bank.

Joint Venture banks pose a serious challenge to the existence of inefficient any very traditional banks. But the same challenge can be taken by domestic banks as an opportunity to modernize themselves and sharper their competitive zeal *(Sharma, 1998:37).* Joint venture banking scenario of Nepalese financial sector is not so long. After the establishment of democratically elected government, it introduced liberal and market oriented economic policy which facilitated the establishment of joint venture banks and introduced a new horizon to the financial sector of Nepal.

Joint venture banks are the commercial banks formed by joining a two or more enterprises, for the purpose of carrying out of specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods and services.

Nepalese JVBs should take initiation in search of new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but there seems no profitable place to invest. At the same time, the bank and financial institutions are offering very low deposit interest rate. In this situation Nepalese JVBs are required to explore new opportunities to make investment if they want to survive in the competitive market. Since commercial banks can inspire entrepreneurship, the banks should also consider national interest and government emphasis for the economic growth of the country by the development of industry trade and business and to fulfill the objective of profit making.

2.1.5 Role of the Joint Venture Banks in Nepal

Joint venture banks pose a serious challenge to the existence of the inefficient native banks. But the same challenge can be taken by the domestic banks as an opportunity to modernize themselves and sharpen their competitive zealous. At present the financial institution of the country has been effortful to mobilize resources on one hand whereas small traders and entrepreneurs are facing difficulties to receive loans on the other. The only solution of this problem is to encourage competition in the banking sector. Therefore, the policy of allowing new commercial banks under joint venture with foreign collaboration has been adopted. This will promote competition among banks whereby the clients will get improved facilities. In addition, the share of these new banks will also be sold to the general public and while distributing the share, it will be ensured that the ownership is spread out to the maximum extent possible

In such manner, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promote and expand export-import trade and introduce new techniques and technologies. The various roles plays by the joint venture banks in Nepal can be classified into three categories

I. Introducing Advanced Banking Techniques

The joint venture banks in Nepal have been largely responsible for the introduction of new banking techniques such as computerization, hypothecation, consortium finance, fee based activities and syndicating under the foreign exchange transactions by

importers and exporters, merchant banking, inter-banking market for the money and securities, arranging foreign currency loans etc.

II. Bringing Healthy Competition

The introduction of joint venture banks also brings the benefit of healthy competition of which the main beneficiaries are the bank customers and the economy. The increase in competition also forces the existing banks to improve their qualities of services by simplifying procedures providing training and motivation to their own staff to respond to the new challenge.

III. Introducing Foreign Investment in Nepal

When looking at the possibility of investing in Nepal, multinational companies are unfamiliar with the local rules, regulations and practices though there are many systems actually operating during the implementation period. In this context, the joint venture banks help the multinational companies to build up their confidence for investment by providing necessary information and financial support.

Hence, the joint venture banks play the pivotal role for the economic development of country by providing various new financial services to modernize traditional Nepalese banking system *(Ojha; 2000:39).*

2.1.6 Meaning and Concept of Financial Performance Analysis

Financial performance depends on the individual projects, the financing institution, and the general conditions of the capital market. Financial performance is designed to determine the relative strengths and weakness of a company which would help to evaluate financially sound and profitability relative to other companies it also helps to analyze financial position of the company is improving or deteriorating over time. Investors need such information in order to estimate future cash flows of the company and to evaluate the risk of these flows. "Managers need to be aware of their company's financial position in order to detect potential problems and to strengthen weakness" *(Weston and Brigham; 1987:259).*

Financial analysis is the key tool for financial decision and starting point for making plan before using sophisticated forecasting and budgeting procedures. The value of

this approach is the quantitative relation that can be used to diagnosis strengths and weakness in company's performance. "Financial performance is the main indicator of the success or failure of a company. The focus and significance of financial statement is to show the relationship that exists between them" *(Khan and Jain; 1999:41).* "Financial performance analysis involves the use of various financial statements. The financial statements contain summarized information of company's financial affairs, organized systematically by the top management. These statements are used by investors and financial analysis is to examine the company's performance in order to make investment decision*" (Pandey; 1999: 293).*

Financial statement is prepared from the accounting records maintained by the company. They disclose financial information of a company during a financial year and explain what has actually happened and dividend over the past few years, in the form of income statement and balance sheet.

2.1.7 Factors Affecting Financial Performance Analysis

Securing financing is a major obstacle in developing a hydro project, and the efforts involved should not be underestimated. In this section, several questions affecting the choice of financial performance are discussed. The principle question is:

Should the project be financed by using house funds, by co-development with a financial strong partner, by ordinary banks loans secured against the developer's assets or property, or by limited resource project financing? Risk, revenue, and control of the project are all closely related to the financial arrangements. The developer's financial resources are the first things to consider. A financially strong developer can use in – house fund or ordinary bank loans. This gives a large degree of control over the projects, which may be an important consideration, particularly if the project is a part of the developer's core activity. With fewer financial resources, the developer must look for other sources of financing. The size of the debt component is important when considering limited resource project financing of hydro projects. The high arrangement costs make small projects unattractive to project lenders. However limited – resource project finance ought to be available for projects in the upper segment of hydro, 5 – 10 MW. Co – development with a financially strong partner may be the only option for financing a hydro project. At an early stage, the developer should consider possible partners for co – development.

It may be worth approaching companies that are involved in the operation of hydropower. Such companies are well qualified to judge the feasibility of the project and will already process much of the expertise necessary for developing the project in house. Management of the project risks is another important consideration. In general, a high level of debt means a high cash-flow risk. Debt service has first claim on project earnings. The developers will receive revenue only if there is a surplus after interest and repayments. The size of financial obligation is important if the project is a failure. If the project fails, the Developer in the case of in – house funding or ordinary bank loans carries all the losses. Using the same methods as in limited resources project financing can mitigate much of the risk. However, the developer should consider the consequences if the project is a failure. In project finance, the cash flow risk is higher, but the involvement is limited. In non – resource projects the involvement is limited to the equity. In a limited resource project the developer has accepted additional undertakings, but the involvement is still limited. The developer will have to pay a price for reducing the risk. The arrangement costs are high and third parities accepting a risk will require a premium. The developer's desire to control the projects is also affected by the financial arrangements. With a high degree of equity control of the project will remain with the developer. With much unsecured debt the financiers will control the project until it has been repaid. If control over the projects development is important to the developer, he must accept larger financial involvements.

2.1.8 Advantages of Financial Performance Analysis

The financial performance is used to evaluate the financial analysis and position of a business. Preparations of the financial statement are used by investor and financial analysis to examine the firm's performance in order to make investment decisions.

There is no doubt the financial performance are powerful tools in analyzing the firm's financial statement. The advantage of financial performance is used to identify the financial strength and weakness of the company. It is used to identify the opportunity and threat of the company. Financial performance analysis is a process of evaluating the relationship between components of the financial statement to obtain a better understanding of a company's position and performance *(Pandey; 1999: 308)*.

2.1.9 Disadvantages of Financial Performance Analysis

Globally, the financial performance is widely used to evaluate the financial structure analysis and position of a business. But there are certain disadvantages in using financial ratios. The analysts should be aware of these problems. The following are some of the disadvantage of financial performance analysis. The financial performance analysis of a firm cannot determine if there is no basis of comparison for the particular financial ratio. There must be two or more than two companies to identify ratio for strength and weakness of the company in the market. If, we go for comparison between the financial situations of two companies, the result may not be valid. It is because the situation under which one company is being operated may differ from that of the company *(Pandey; 1999: 310).*

2.1.10 Limitations of Financial Performance Analysis

The financial performance is widely used to evaluate the financial analysis and position of a business. But there are certain problems in using ratios. The analysts should be aware of these problems. The following are some of the limitation of financial performance. There is no doubt the financial performance are powerful tools in analyzing the firm's financial statement. However, they should be used with extreme care and the analyst must work with his/her judgment because they suffer from some serious limitations. The basic problem associated with financial performance is the lack of underlying theories to help us identifying which quantities to look at and which standard to use. In addition, some specific limitation of financial performance is as follows:

- **Requires Basis of Comparison**

The financial performance of a firm cannot determine if there is no basis of comparison for the particular financial ratio. For example, we cannot say that the net profit margin of percent is good or bad .It has to be compared against the financial performance of similar firm

- **Different in situation of two firms**

When we go for comparison between the financial situations of two firms, the result may not be valid. It is because the situation under which one firm is being operated

may differ from that of the firm, similarly, the situation of a firm itself may be different at different point of time.

i. Change in price level

Generally the different accounting figures drawn out from financial statement for financial analysis are expressed in terms of their monetary value, which are assumed to remain constant. But in practice, prices do not remain constant as they go on changing as per price level changes.

ii. Short – term changes

Ratios if not calculated frequently, may suffer from short – term changes. Ratios once calculated and analyzed may have to be adjusted as soon as the condition, under which the firm is being operated, change. This creates problem for an analyst, as he has to frequently involve in ratio calculations and analysis.

iii. No indication of future

The basis concern of any analyst is the futurity of financial analysis is s/he has to determine the firm's financial position and performance in future. But as ratios are calculated on the basis of past accounting information, it results into what happened in past rather than what is going to happen in future.

As a matter of fact, ratio merely services quantitative information, the user of ratios need to understand certain qualitative aspect of the firm being analyzed. Therefore at the time of interpretation, the analysts need not to forget the qualitative aspect of raw financial data *(Pandey; 1999: 312).*

2.1.11 Analytical Technique Used on Financial Performance Analysis

Four analytical tools are used in widespread in analyzing financial statements.

2.1.11.1 Horizontal Analysis

Horizontal analysis is the analysis of financial statement over a series of years. The calculation of changes in absolute amount or percentage changes in the statement item or total is horizontal analysis. When the financial statement of previous year along with current year are presented horizontally with added columns to reflect absolutely

changes in amount and percentage for each item from the previous year to current year, it forms the horizontal analysis *(Wagle & Dahal, 2004:102).* For example, assume that the sales figure of previous year and current year amounts to Rs. 200000 and Rs. 300000 respectively. This can be reflected in comparative income statement as:

Table 2.1

Horizontal Analysis of Financial Statement

Items	Previous year	current Year	Increase/ Decrease	
			In Amount (Rs.)	In %
Sales	200000	300000	100000	50%

2.1.11.2 Trend Analysis

Trend analysis is nothing more than the extension of horizontal analysis for several years. It is carried out by assigning a value of 100 to the items of base year (Year with normal financial and operating environment) financial statements and then expressing the financial statements items in the following years as a percentage of base year value. it is also known as time series analysis *(Wagle and Dahal; 2004:102).*

Trend ratios involve a comparison of the ratios of a firm over time that is present ratios are compared with post ratios for the same firm. Trend ratios indicate the direction of change in the performance-improvement, deterioration or constancy-over the years. Trend analysis is the comparison over the three or more years *(Hilton & Ronald, 2002:920).*

2.1.11.3 Common- Size Statement Analysis

Common size analysis is a vertical analysis. It expresses all items in the statement as percentage of a selected item (the base) in the statement. Financial statement that shows only percentage and no absolute amounts are common-size statements. This is the first step in a comprehensive ratio analysis. Management performance can be evaluated through common-size statement analysis. It should be evaluated from the prospective of liquidity, profitability and stability, activity & possibility management itself can be using these parameters to improve the organization's performance of future. It is also known as vertical analysis. Financial analysts use vertical analysis to

gain insight into the relative importance or magnitude of various items on the financial statements *(Hilton & Roland, 2002:921).*

2.1.11.4 Ratio Analysis

Ratios are the tools for measuring liquidity, solvency, profitability and management efficiency of the firm and it is equally useful to the internal management, prospective investors, creditors, outsiders etc. An analysis of the firm's ratios generally is the first step in financial analysis *(Weston & Brigham; 1990:93).* Ratio analysis uses financial report and data summarizes the key relationship in order to appraise financial performance. The effectiveness will greatly improve when trends are identified, comparative ratios are available and inter-related ratios are prepared. *(Munakarmi; 2002:468)*

Ratio analysis is widely used tool of financial analysis to interpret the financial statement so that the strength and weakness of a firm as well s its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two items/variables. The relationship can be expressed as; percentage, fraction and proportion of numbers. Alternative methods of expressing items, which are related to each other, are for the purpose of financial analysis referred to as ratio analysis. A rationale of ratio analysis lies in fact that makes related information comparable. Single figure by itself has no meaning but when expressed in items of a related figure it yields significance instances *(Khan and Jain, 1996:60).*

Ratio analysis is a tool of scanning the financial statements of the firm. Through this one comes to know in which areas of the operation the organization is strong and in which areas it is weak. Ultimately, ratio analysis is a tool of scanning the financial statement of the firm.

2.2 Review of Related Studies

2.2.1 Review of journal and Articles

Gautam (2004) wrote an article, "*WTO and challenges of Financial Services Liberalization*," Nepal Rastra Bank Samachar 49th Anniversary edition 2004. In this article the author has caste highlight on Nepal's entry into WTO and its challenges to

financial services. Nepal has become 147th member of world trade organization (WTO). Nepal has liberalized different sectors gradually. It is for sure that Nepal has to face various challenges, especially, in the financial sector.

The financial services has been liberalized and reformed well enough during the last 20 years. Nepalese financial sector presently enjoys the full liberalization. There is no special difficulty in this sector in regard to the membership of WTO. The membership in WTO opens many alternatives gates such as perfect venue for dispute settlement, easy access to the markets of 147 countries of the world, product- wise and country-wise diversification and greater opportunity in the similar markets of the countries with similar geographical and economical situation. In fact, Nepal is continuously facing some structural and supply side problems including weak technological adaptability, lack of skills and poor infrastructure. These challenges can be categorized as per their cause and relationship.

- Future Direction and speed of Financial sector reform
- Restructuring and reengineering of Nepal Rastra Bank
- Formulation and implementation of Legal Frameworks
- Financial policy and political Stability

The technical problems of the country should be addressed so as to take benefit from the open and competitive, market. Strong mechanisms should be designed in financial services sector so as to meet growing challenges.

It is a fact that Nepal is landlocked by India and China; therefore, it would be another challenge to explore a good access to growing economics of neighboring countries and to get easy access in their huge market will be our strength to explore the space in competitive market and to sell our services. Otherwise, the challenges will remain out of competence letting us lose the contest. In conclusion, Liberalization in service sector is inevitable. We cannot escape from the ground reality of globalization, wide spread acceptance of WTO and necessity of membership in this international trade institution. It should not be opposed to hide our inefficiencies or governance problems. Rather it is a right

Time to find out the impacts continue and finish the reform process making the services sector really competitive. Otherwise, we will lose the opportunity. Reform

and liberalization does not mean a cartel, therefore, a fair competition should be ensured in financial services sector. Similarly, transparency and disclosure practices are must for the growth and development of financial services sector.

Yadav (2006) in his articles *"The growing trend of consumer banking"* in Business Age summarized some newly adopted policy by the commercial banks in favors of consumer. While long-term investment opportunities remain uncertain in the country, the Nepalese banks are starting to diversity the loans in order to reduce excess liquidity and other financial risks. Nepalese banks are moving towards a new era of banking so that the relatively recent concept of consumer banking is swiftly becoming popular and flourishing among the middle to high national jobholders private companies to corporate houses and national to multinational companies. The banks are offering all kind of personal as well as commercial facilities. These days, Nepalese banks are coming up with new products and consumer package on a regular basis. They are increasing collaborating with the international banks too, embracing their banking models, learning lesson from their traditional and latest concept and keeping up to data with the new technologies coming in, hence giving added facilities to the consumers too, Nepalese bank, rapidly expanding their reach through the country are expanding their service hours keeping the customer's convenience in mind.

Thapa (2008) in his articles *"Nepal banking system: can on the mess be managed*" in journal stated that the joint venture banks have been earning a huge profit not from fund based lending but from investing outsides. That is why, there banks have been less interested to lending aggressively in the domestic market. Economics activities have slowed down in Nepal for several years; however, commercial banks have not lowered their lending rate to revitalize the economy. On the contrary, the commercial banks have been discouraging the deposit to get rid of excess liquidity. In addition, new avenue that is investing aboard has been opened for the commercial banks to earn profit rather than motivating then to invest locally.

Ali (2011) published an article on the topic, *"Practical Implication of financial performance Theories: Empirical Evidence from Banks of Pakistan",* in journal *and* finds that banking sector of Pakistan offers a number of financial facilities to

corporate and individual users. Along with its number of financial products and services banking sector of Pakistan is often considered as the backbone of the economy. He suggests that mainly two directions can be explored within future research. Firstly cross-sectional study can be attributed on the financial and non-financial industries in the economic segment of Pakistan and secondly is to testify the implication of capital structure theory across different industries.

Shaka (2011) published an article, *"Training Manual on Fund Raising and Resource Mobilization for Charities and small NGO."* in journal. The work of NGOs in developing countries is vital to millions of people. However, fund-raising for these organizations is particularly difficult, for numerous reasons:

- There is often great competition among numerous local groups for scarce local financial resources.
- International funders are reluctant to fund community-based NGOs "directly", because of a perception of lack of accountability, difficulty in establishing credible references, practical issues with resource transfers, and numerous tax questions.
- Some community-based organizations lack what donors regard as the necessary prerequisite structure for being able to process donations, financial or otherwise.
- For many organizations, this becomes a "Catch 22": resources would permit the necessary administrative changes to become more donors rule-compliant, but they cannot get those resources without making the changes

2.2.2 Review of Related Thesis

Jha (2001), in his thesis entitled "*A Comparative Study on Financial Performance of NGBL and NSBL",* has pointed out following objectives.

- To evaluate liquidity position of both the banks.
- To analyze comparative financial performance of both the banks.
- To study the comparative position of both the banks.
- To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows:

- Liquidity position, in terms of cash and bank balance to total deposit, of NGBL is found to be higher than that of NSBL.
- The loan and advance ratio of NSBL is higher than NGBL which implies that NSBL is successful in utilizing the outsider's fund.
- Long term debt to total assets of NGBBL is slightly higher than NSBL which implies more use of long term debt.
- Earnings per share mid -dividend per share ratio of NSBL is very low in comparison to NGBL.

Pradhan (2004), in his thesis entitled *"A comparative study on financial performance of HBL and SCBNL"* has pointed out following objectives.

- To analyze comparative financial performance of both banks.
- To evaluate liquidity position of both banks.
- To identity the relationship between interests earned and operating profit.
- To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows:

- Current ratio of both the banks is below the standard; this might affect the liquidity position of these banks.
- SCBNL's loan and advances to total deposits ratio are significantly lower than that of HBL.
- SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan and advances.
- HBL is strongly recommended to increases it's earning per share and dividend per share to keep investors within the bank.

Sadula (2007), in his thesis entitled *"Financial performance of commercial banks and returns to investors: With special reference to BOK, EBL, SCBNL, NIBL, NABIL"* has pointed out following objectives:

- To evaluate Liquidity position of these banks.
- To analyze comparative financial performance of these banks.
- To study comparative position of selected banks.

- To offer a package of suggestion to improve the financial performance

Major findings of this study are as follows**:**

- Commercial Bank except SCBNL and NABIL are not maintaining constant DP Ratio, It is recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders.
- Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

Upreti (2007) has conducted a study on *"A comparative study of financial performance of NIBL, HBL, SCBNL and EBL".* The specific objectives of this study are as follows:

- To study the present of the four joint venture banks.
- To do the comparative study about the financial performance of these banks with regard to-their profitable liquidity, efficiency and capital structure.
- To provide recommendation and suggestion on the findings to improve financial performance of these banks.

Major findings of the study are as follows:

- Among all the sample banks, HBL has the lowest ratio and EBL has not mobilized its assets into profit generating projects.
- SCBNL has been successful in earning more net profit by the proper use of its available assets.
- EBL with the highest ratio has been successful in generating more interest by the proper use of its available assets.
- EBL and HBL seem to have held more cash and bank balance rather than other commercial banks.

Bhattarai (2008), in his thesis entitled, *"A Comparative Analysis of Financial Performance of NABIL, NIBL and SCBNL"* has pointed out following objectives:

- To evaluate the liquidity position to measure the strength of financial performance of NABIL, NIBL and SCBNL.
- To evaluate the activity and operation with reference to mobilization of the collected funds.
- To analyze price earning, market value to book value per share and dividend payout.
- To evaluate the earning and profitability position of selected banks.
- To identify the relationship between total deposit and total investment.
- To identify the relationship between interest earned and operating profit.

The major findings of this study were:

- Among all the sample banks, NIBL has the lowest ratio of net profit to total assets. NABIL has been successful in earning more net profit by the proper use of available assets.
- NABIL's solvency position is better than NIBL and SCBNL.
- EPS of SCBNL is the highest than other selected joint venture banks.
- SCBNL with the highest DPR refers that bank provides maximum amount of dividend to its shareholders.
- NABIL bank has been paying highest amount of staff expenses as salary, allowance and gratuity funds to its staff.
- NIBL has the highest price earnings ratio.

Subedi (2009) has conducted a study on *"Financial Performance Analysis of NABIL, HIMALAYAN, EVEREST, and STANDARD CHARTERED banks.* The specific objectives are as follows.

- To identify and analyze the common variables to measure the performance of selected commercial banks.
- To assess the financial performance of the commercial banks.
- To analyze the investment returns of commercial banks.
- To trace the stock price movement with special reference to the performance of the company.

The major findings of this study are as follows:

- From the analysis of current ratio it is found that the mean of ratio of EBL is higher than that of NABIL, SCBNL and HBL. It means EBL has maintained the higher liquidity and lower risk in compare to other banks.
- The mean ratio of cash and bank balance to current assets and mean rario of cash and bank balance to total deposits of NABIL is lower than SCBNL, HBL and EBL. It states that the liquidity position of NABIL is poorer than that of SCBNL, HBL and EBL and the ratio of NABIL is more variable than that of other three banks.
- Mean ratio of loan & advances to total deposit and mean ratio of loan and advances to total working fund of EBL is higher than that of NABIL, SCBNL & HBL. In case of CV EBL has least value in comparision to other banks.
- The average EPS of SCBNL is the highest and that of HBL is the lowest. Similarly the standard deviation of NABIL is highest and HBL is the lowest. The coefficient of variation of these banks shows that there is an above moderate level of fluctuations in the EPS.
- SCBNL has the highest average DPS and EBL has the lowest. The C.V indicates that among the banks under study during the period no bank has the highest consistency in paying dividend whereas the DPS of NABIL and HBL are highly fluctuating.
- From the Correlation coefficient of MPS with EPS it is seen that there exist high degree of positive correlation in NABIL, SCBNL, HBL, and EBL. Such an increasing value of MPS with EPS is healthy indicator of the financial activities of companies in the least development countries like Nepal. But the value of 'r' is less than six times P.E. in case of HBL. This states that there is not significant. In case of NABIL, SCBNL and EBL the value of 'r' is greater than 6P.E. which shows that correlation coefficient is significant for respective banks.

Maharjan (2010) has conducted a study on *"A Study on Financial Performance of Standard Chartered Bank Nepal Limited"*. The specific objectives of this study are as follows:

- To analyze liquidity, leverage, profitability and ownership ratios of the bank.

- To examine the income and expenditure statements of the bank.
- To identify the deposit and loan and advances.
- To provide suggestions and recommendations based on the findings of the analysis

The major findings of this study are as follows:

- SCBNL has the highest current ratio of 1.08 in 2006/08 to 2008/09 and the lowest current ratio of 1.07 in 2004/05 and 2005/06 with an average current ratio of 1.075 during the study period 2004/05-2008/09. The current ratio analysis of the bank over the five years period indicates that the bank is able to meet its short- term obligations and has sound liquidity position.
- The cash and bank balance to current asset ratio of SCBNL varies from maximum is 7.76% in year 2008/09 and minimum is 4.97% in year 2005/06 with an average of 6.22% during the study period of five years. The analysis indicates that the cash and bank balance proportion with respect to the current assets is in erratic trend.
- The loan and advances to current asset ratio of the SCBNL varies from maximum of 41.30% in year 2007/08 and minimum of 33.82% in year 2008/09 with an average of 36.83% during the study period of five years. The analysis indicates that the loans and advances disbursement respect to the current asset is fluctuating.
- Fixed deposit is the high interest bearing deposit and can be withdrawn only after its maturity. The total deposit ratio of SCBNL varies from maximum of 19.80% in year 2008/09 to minimum of 7.33% in year 2004/05 with an average of 12.09% during the study period of five years. The analysis indicates that the share of fixed deposit is low in the total deposit. The low share of fixed deposit in the total deposit shows decreasing trend.
- The interest earned to total assets of the bank varies from maximum of 4.94% in year 2006/07 to the minimum of 4.62% in year 2005/06 with an average of 4.76% during the study period of 5 years. The analysis indicates that the bank has the high debt equity ratio, which means the creditors have invested more in the bank than the owners.

- Net profit to total deposit ratio indicates the percentage of profit earned by using the total deposit. The net profit to total deposit of the bank varies from maximum of 2.86% in year 2005/06 and 2008/09 to the minimum of 2.75% in year 2007/08 with an average of 2.81% during the study period of 5 years.
- Correlation coefficient is one of the statistical tools used to find out the relationship between two variables. The correlation coefficient between total deposit and loan and advance is 0.9804. It means there is high degree positive relation between deposit and loan and advance. By application of the coefficient of determination, it indicates that 96.00% of the variation in the loan and advances has been explained by the deposit. Moreover by considering the probable errors, the value of r (0.9804) is greater than 6P.E. (0.06), so it can say that there is significant relationship between deposits and loan and advances.

Lohani (2011) has conducted a study on *"A Comparative Study on Financial Performance Analysis of Commercial Banks."* The specific objectives of this study are as follows:

- To analysis the financial performance of sample banks in terms of liquidity, profitability, growth, leverage and capital adequacy.
- To explore the relationship of financial performance of thee commercial banks.
- To examine the trend of financial performance of three banks.
- To analyze financial strength and weakness of three banks.
- To provide suggestions and possible guidelines to improve the performance based on the findings of the study.

The major findings of this study are as follows:

- The three banks liquidity position (except current ratio and quick ratio which lies under the standard of 2:1 and 1:1 respectively) is good and in comparison NIBL has better liquidity position. But Nabil has to improve the liquidity position as compared to NIBL & HBL.

- The mean ratio of total investment to total deposit of HBL is higher than NBL &NIBL. The variability of ratios of NBL is lower than HBL & NIBL because NBL has lower CV than other two sample banks.
- NBL has the mean ratio of return on total assets is greater than NIBL & HBL. This indicates that the profit of Nabil bank is better than that of NIBL and HBL over the study period. However, the higher coefficient variation of HBL reveals that the net profit of HBL is not consistent might be a problem for the bank.
- From the analysis of mean and CV of different Assets Quality Ratios, we conclude that loans and advances granted by the HBL are riskier than two banks. Similarly, Loan Loss coverage ratio, loan loss provision to total income and loan loss provision to total deposit ratios are more consistence in NIBL than that of HBL & Nabil.
- The interest coverage ratios of NBL, HBL and NIBL are 3.03, 2.01 and 1.97 respectively. The income of HBL is even less than the interest paid to its depositors hence, obtained the ratio less than unit. On this point Nabil bank is generating a better level of earnings than NIBL & HBL.
- The average MPS of NBL is higher than NIBL & HBL. Similarly, the coefficient of variation of HBL is less than NBL & NIBL. This shows that HBL is more consistent than NIBL & NBL. It can be seen that average NWPS of NBL is the higher than NIBL &HBL. Similarly, the coefficient of variation of HBL is less than NBL & NIBL. This shows that HBL is more consistent than other two sample banks.
- The average EPS of NBL is the higher than NIBL & HBL. Similarly, the coefficient of variation of HBL is less than NBL & NIBL. This indicates that HBL is more consistent than NIBL & NBL. The average DPS of NBL is higher than NIBL & HBL. The C.V. indicates that HBL is more consistent than NBL & NIBL in DPS.
- In correlation analysis, Karl Pearson's coefficient of correlation is used and also calculated the probable error of them. Total deposit and loan & advances, total deposit & net profit, Loans and advances & net profit, Performing assets & Net profit, total deposit & performing assets all are positively correlated at significant level in Nabil, NIBL and HBL.

2.4 Research Gap

Joint Venture Banks invests its deposit in different profitable sector according to the directives and circulars of the Nepal Rastra bank and guidelines and policy of their own bank. Financial analysis statement has to prepare according to direction of NRB. Nepal Rastra Bank's policy and guidelines are changing according time. Therefore, the up to date study over the change of period is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial data and analysis is done within the latest guidelines and curriculum of Nepal Rastra Bank.

Many studies have been conducted about the performance analysis of banks incorporating two banks. There have been found few studies regarding on the performance analysis of joint venture banks. Some comparative studies are previously done with regards to the financial analysis of banks but in depth study about the bank is not found. To fulfill the need of financial analysis of banks, the researcher has put his efforts in this study. This study put its effort to analyze the main indicators of financial performance with financial and statistical tools for banks. Hence, this study fulfills the research gap about the “Performance of Banks and returns to Investors”. This study will be different from the above in-terms of sample companies, data presentation as well as statistical used for interpretation and analysis of data.

Most important point to remember about performance analysis is that every financial measure should be compared across time and across over same line of companies to be meaningful. Banks as a service-organization, only few financial ratios would be sufficient to compare the performance, however different sources and different analyses use different lists or combination of financial ratio analysis. Prior research has been conducted on the basis of traditional financial ratio analysis. The value of the approach was quantitative relations. The world is becoming more dynamic and subject to rapid changes. This study will be based upon the modern approaches to financial analysis; in which comparable group approach and include consideration of economic and strategic factors where feasible. Even the study will base upon those core indicators especially related with banking sector as well as it will compares across time and across same line of banks. Thus, the study will be an interest to a wide range of its stakeholders and other government regulatory interests.

CHAPTER - III
RESEARCH METHODOLOGY

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. In other words, research methodology describes the methods and process applied in the entire of the study. It is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his/ her research problem along with the logic behind them. Thus, this deals with the research design, nature of procedures and tools of analysis.

3.1 Research Design

A research design is the plan structure & strategy of investigation. It is the arrangement of condition purpose with economy in procedure. It is a blueprint for the collection measurement and analysis of data. "Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do form the writing the hypothesis and their operational implications to the final analysis of data" *(Kerlinger, 1986:275).*

The present research tries to analyze the comparative financial performance of private and government commercial banks in the present e-generation. The research followed analytical and descriptive research design. The study was based on most recent financial data provided by the concerned banks i.e. the data become secondary sources to the research work. Comparative data of six commercial banks have been presented in such a way, so as to make the research informative to the readers. Financial as well as statistical tools were used to analyze and interpret.

3.2 Population and Sample

Population covers the whole or total of observation that have been selected for the study. Sample is the part of population which represents population with regards to the study. There are 32 commercial banks functioning all over the country and most

of their stocks are actively traded in stock market and 8 joint venture banks are operating in Nepal. In this study, two joint venture banks (NABIL and SCBNL) are taken for research work. These banks are compared as per fund collecting joint venture because data from fiscal year 2006/07 to 2010/11 are analyzed for the fulfillment of the objective.

3.3 Nature and Sources of Information/ Data Collection Procedure

The main sources of information were the concerned Banks and their published reports, NRB and its published reports, Experts views, Newspaper and many other published and non-published sources. Required reports are downloaded from the websites of the banks. Mainly the secondary sources of data were collected in order to achieve the real and fact data as far as available.

The secondary sources of data the information received from books, journals, newspapers, published reports and dissertations and concerned websites etc. The major sources of secondary data were as follows:

- Annual reports of the concerned banks.
- Related websites of concerned banks.
- Economic survey, Ministry of finance
- NRB Samachar, NRB Directives.
- Company ACT, 2063
- Banking and financial statistics of NRB.
- Survey, reports, journals issued by NRB.
- Annual reports, NEPSE.
- Book related to financial performance analysis.
- Previous Dissertations.
- News paper, Journals and Business magazines.
- Other publications etc.

3.4 Data Processing and Presentation Procedure

The information or data obtained from the different sources were in raw form. From that information, direct presentation was not possible so it was necessary to process data and converts it into required form. Only after then, the data were presented for this study. For this study, only required data were taken from the secondary sources

(Bank's publications) and presented in this study. For presentation different tables were used. Similarly in same case graphical presentation were also made. So far a computation was concerned. It has been done with the help of scientific calculator and spreadsheet software Microsoft Excel.

3.5 Tools for Analysis and Presentation

Various percentage data were collected as per the nature of the study and this study required more financial tools cum statistical tools for analysis and presentation of used data to attain the objectives of the study.

3.5.1 Financial Tools

Financial tools are basically used to find out the strength and weakness of banks. Financial tools like ratio analysis have been used in this research. Ratio simply means a mathematical relationship between two quantitative figure. Financial ratio is the relationship of two accounting figures.. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus ratio analysis is used to compare a firm's financial performance and status to that of other firm's to it overtime. Thus ratio analysis provides a strong foundation for qualitative judgment regarding financial performance of a firm. There are different financial ratios which can be described as follows.

3.5.1.1 Liquidity Analysis/ Working Capital Analysis

It measures the adequacy of a firm's resources to meet its near term cash obligations. It is pre-requisite for the very survival of firm. Liquidity analysis measures the liquidity position and short-term obligation. To meet the current or short-term obligations, commercial banks must maintain adequate out in commercial banking. NRB has directed all the banks to maintain adequate CRR to meet its current obligations. Thus to measures the banks liquidity positions. CRR assumes the key indicator has other ratios. It is also found that central banks practically pay more attention towards the CRR of commercial banks.

3.5.1.1.1 Cash Reserve Ratio (CRR)

CRR measures the ability to meet short-term obligation and reflect the short-term financial strength and solvency of the bank. The cash reserve ratio (CRR) is being used as a prime and effective instrument to inject liquidity to and absorb liquidity from the economy. The CRR, which has been used particularly for last few to reduce the cost of resources of commercial banks and to manage necessary liquidity in the economy, has been gradually lowered in the neighboring countries as well as the majority of the countries in the world in complement to the prevalent use of indirect monetary instruments and prudential regulatory measures. "In this context, the CRR has been maintained at 6.5% for FY 2008/09"(Monetary Policy, 2009/10: NRB).

3.5.1.2 Profitability Ratio Analysis

Profit is the differences of revenues and expenses over a period. Profit is the ultimate output of a company and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of its company. Therefore, the profitability ratio measures the net income of the firm relative to its revenue and capital. The following major profitability ratios are calculated to measure the efficiency of banks.

3.5.1.2.1 Net Profit Margin

This ratio measures the overall profitability of the firm by establishing relationship between profit and sales revenue. The relationship between the net profit and sales indicated management's ability to operate the business with sufficient success not only to recover the cost of production, operating expenses of business and cost of borrowed mat also to leave margin of reasonable compensation to the owners for providing their capital at risk. This ratio is calculated by:

$$\text{Net profit Margin} = \frac{\text{Net Profit}}{\text{Total Income}} \times 100$$

3.5.1.2.2 Return on Assets (ROA)

It measures the productivity of the assets. It is a measure in terms of relationship between net profit and assets. The income figure used in computing this ratio should be operating income *(Munakarmi; 2002:485).* This ratio is calculated by:

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

3.5.1.2.3 Interest Income on Loan and Advances

The major source of operating income of any commercial bank is interest income. Interest income to loan and advance ratio shows the high utilization of loan and advances. Higher percentage income reflects better operational efficiency or higher level of risk due to higher volume of investment in loan and advances (*Shrestha; 2003:124).* This ratio is calculated by:

$$\text{Interest income on loan and advances} = \frac{\text{Interest Income}}{\text{Total Loan and Advance}} \times 100$$

3.5.1.2.4 Operating Ratio

Operating ratio of banks tries to establish relationship between operating expenses and total income. Operating expenses include administrative expenses, interest on short-term loan, discount allowed and bad debts *(Munakarmi, 2002:484).* This ratio is calculated as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Total Assets}} \times 100$$

3.5.1.3 Activity Ratio Analysis

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

3.5.1.3.1 Loans & Advances to Total Deposit Ratio

The ratio assess to what extent the bankers are able to utilize the depositors' fund to earn profit by providing loans are advances. In others word, how quickly total collected deposits are converted into loan and advances given to client to earn income. It is computed by dividing the total amount of loan and advances to total deposit fund. Higher ratio indicates higher/proper utilization of funds and low ratio is the signal of inefficiency or remaining idle.

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

3.5.1.3.2 Loan & Advances to Fixed Deposit Ratio

This ratio measures how much amount it used in loans and advances in comparison to fixed deposit. Fixed deposit is interest bearing long term obligations where as loan and advances are the major sources of investment in generating income for commercial banks. It is calculated as follows:

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Fixed Deposit}}$$

3.5.1.3.3 Loan & Advances to Saving Deposit Ratio

This ratio is also employed for the purpose of measuring utilization of saving deposit in generating revenue by giving loan and advances t o the client i.e., to determine to what extent collected saving deposit amount is being deployed in providing loan and advances to generate income. Saving deposits are interest bearing obligation for short term purpose whereas loan and advances are the short term investment for revenue income. This ratio indicates how much short term interest bearing deposit is utilized for income generating purpose. It is calculated as follows.

$$\text{Loan and Advances to Saving Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposit}}$$

3.5.1.4 Market Value Analysis

The market value ratios represent a group of ratio that relate to the firm's stock price to its earning and book value per share. These ratios give management an indication of what investors think of the company/banks past performance and future prospectus. If the firm's liquidity, asset management, debt management and profitability ratios are all good then its market value ratio will be high its price will be probably be as high as can be expected *(Weston & Brigham, 1996:104)*.

3.5.1.4.1 Earnings per Share

Apart from the return of return, the profitability of a firm from the profit view of the ordinary shareholders is the earning per share (EPS). It measures the profit available to the equity shareholders on per share basis i.e. the amount they can get on each

share held. In other words, this ratio measures the earning available to an equity shareholder on a per share basis. The objectives of computing this ratio is to measure the profitability of the firm on per equity share basis. There are two components of this ratio as under:

1. Net profit after preference dividend
2. Number of equity shares outstanding

It is computed by dividing the net profit after preference dividend by the number of equity shares outstanding. It is expressed as an absolute figure.

$$\text{Earnings per Share} = \frac{\text{Net Profit after Tax} - \text{Preference Dividend}}{\text{No. of Equity Shares Outstanding}}$$

3.5.1.4.2 Price-Earnings Ratio

Price–earnings ratio is widely used by the security analyst to value the firm's performance as expected by investors. It reflects investors' expectation about the firm's growth in the firm's earning. This ratio measures investors' expectation and the market appraisal of the performance of the firm *(Munakarmi; 2002:490)*. Price-earnings ratio shows how much the investors are willing to pay per dollar of reported profits (Weston & Brigham, 1996:296). This ratio is calculated as follows:

$$\text{P/E Ratio} = \frac{\text{Market Prince Per Share}}{\text{EPS}} \times 100$$

Therefore, calculation of P/E ratio of commercial banks is more appreciate by an investor's point of view.

3.5.1.4.3 Cash Dividend on share Capital

The amount of earning distributed and paid as cash dividend is considered as the cash dividend on share capital or dividend per share. The net profit after taxes belongs to the equity shareholder *(Munakarmi; 2002:489)*. This ratio is computed by dividing the amount of dividend distributed to shareholders by the number of common shares outstanding. It may be expressed as under:

$$\text{Dividend per Share} = \frac{\text{Earning Dividend Paid to Shareholders}}{\text{No. of Equity Shareholders}}$$

3.5.1.5 Other Relevant Ratios

To measures commercial bank's performance, it is necessary to study other relevant ratios too. This ratio includes:

3.5.1.5.1 Staff Expenses to Total Operating Expenses Ratio

Staff expenses to total operating ratio are the contribution of total staff expenses in total operating expenses. It is conclude that higher ratio means the bank has provided better salary and other allowances. It is also the sign of highly motivated staff *(Panta, 2005:60*). On the other hand, the high ratio affects the net profit. This ratio is calculated as follows:

$$\text{Staff expenses to Total Staff Expenses Ratio} = \frac{\text{Staff Expenses}}{\text{Total Operating Expenses}} \times 100$$

3.5.1.5.2 Staff Bonus to Total Staff Expenses Ratio

This ratio is calculated with provision for staff bonus in terms of expenses. Provision of staff bonus, one of the important operating expenses of the banks, refers to the extra incentives services. Bonus helps to uplift the morale of the staff as well as make them prompt for the next operation. Bonus is distributed if the banks have more profit. A high portion of staff bonus shows that bank has high operating profit. This ratio is calculated as follows:

$$\text{Staff Bonus to Total Staff Expenses Ratio} = \frac{\text{Staff Bonus}}{\text{Total Staff Expenses}} \times 100$$

3.5.1.5.3 Weighted Average Interest Rate Spread

It is the difference between interest rate charged by a bank on loan and advances and interest rate offered on deposits. Generally, commercial banks charge more interest rate on lending than they provide interest rate on deposits. Interest rate spread is calculated as follows:

Interest Rate Spread = Spread Rate on Lending- Interest Rate on Deposits

High spread shows the bank charges rate for the borrowers than they provide for depositors.

3.5.1.6 Non-Performing Asset (NPA) Analysis

Non- performing asset (NPA) in terms of banking sectors consists of those loans and advances that are not performing well and likely to be turn as bad loan. It may be simply define as bad loan. As per NRB directives, it has been categorized all classifieds loans and advances. NPA has several impacts on the financial institution. On the one hand, investment becomes worthless, as expected return cannot be realizable and on the other hand, the profitability is directly affected.

NPA as categorized by NRB are classified as loans and advances. For the probable loss on lending, that cannot be recovered even after liquidation. NRB has directed to maintain loan loss provision. The loan loss provision is to be maintained by debiting profit and loss account. Thus as the quality of loan degrades the ratio of loan loss provision is increased.

3.5.2 Statistical Tools

3.5.2.1 Arithmetic Mean

An arithmetic mean of a gain given set of observations is the sum of the observation divided by the number by the number of observations. In such a case all the items are equally important. Simple arithmetic mean is used in this study as per necessary for analysis.

We have,

$$\text{Mean } (\overline{X}) = \frac{\sum X}{n}$$

Where,

ΣX = Sum of all values of the observations.

n = Number of observations.

X = Values of variables.

3.5.2.2 Standard Deviation

The standard deviation is usually denoted by the letter sigma (σ).It is a widely used measure of dispersion and is defined as the deviation of the observation from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation in this study has been used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis.

We have,

$$\text{Standard deviation} = \sqrt{\frac{\sum(X - \overline{X})^2}{n}}$$

3.5.2.3 Coefficient of Variation (C.V)

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 times coefficient of standard deviation is called coefficient of variation. It is denoted by C.V. Thus,

$$C.V = \frac{\sigma}{\overline{X}} \times 100$$

Where,

σ = Standard deviation

$\overline{X}$ = Mean value of variables

Coefficient of variation being a pure number is independent of the units of measurement and thus is suitable for comparing the variability or uniformity of two or more distribution. The distribution having less C.V. is said to be less variable or more consistent or more stable. A distribution having greater C.V. is said to be more variable or less consistent or less stable. C.V. is used in this research for comparing the uniformity of variables of sample banks.

3.5.2.4 Correlation coefficient (r):

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

The popular method of statistical tool, Karl Pearson's co-efficient of correlation has been adopted to measure the significance of the relation between the deposit and the

investment, loan and advance of the four Joint Venture Banks. The formula for computing the correlation coefficient(r) using direct method is as follows:

$$\text{Correlation coefficient(r)} = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

N = Number of pairs of X and Y observed

X = Values of Investment, Loan and Advance

Y = Values of Total Deposit

r = co-efficient of correlation

3.5.2.5 Coefficient of Determination:

The coefficient of determination is the measure of the degree of linear association or correlation between two or more independent variables. It measures the percentage total variation in dependent variables explained by independent variables. If R^2 has a zero value then, it indicates that there is no correlation which means all the data points in scatter diagram fall exactly on the regression line. If it has the value equal to one then it indicates that there is perfect correlation and as such the regression line is the perfect estimator. But in most of the cases the value of R^2 will lie somewhere between these two extremes of 1 and 0. One should remember that R^2 close to one indicates a strong correlation between two variables and R^2 near to zero means there is little correlation.

$$\text{Coefficient of Determination } (R^2) = \frac{\text{Explained variation}}{\text{Total Variation}}$$

$$\text{or, } R^2 = 1 - \frac{\text{Unexplained variation}}{\text{Total Variation}}$$

3.5.2.6 Probable Error

The Probable Error (PE) of correlation coefficient is an old measure of testing of reliability of an observed correlation coefficient. The Probable Error of the correlation coefficient is the basis for the interpretation of its value.

PE is used in interpretation whether the calculated value of r is significant or not.

- If r<PE than it is insignificant or there is no evidence of correlation.
- If r >6PE than, it is significant.
- If PE<r<6PE than, nothing can be concluded.

3.5.2.7 Trend Analysis

The arrangement of Statistical data chronologically (according to occurrence of time) is known as time series and the statistical analysis of this chronological variation is termed as Trend Analysis. It helps to know the past behavior of data in certain span of time interval. On the basis of these past trends, one can make plan in forthcoming days. This Least square method is the most popular and widely used mathematical method of measuring trend. This is frequently used for future prediction. There are various types of curves that may be used to describe the given data but in this text, an attempt has been made to discuss only the fitting of linear trend by the least square method.

Let, the equation of Trend Analysis would be,

$Y = a + bx$

Where,

Y = the given value of the variable in time series. It is a dependent variable.

a = Intercept of trend line or y- intercept.

b = Slope of Trend Line.

x= Time variable.

3.5.2.8 Diagrammatic Representation

Diagrams & graphs are visual aids that give bird's eye view of a given set of numerical data. They represent the data in simple, comprehensive and readily understandable form. Multiple bar diagrams are used for presenting a comprehensive picture of the banks selected for the research study. Line graph is used to represent the trend of financial indicator variables of private and government banks.

CHAPTER- IV
PRESENTATION AND ANALYSIS OF DATA

The previous chapter was mainly emphasized on research methodology that is about to be adopted to carry out the study. This chapter deals with the presentation, analysis and interpretation of data collected by secondary sources in order to fulfill the objective and the collected data from secondary sources have been represented in the suitable formats (i.e. on tables and charts). The financial as well as statistical tools are used for the comparison of financial indicators. The strength and weakness of those banks, to some extent, is evaluated and the significance of the different financial variables is also analyzed. The five years secondary data (2006/07 to 2010/11) of the banks are taken for the analysis. Each detail of calculation is tabulated in the respective appendix.

4.1 Financial Tools

Various financial ratios related to the investment management and the fund mobilization are presented and discussed to evaluate and analyze the performance of NABIL, SCBNL, HBL and EBL. The ratios are designed and calculated to highlight the relationship between financial items and figures. Those ratios are as follows.

4.1.1 Liquidity Analysis

Commercial banks need liquidity to meet loan demand and deposit withdraws. Liquidity is also needed for meeting cash reserve ratio (CRR) requirement prescribed by NRB. The failure of the bank to meet its cash obligation due to lack of sufficient liquidity will result bad credit worthiness and loss of creditors' confidence. A very high degree of liquidity is also bad: idle or non-performing assets earn nothing. Therefore, it is necessary to strike a proper balance between liquidity crunch and liquidity crisis.

4.1.1.1 Cash Reserve Ratio (CRR)

A bank must ensure that it has a sound liquidity position to face the instant claims by its creditors. Therefore, CRR measures the ability to meet short-term obligation and reflect the short-term financial strength and solvency of the bank.

Table 4.1

Comparative Cash Reserve Ratio

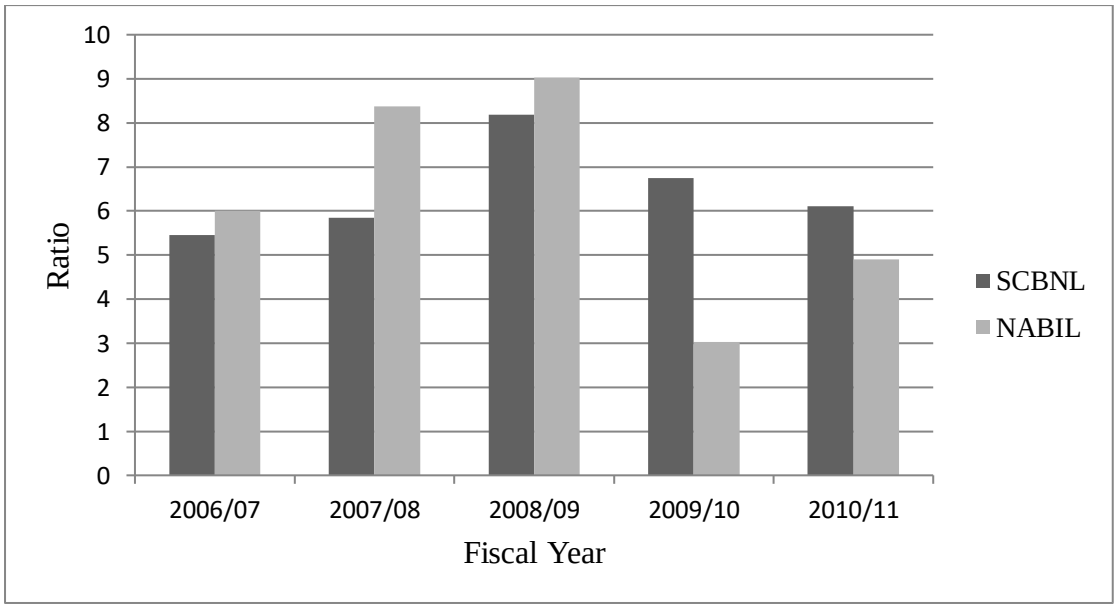
Year	Ratio %	
	SCBNL	NABIL
2006/07	5.46	6.00
2007/08	5.84	8.37
2008/09	8.18	9.03
2009/10	6.74	3.02
2010/11	6.10	4.90
Mean $\overline{X}$	6.46	6.26
S.D.	0.95	2.22
C.V.	14.70	35.46

Source: Appendix I

The table 4.1shows average CRR of SCBNL and NABIL are 6.46% and 6.26% respectively and the CV of the same banks is 14.70% and 35.46% respectively. This shows that the average CRR of SCBNL and NABIL is not much different and both are near NRB directives of 6.5%. On the basis of CV, it indicates that the value of SCBNL is more consistent than NABIL.

Figure 4.1

Comparative Cash Reserve Ratio



The figure 4.1 shows that the cash reserve ratio of two mentioned banks for fiscal year 2006/07 to 2010/11. CRR of SCBNL is increasing up to the fiscal year 2008/09 and starts to decrease, whereas CRR of NABIL is increasing up to the fiscal year 2008/09 and decrease in FY 2009/10 and again increase.

4.1.2 Profitability Analysis

"The operating efficiency of the banks and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by the banks. Sufficient profit must be obtained from investment for expansion and growth and to continue towards the social overheads for welfare of the society". *(Pandey; 1999:124)* Thus, profitability ratios are computed to measure the efficiency of banks in terms of profit margin, return on assets, interest on loan & advance and operating ratio.

4.1.2.1 Net Profit Margin (NPM)

Net profit margin indicates margin of corporation left to the owners, as percentage of total revenue for providing their capital after all expenses have been net. It helps in determining the efficiency with which the affairs of the business are being managed. A net profit would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

Table 4.2

Net Profit Margin

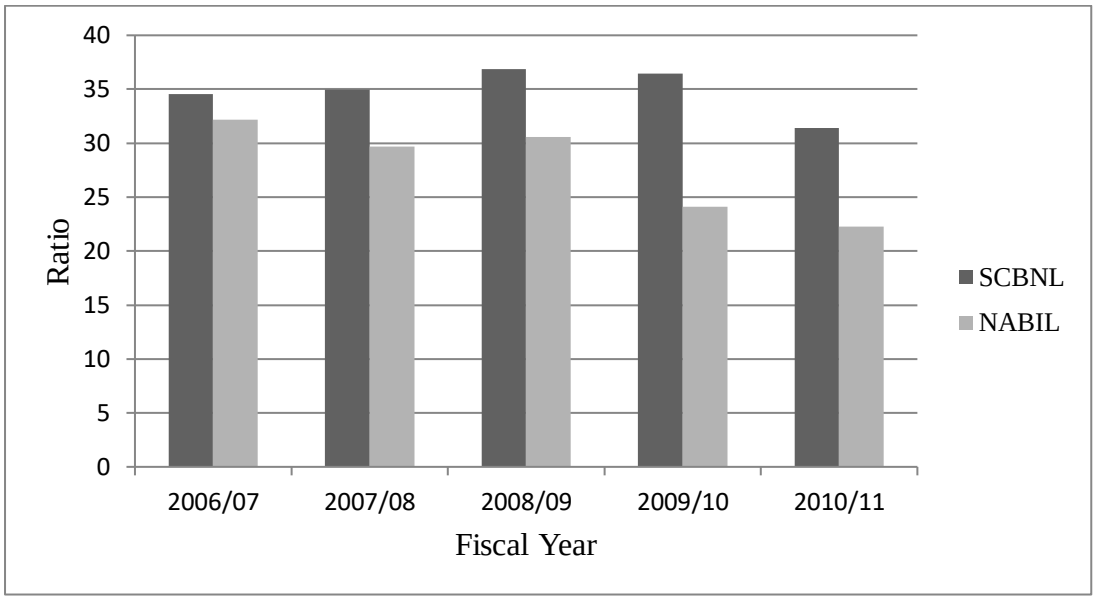
Year	Ratio (%)	
	SCBNL	NABIL
2006/07	34.55	32.16
2007/08	34.94	29.68
2008/09	36.84	30.56
2009/10	36.47	24.11
2010/11	31.40	22.29
Mean $\overline{X}$	34.84	27.76
S.D.	1.93	3.85
C.V.	5.54	13.87

Source: Appendix I

The table 4.2 depicts the computation of average net profit margin of the two mentioned banks. The average net profit margin of SCBNL i.e. 34.84% is higher than that of NABIL i.e. 27.76%. CV of SCBNL and NABIL are 5.54% and 13.87%, So that the net profit margin of SCBNL is more consistent than NABIL due to its lower CV.

Figure 4.2

Net Profit Margin



The figure 4.2 show that the highest net profit margin of SCBNL is in the FY 2008/09 and lowest is in the FY 2010/11, whereas highest net profit margin of NABIL is in the FY 2006/07 and lowest is in the FY 2009/10.

4.1.2.2 Return on Assets (ROA)

The effectiveness in using the total fund supplied by the owners and creditors is judged by this ratio. It indicates the maximum utilization of available assets. Higher ratio shows the higher return on assets used in business thereby indicating effective use of the resources available and vice-versa.

The table 4.3 shows the average ROA of SCBNL and NABIL which are 2.54% and 2.48%, respectively. As such SCBNL and NABIL have similar line up of ROA. This show the similar ROA earning banks have similar efficiency in utilizing their assets. Both mentioned banks have lower CV i.e. 3.94% of SCBNL and 5.64% of NABIL,

which shows the less fluctuation on ROA of both banks. But the fluctuation of NABIL is quiet high than that of SCBNL.

Table 4.3

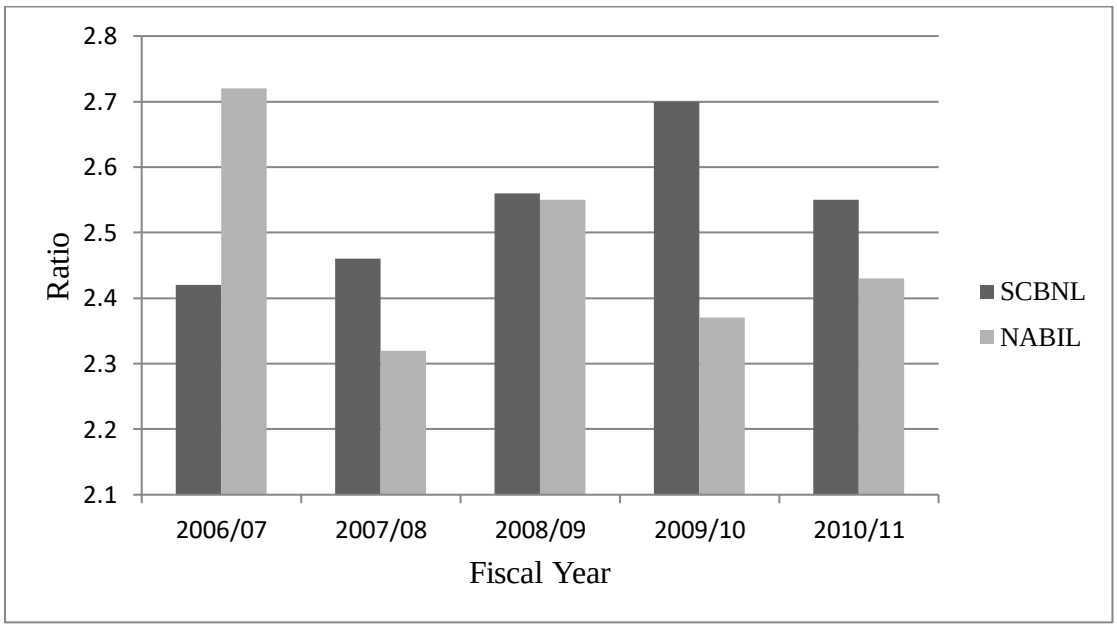
Return on Assets

Year	Ratio %	
	SCBNL	NABIL
2006/07	2.42	2.72
2007/08	2.46	2.32
2008/09	2.56	2.55
2009/10	2.70	2.37
2010/11	2.55	2.43
Mean $\overline{X}$	2.54	2.48
S.D.	0.10	0.14
C.V.	3.94	5.64

Source: Appendix I

Figure 4.3

Return on Assets



The figure 4.3 shows the ROA of both mentioned banks for fiscal year 2006/07 to 2010/11. ROA of SCBNL is increasing continuously up to the FY2009/10 and

decrease in FY 2010/11 whereas ROA of NABIL is fluctuating. SCBNL has highest ROA on FY 2009/10 and NABIL has highest ROA on FY 2006/07.

4.1.2.3 Interest Income on Loan & Advances

Interest income is the major source of income from loan and advances that comprises higher rate of interest income. It shows higher utilization of loan & advances.

Table 4.4

Interest Income on Loan and Advances

Year	Ratio (%)	
	SCBNL	NABIL
2006/07	7.11	8.14
2007/08	6.65	8.04
2008/09	8.54	8.82
2009/10	8.78	10.41
2010/11	11.05	12.50
Mean $\overline{X}$	8.43	9.58
S.D.	1.54	1.69
C.V.	18.27	17.64

Source: Appendix I

Figure 4.4

Interest Income on Loan and Advance

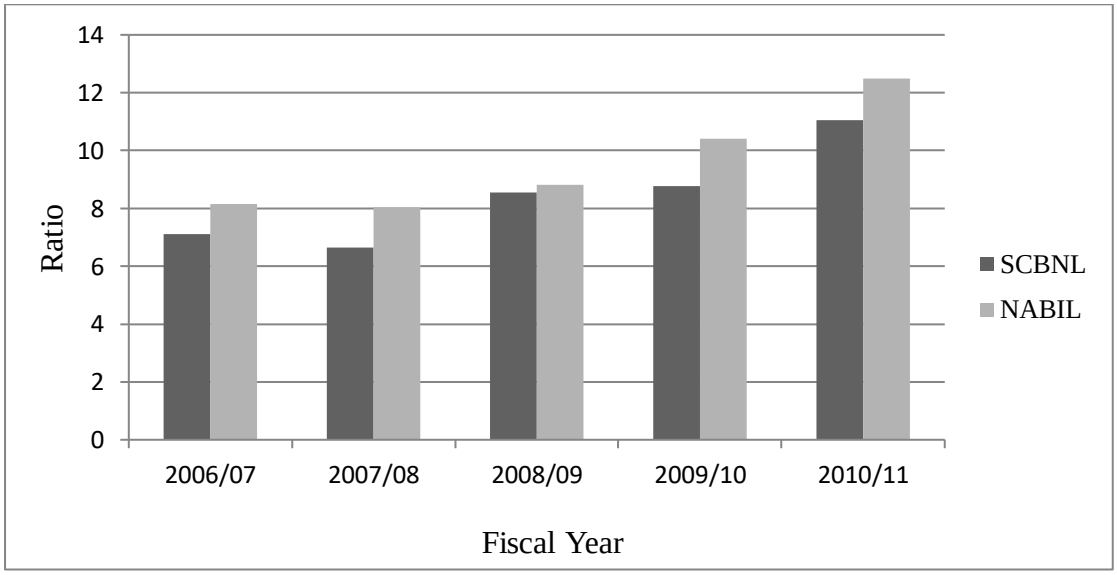


Table 4.4 and figure 4.4 shows that the interest income on loan and advance ratio of SCBNL and NABIL for the five fiscal years. The average ratio of SCBNL is 8.43% and of NABIL is 9.58%, which shows that the ratio of NABIL is highest than SCBNL. And the CV of SCBNL and NABIL are 18.27% and 17.64%, which shows that both mentioned banks have lower fluctuations. Interest income on loan and advance ratio seems to be decrease on FY 2007/08 and starts to increase continuously of both banks.

4.1.2.4 Operating Ratio

Operating ratio of banks tries to establish relationship between operating expenses and total income. Operating expenses include administrative expenses, interest on short-term loan, discount allowed and bad debts.

Table 4.5

Operating Ratio

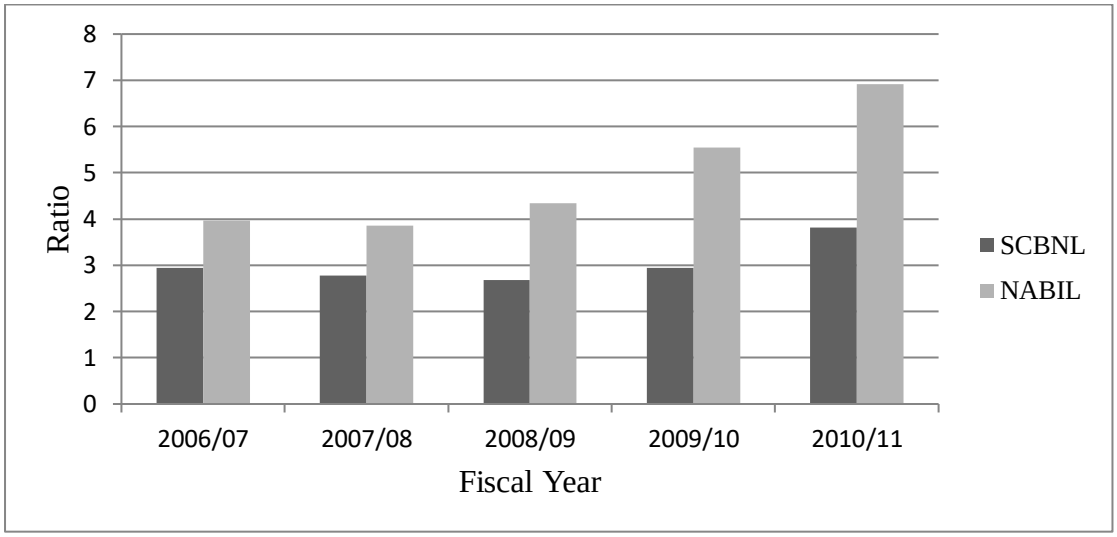
Year	Banks	
	SCBNL	NABIL
2006/07	2.94	3.97
2007/08	2.78	3.86
2008/09	2.68	4.34
2009/10	2.94	5.54
2010/11	3.82	6.91
Mean $\overline{X}$	3.03	4.92
S.D.	0.41	1.16
C.V.	13.53	23.58

Source: Appendix I

The table 4.5 shows the operating ratio of both mentioned banks for fiscal year 2006/07 to 2010/11. Average operating ratio of SCBNL and NABIL are 3.03% and 4.92% respectively, which shows that NABI has higher average operating ratio than SCBNL. The CV of SCBNL i.e. 13.53% is lowers than NABIL i.e. 23.58%, which reflects that the more consistent of operating ratio of SCBNL than NABIL.

Figure 4.5

Operating Ratio



The figure 4.5 shows that the trend of operating ratio of both mentioned banks at which operating ratio of both banks seems to be decrease in the FY 2007/08 and starts to increase continuously. And the operating ratio of NABIL is higher than SCBNL in all the fiscal year.

4.1.3 Activity Ratio Analysis

The activity ratios measure the effectiveness of assets utilization, reflecting the management efficiency to used available resources. The banks used the funds of creditors and owners in various profit generating assets like loan & advances, investments etc. So, the activity ratios are employed to evaluate the efficiency of the banks in terms of utilizing its assets.

4.1.3.1 Loans & Advances to Total Deposit Ratio

The ratio assess to what extent the bankers are able to utilize the depositors' fund to earn profit by providing loans are advances. Higher ratio indicates higher/proper utilization of funds and low ratio is the signal of inefficiency or remaining idle.

The table 4.6 shows the loan and advance to total deposit ratio of two selected banks. Mean ratio of SCBNL is 43.60% during the study year. In the same way mean ratio of NABIL is 70.62%. Mean ratio of NABIL is greater than SCBNL. The Standard deviation of loan and advance to total deposit ratio of SCBNL& NABIL were 3.18%

and 3.59% respectively and CV of both SCBNL & NABIL are 9.08% and 5.65% respectively. This indicates that the NABIL bank has successfully mobilized to total deposit.

Table 4.6

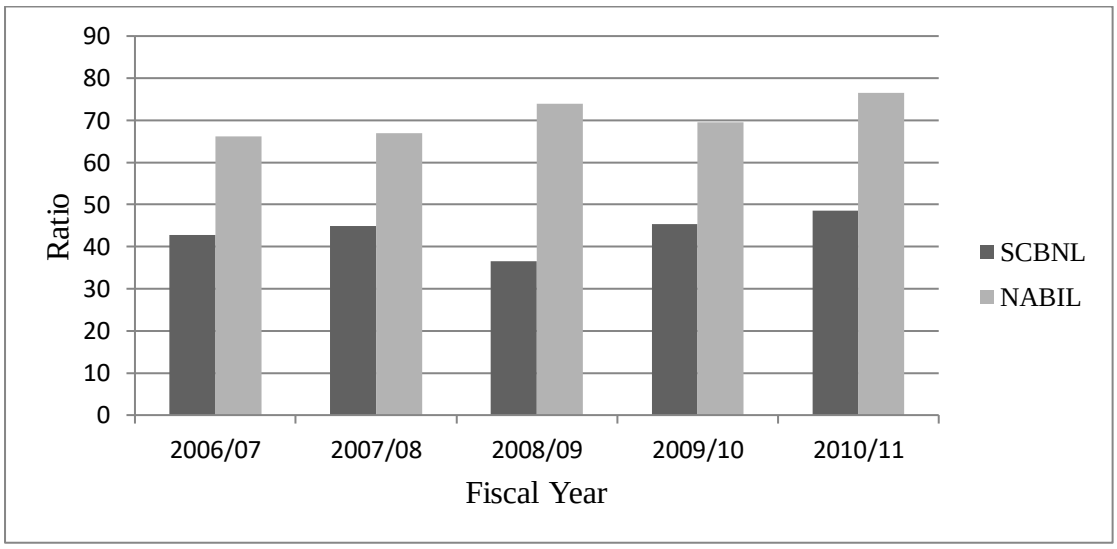
Loan and Advance to Total Deposit Ratio

Year	Ratio (%)	
	SCBNL	NABIL
2006/07	42.77	66.21
2007/08	44.90	66.94
2008/09	36.57	73.87
2009/10	45.28	69.53
2010/11	48.49	76.53
Mean $\overline{X}$	43.60	70.62
S.D.	3.96	3.99
C.V.	9.08	5.65

Source: Appendix II

Figure 4.6

Loan and Advance to Total Deposit Ratio



The figure 4.6 shows the higher loan and advance to total deposit ratio of NABIL than SCBNL on all the fiscal year. Both banks have highest ratio on FY 2010/11 during the study period.

4.1.3.2 Loan & Advances to Fixed Deposit Ratio

This ratio measures how much amount it used in loans and advances in comparison to fixed deposit. Fixed deposit is interest bearing long term obligations where as loan and advances are the major sources of investment in generating income for commercial banks.

Table 4.7

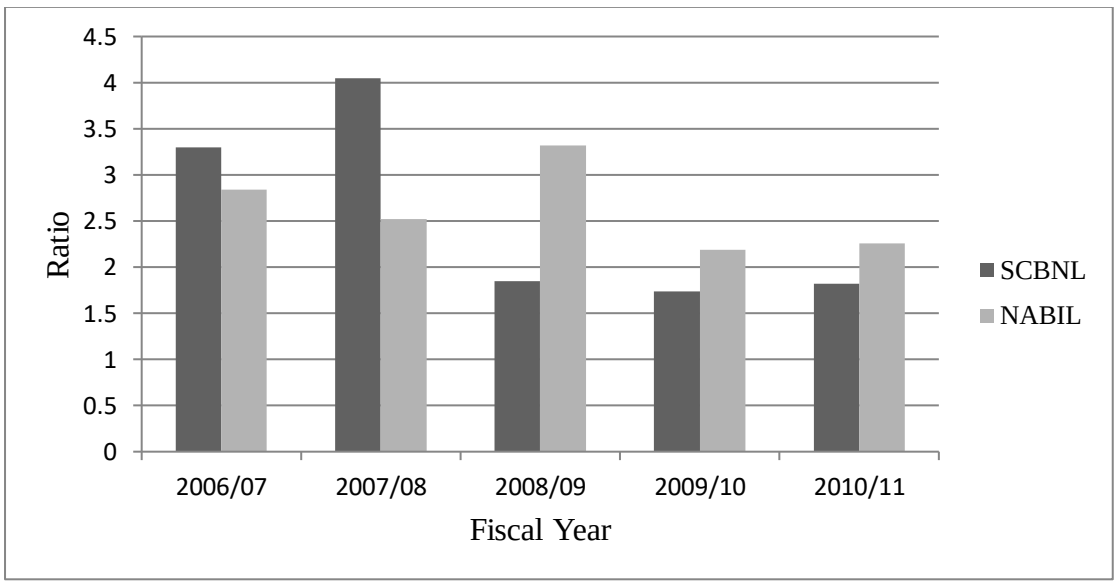
Loan and Advances to Fixed Deposit Ratio

Year	Ratio	
	SCBNL	NABIL
2006/07	3.30	2.84
2007/08	4.05	2.52
2008/09	1.85	3.32
2009/10	1.74	2.19
2010/11	1.82	2.26
Mean $\overline{X}$	2.55	2.63
S.D.	0.95	0.42
C.V.	37.25	15.97

Source: Appendix II

Figure 4.7

Loan and Advance to Fixed Deposit Ratio



The table 4.7 shows loan and advances to fixed deposit ratio. According to the data, mean ratio of SCBNL is 2.55 whereas NABIL is 2.63. It shows that the mean ratio of SCBNL is quiet lower than NABIL. The ratio of NABIL has less fluctuation than SCBNL. It can be regarded as that NABIL had mobilized the funds obtained from fixed deposit in a better way than SCBNL banks. The figure 4.7 shows SCBNL has highest ratio on FY 2007/08 and lowest ratio on FY 2009/10, whereas NABIL has highest ratio on FY 2008/09 and lowest ratio on 2009/10.

4.1.3.3 Loan & Advances to Saving Deposit Ratio

Saving deposits are interest bearing obligation for short term purpose whereas loan and advances are the short term investment for revenue income. This ratio indicates how much short term interest bearing deposit is utilized for income generating purpose.

Table 4.8

Loan and Advance to Saving Deposit Ratio

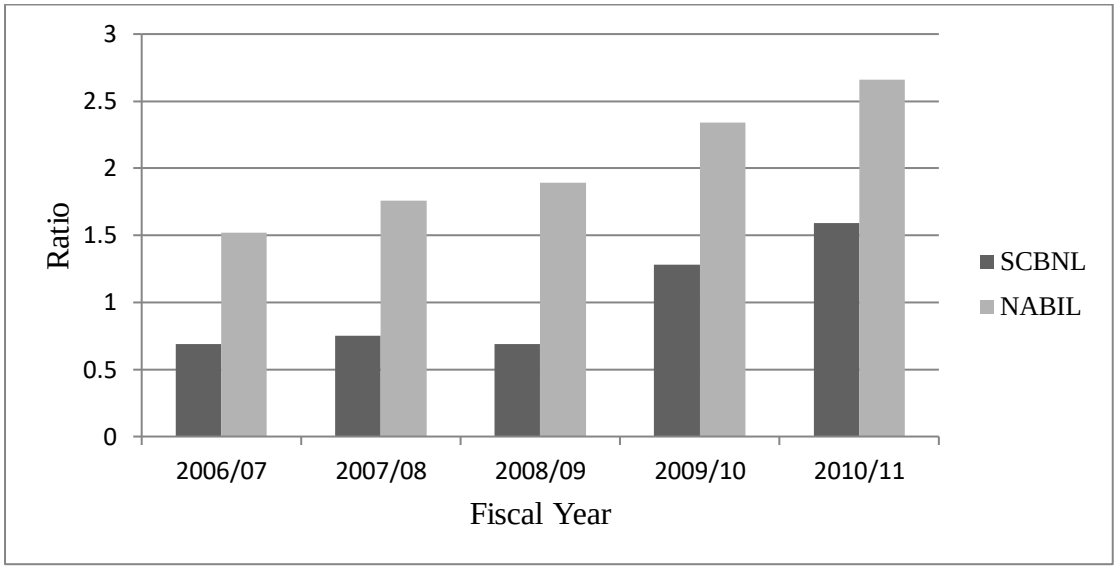
Year	Ratio	
	SCBNL	NABIL
2006/07	0.69	1.52
2007/08	0.75	1.76
2008/09	0.69	1.89
2009/10	1.28	2.34
2010/11	1.59	2.66
Mean $\overline{X}$	1	2.03
S.D.	0.37	0.41
C.V.	37	20.20

Source: Appendix II

The table 4.8 shows the loan and advance to saving deposit ratio of two mentioned banks. SCBNL has mean ratio of 1 and NABIL has mean ratio of 2.03. CV of SCBNL and NABIL are 37% and 20.20% respectively which shows a more consistent of loan and advance to saving deposit ratio of NABIL than SCBNL. The figure 4.8 shows the higher loan and advance to saving deposit ratio of NABIL than SCBNL on all the fiscal year.

Figure 4.8

Loan and Advance to Saving Deposit Ratio



4.1.4 Market Value Analysis

Market value analysis indicates the market value of the banks as compared to the bank value and measure the stock price relative to earnings. In this part, the researcher analyzes and compares the various market related ratio analysis such as EPS, P/E ratio, Cash dividend on share capital & dividend (including bonus) on share capital for better presentation. However, this part lacks the proper comparative analysis as government commercial banks do not have their share listed in Nepal stock exchange and therefore their market value cannot be known. So we have calculated EPS only.

4.1.4.1 Earning Per Share (EPS)

EPS shows the profitability of the banks on per share basis. It shows the earning available to each shareholder out of the total earning. It is the major stake concerning banks shareholders.

The table 4.9 shows the earnings per share of the two mentioned banks for the five fiscal years. SCBNL has average EPS of Rs. 111.29 and NABIL has average EPS of Rs. 104.07, which shows the highest EPS of SCBNL than NABIL. CV of SCBNL and NABIL are 32.28% and 22.91% respectively which the more consistent EPS on NABIL than SCBNL.

Table 4.9

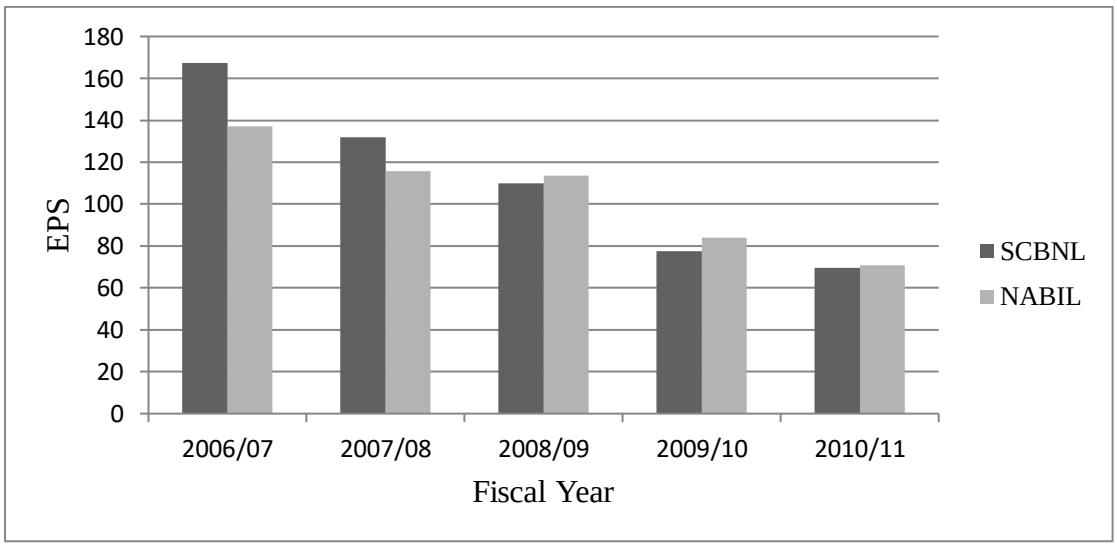
Earnings Per Share

Year	Rupees	
	SCBNL	NABIL
2006/07	167.37	137.08
2007/08	131.92	115.86
2008/09	109.99	113.44
2009/10	77.65	83.81
2010/11	69.51	70.67
Mean $\overline{X}$	111.29	104.07
S.D.	35.92	23.84
C.V.	32.28	22.91

Source: Appendix I

Figure 4.9

Earnings Per Share



The figure 4.9 shows EPS of both banks are decreasing continuously during the fiscal period. And in the beginning years SCBNL has more EPS than NABIL and in the ending years NABIL has more EPS than SCBNL.

4.1.4.2 Net Worth Per Share (NWPS)

Net worth per share, also called book value, is computed by dividing the amount of total shareholder's equity by the number of shares outstanding. The NWPS of the listed banks is tabulated as follows.

Table 4.10

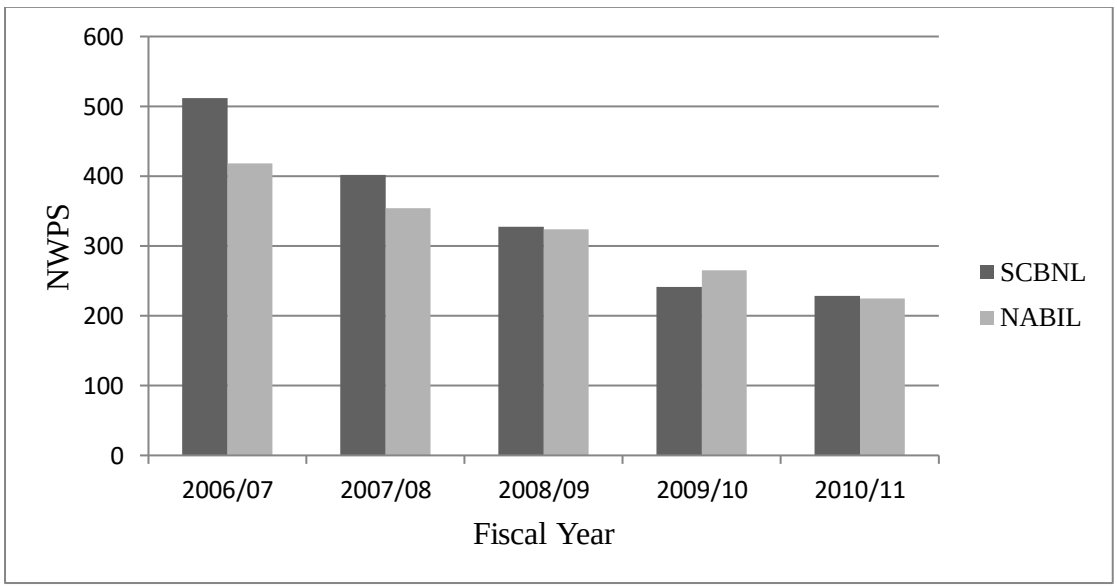
Net Worth per Share

Year	Rupees	
	SCBNL	NABIL
2006/07	512.12	418
2007/08	401.52	354
2008/09	327.53	324
2009/10	240.95	265
2010/11	228.41	225
Mean $\overline{X}$	342.11	317.20
S.D.	105.65	67.51
C.V.	30.88	21.28

Source: Appendix I

Figure 4.10

Net Worth Per Share



The table 4.10 shows the net worth per share of two banks. SCBNL has average NWPS of Rs. 342.11 and NABIL has average NWPS of Rs. 317.20, which shows the highest average NWPS of SCBNL than NABIL. But the CV of SCBNL and NABIL are 30.88% and 21.28% which shows a more variation of NWPS of SCBNL. The figure 4.10 reflects the decreasing trend of NWPS of both banks. And NWPS of SCBNL is highest on all the fiscal year except FY 2009/10.

4.1.4.3 Price-Earnings Ratio

Price–earnings ratio is widely used by the security analyst to value the firm's performance as expected by investors. It reflects investors' expectation about the firm's growth in the firm's earning. This ratio measures investors' expectation and the market appraisal of the performance of the firm *(Munakarmi; 2002:490).* Price-earnings ratio shows how much the investors are willing to pay per dollar of reported profits.

Table 4.11

Price – Earnings Ratio

Year	Ratio	
	SCBNL	NABIL
2006/07	35.25	36.84
2007/08	51.77	45.53
2008/09	54.64	43.19
2009/10	42.23	30.33
2010/11	25.90	19.00
Mean $\overline{X}$	41.96	34.98
S.D.	10.58	9.58
C.V.	25.21	27.39

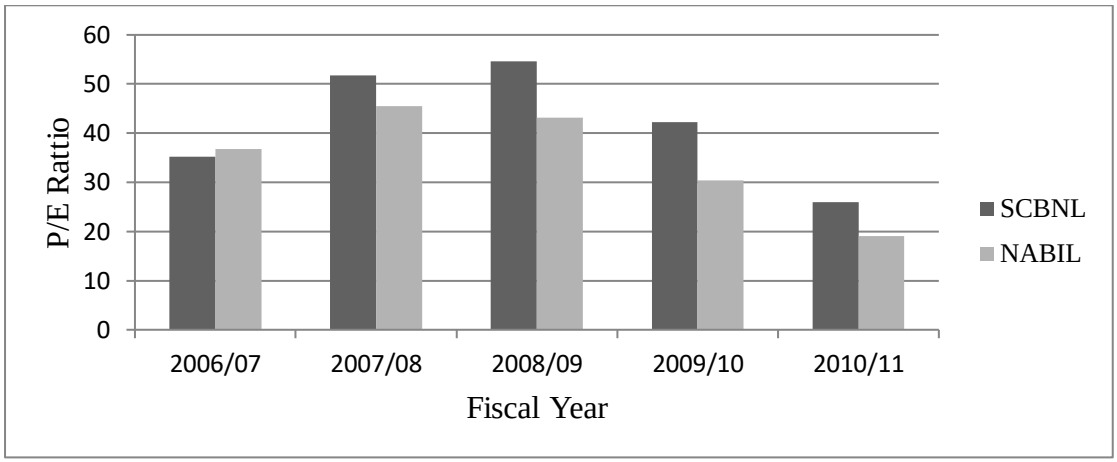
Source: Appendix I

The table 4.11 shows the price-earnings ratio of both banks during the study period. SCBNL has highest average P/E ratio i.e. 41.96 than NABIL i.e. 34.98. CV of SCBNL and NABIL are 25.21% and 27.39% respectively which shows moderate fluctuations on both banks, but the fluctuation is high on NABIL than SCBNL due to higher CV. The figure 4.11 shows the increasing P/E ratio of SCBNL up to the FY

2008/09 and decreasing P/E ratio later continuously. Whereas, P/E ratio of NABILis increasing on FY 2007/08 and starts to decrease continuously. And P/E ratio of SCBNL is higher than of NABIL on all the fiscal years except FY 2006/07.

Figure 4.11

Price-Earnings Ratio



4.1.4.4 Cash Dividend on Share Capital

It measures the market value or profitability of the banks on dividend per equity share. In general higher the ratio, better it is and vice versa.

Table 4.12

Cash Dividend on Share Capital

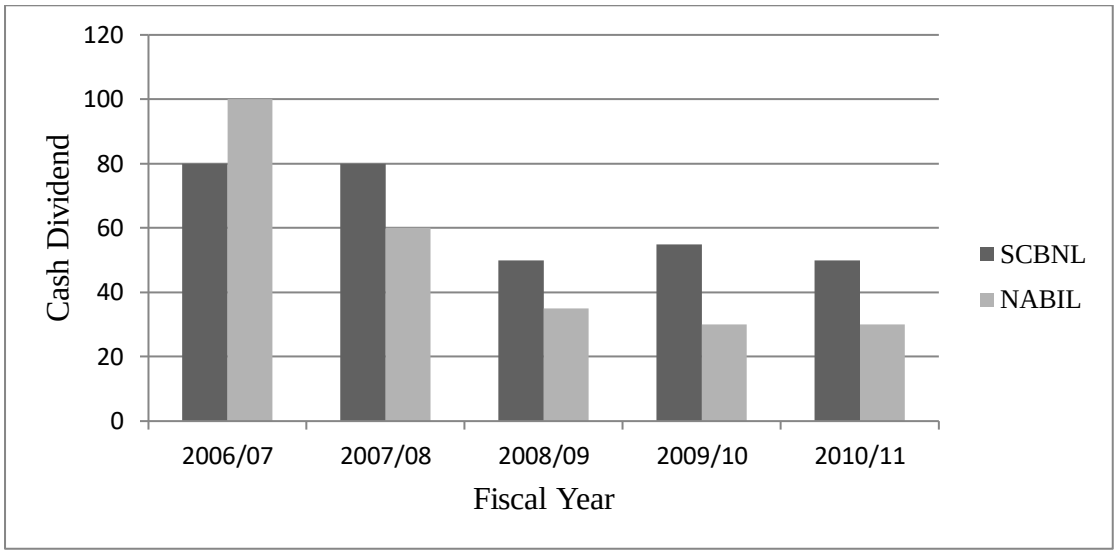
Year	Ratio (%)	
	SCBNL	NABIL
2006/07	80	100
2007/08	80	60
2008/09	50	35
2009/10	55	30
2010/11	50	30
Mean $\overline{X}$	63	51
S.D.	14	26.91
C.V.	22.22	52.76

Appendix I

The table 4.12 shows the cash dividend on share capital of two mentioned banks at which SCBNL has highest average cash dividend i.e. 63% than that of NABIL i.e. 51%. And the variation on cash dividend is higher on NABIL than on SCBNL due to the higher CV.

Figure 4.12

Cash Dividend on Share Capital



The figure 4.12 shows that the decreasing trend of cash dividend on share capital of both banks during the fiscal period. And the cash dividend on SCBNL is high on all the fiscal period except FY 2006/07.

4.1.5 Other Relevant Ratios

To make more analytical & better permeation of comparative performance analysis it is also necessary to compute following relevant ratios.

4.1.5.1 Staff Expenses to Total Operating Ratio

It is conclude that higher ratio means the bank has provided better salary and other allowances. It is also the sign of highly motivated staff. On the other hand, the high ratio affects the net profit. This ratio shows the portion of staff expenses on total operating expenses.

The table 4.13 shows the staff expenses to total operating ratio of sample banks. SCBNL has mean ratio of 23.98% and NABIL has mean ratio of 19.05%. This

reflects that SCBNL has provide better salary and other allowances than NABIL. And the CV of SCBNL and NABIL are 6.13% and 27.35% respectively, which shows a lower fluctuation on staff expenses to total operating ratio of SCBNL and moderate fluctuation of NABIL.

Table 4.13

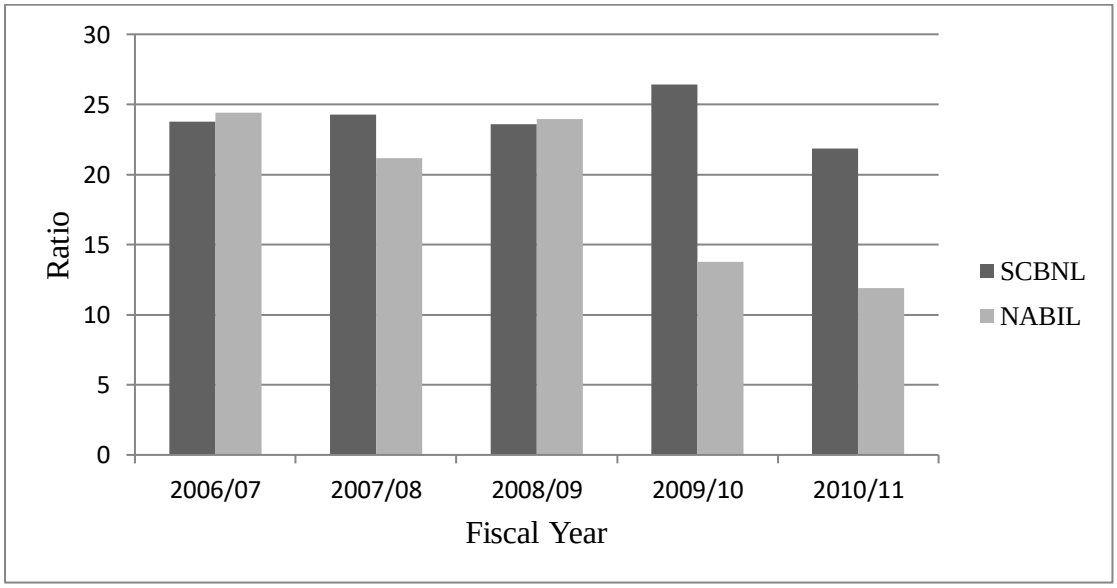
Staff Expenses to Total Operating Ratio

Year	Ratio (%)	
	SCBNL	NABIL
2006/07	23.75	24.41
2007/08	24.28	21.17
2008/09	23.58	23.96
2009/10	26.43	13.79
2010/11	21.86	11.91
Mean $\overline{X}$	23.98	19.05
S.D.	1.47	5.21
C.V.	6.13	27.35

Source: Appendix I

Figure 4.13

Staff Expenses to Total Operating Ratio



The figure 4.13 shows that staff expenses to total operating ratio of two sample banks during the fiscal period. SCBNL has highest ratio than NABIL on the fiscal years except 206/07 and 2008/09.

4.1.5.2 Staff Bonus to Total Staff Expenses Ratio

Provision of staff bonus, one of the important operating expenses of the banks, refers to the extra incentives services. Bonus is distributed if the banks have more profit. A high portion of staff bonus shows that bank has high operating profit.

Table 4.14

Staff Bonus to Total Staff Expenses Ratio

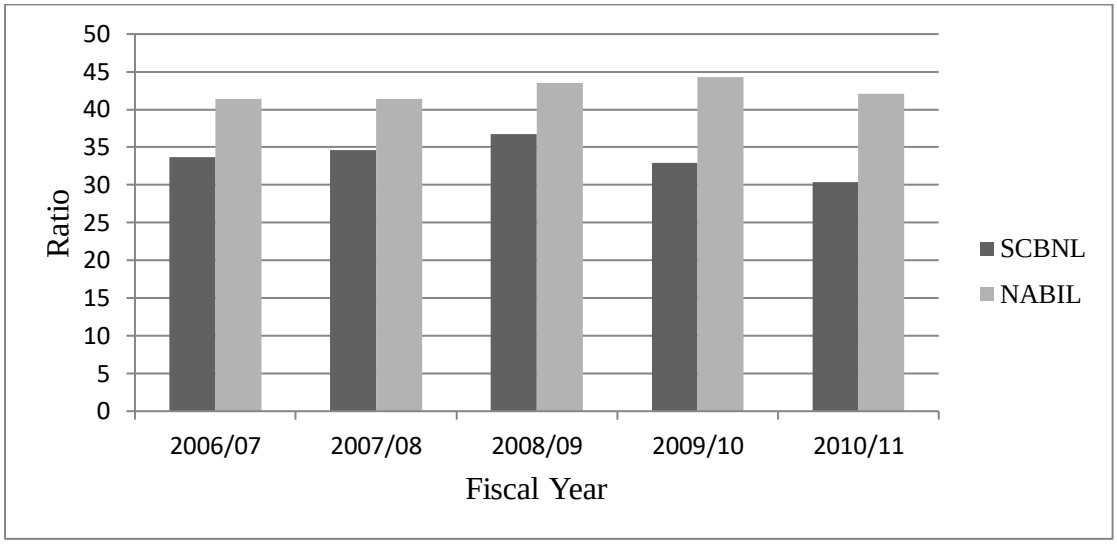
Year	Ratio (%)	
	SCBNL	NABIL
2006/07	33.71	41.43
2007/08	34.63	41.42
2008/09	36.70	43.50
2009/10	32.93	44.29
2010/11	30.40	42.05
Mean $\overline{X}$	33.67	42.54
S.D.	2.07	1.16
C.V.	3.92	2.73

Source: Appendix I

The table 4.14 depicts the staff bonus to total staff expenses ratio of two sample banks. SCBNL has mean ratio of 33.67% and NABIL has mean ratio of 42.54%, which shows that NABIL has higher mean ratio than SCBNL. It indicates that NABIL has higher operating profit than SCBNL. CV of SCBNL and NABIL are 3.92% and 2.73% respectively, which means a very low fluctuation of staff bonus to total staff expenses ratio of both the banks. But the fluctuation of ratio is somewhat larger on SCBNL than NABIL. The figure 4.14 also reflects that a higher staff bonus to total staff expenses on NABIL than SCBNL on all the fiscal years, which indicates a high operating profit of NABIL than SCBNL on every sample period.

Figure 4.14

Staff Bonus to Total Staff Expenses Ratio



4.1.5.3 Weighted Average Interest Rate Spread

The banks provide interest on the deposit they accept from their customers and charge interest on the loan they grant but the rate of interest on deposit and loan is different. This differential amount is main source of income for the banks. In addition, this differential status is represented by weighted average interest rate spread. High spread shows the bank charges rate for the borrowers than they provide for depositors.

Table 4.15

Weighted Average Interest Rate Spread

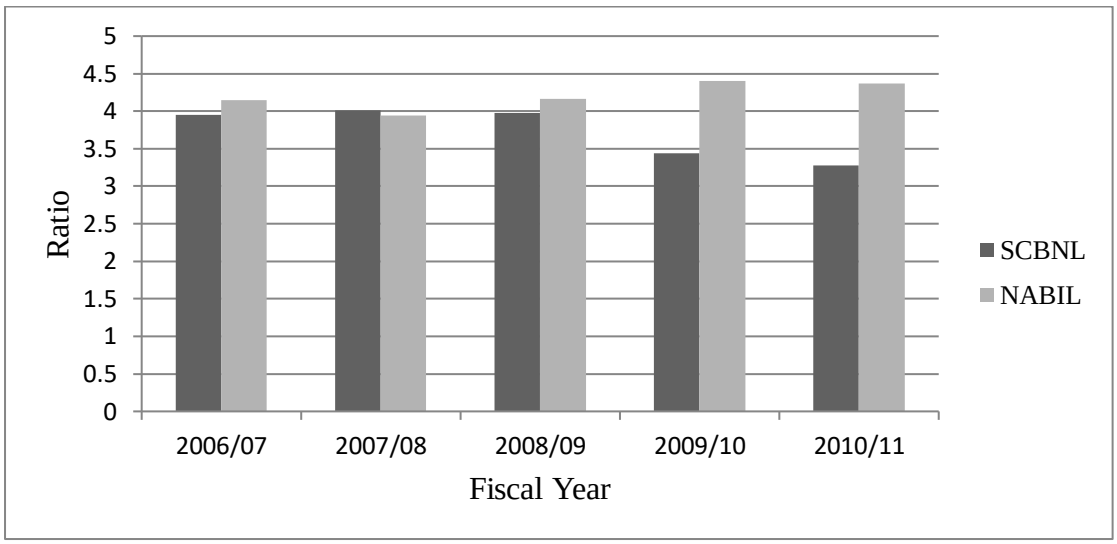
Year	Ratio (%)	
	SCBNL	NABIL
2006/07	3.95	4.15
2007/08	4.01	3.94
2008/09	3.98	4.16
2009/10	3.44	4.40
2010/11	3.28	4.37
Mean $\overline{X}$	3.73	4.20
S.D.	0.31	0.17
C.V.	8.31	4.05

Source: Appendix I

The table 4.15 shows the weighted average interest rate of the banks for the study period. NABIL has higher average weighted average interest rate i.e. 4.37% than that of SCBNL i.e. 3.73%. Higher CV of SCBNL shows the greater variation on weighted average interest rate than that of NABIL.

Figure 4.15

Weighted Average Interest Rate Spread



The figure 4.15 depicts the weighted average interest rate of two sample banks for the five sample period. Ratio of SCBNL is increasing up to FY 2008/09 and starts to decrease, whereas in case of NABIL it is quiet decrease on FY 2007/08 and starts to increase. NABIL has higher ratio than SCBNL on all the fiscal year except 2007/08.

4.1.6 Non-Performing Assets (NPA)

NPA is mostly considered as the banks efficiency indicator of assets utilization and efficient lending & recovery. At present practices, NPA is the major concern for measuring the banking performance.

Table 4.16 shows that the average NPA of NABIL & SCBNL i.e. 0.93% and 1.18% respectively. This is very good signing it means, it is more efficient to utilize its assets and loan recovery. The CV of SCBNL and NABIL are 50.74% and 33.05% respectively. On the basic of CV NPA ratio of SCBNL is most fluctuating due to highest CV than NABIL.

Table 4.16

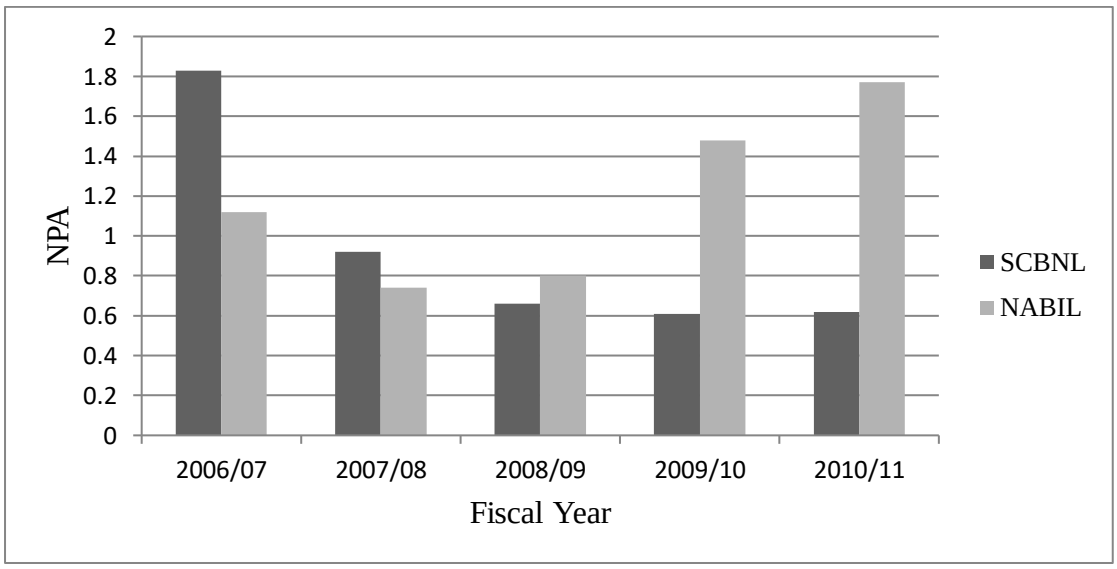
Non-Performing Assets

Year	Ratio	
	SCBNL	NABIL
2006/07	1.83	1.12
2007/08	0.92	0.74
2008/09	0.66	0.80
2009/10	0.61	1.48
2010/11	0.62	1.77
Mean $\overline{X}$	0.93	1.18
S.D.	0.47	0.39
C.V.	50.54	33.05

Source: Appendix I

Figure 4.16

Non-Performing Assets



The figure 4.16 depicts the non performing assets of two sample banks during the FY 2006/07 to 2010/11. In the beginning years NPA ratio of SCBNL is higher whereas in the ending years NABIL has higher NPA ratio than SCBNL. Higher NPA ratio of SCBNL is on FY 2006/07 and lowers on FY 2009/10. And higher NPA ratio of NABIL is on FY 2010/11 and lowers on FY 2007/08.

4.2 Statistical Tools

In this section some statistical tools such as co-efficient of correlation analysis between different variables, trend analysis of deposits, total investment and net profit are used to achieve the objectives of the study.

4.2.1 Correlations Analysis

Correlation between the important variables is analyzed under this heading.

4.2.1.1 Correlation Coefficient between Deposit and Loan and Advance

The following table describes the relationship between deposit and loan and advance of SCBNL & NABIL within five years study period. In this case, deposit is independent variable (X) and loan and advance is dependent variable (Y).

Total 4.17

Correlation Coefficient between Deposits and Loan and Advance

Banks	Base of Evaluation			
	r	r^2	P.E.	6P.E.
SCBNL	0.85	0.72	0.08	0.48
NABIL	0.99	0.98	0.01	0.03

Source: Appendix – IV

From the table 4.17, it is found that coefficient of correlation between deposit and loan and advances of SCBNL is 0.85. And the value of coefficient of determination (r^2) is 0.72 which means 72% of loan and advance decision is depends upon deposit and only 28% of loan and advance is depend upon other variables. Similarly probable error (P.E.) is 0.08 and 0.48 which shows that 'r' is highly greater than 6P.E. therefore it reveals that relationship between deposit and loan and advance is significant.

Likewise in case of NABIL, coefficient of correlation between deposit and credit and advances is 0.99. Coefficient of determination (r^2) is 0.98 which means 98% of loan and advance decision is depends upon deposit and only 2 % of loan and advance is depend upon other variables. Similarly probable error (P.E.) is 0.01 and similarly6P.E

is 0.03 which is lower than 'r' i.e. 0.99. It means correlation of coefficient between deposit and loan and advance of NABIL is significant.

4.2.1.2 Correlation Coefficient between Deposit and Total Investment

The following table describes the relationship between deposit and total investment of SCBNL & NABIL within five years study period. In this case, deposit is independent variables (X) and total investment is dependent variable (Y).

Total 4.18

Correlation Coefficient between Deposit and Total Investment

Banks	Base of Evaluation			
	r	r^2	P.E.	6P.E.
SCBNL	0.83	0.69	0.09	0.54
NABIL	0.97	0.94	0.02	0.12

Source: Appendix – IV

From the table 4.18, it is found that coefficient of correlation between deposit and total Investment of SCBNL is 0.83. And the value of coefficient of determination (r^2) is 0.69 which means 69% of investment decision is depends upon deposit and only 31% of Investment is depend upon other variables. Similarly probable error (P.E.) is 0.09 and 6P.E is 0.54 which shows that 'r' is greater than 6P.E. therefore it reveals that relationship between deposit and investment is significant.

Likewise in case of NABIL, coefficient of correlation between deposit and total Investment is 0.97. Coefficient of determination (r^2) is 0.94 which means 94% of investment decision is depends upon deposit and 6 % of investment is depending upon other variables. And its P.E. is 0.02 and similarly 6P.E. is 0.12 which is lower than 'r'. It means correlation of coefficient between deposit and investment of NABIL is significant.

4.2.2 Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the pattern of growth. Trend Analysis informs about the future expected values of studied

variables. It gives a glimpse of future expected value if the same growth level is achieves. This information is crucial for management to make decision regarding future. This method is widely used in practice.

4.2.2.1 Trend Analysis of Total Deposits

Trend analysis helps to predict the future. Here total deposits of the two mentioned banks are forecasted with the help of trend analysis. Future total deposits of the banks are shown in the table 4.19 as follows:

Table 4.19

Trend Analysis of Total Deposits

Rs. In Millions

Banks	Trend of Total Deposits						
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
SCBNL	24670	29744	35872	35182	37999	39779.2	42987.8
NABIL	23342	31915	37348	46410	49696	57903.18	64623.35

Source: Appendix V

Figure 4.17

Trend Analysis of Total Deposits

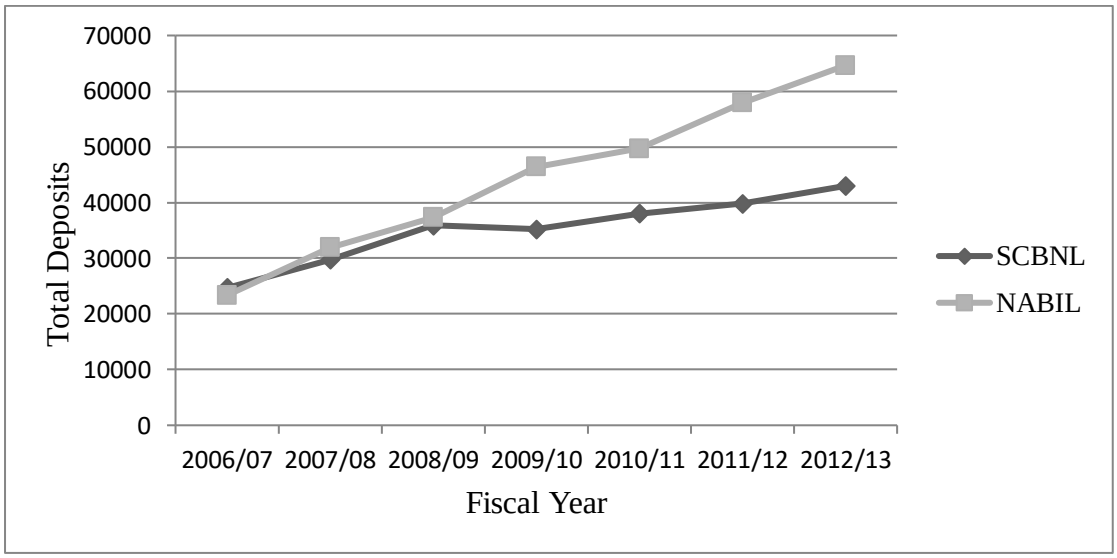


Table 4.19 and figure 4.17 predicts the total deposits of the two mentioned commercial banks for the coming two years on the basis of current five years period.

Slope of the both banks are positive, so that the total deposits of both banks are in increasing trend. Among the two mentioned banks NABIL has higher forecasted total deposits than that of SCBNL. A total deposit of NABIL on fiscal year 2012/13 is 64623.35 millions and of SCBNL on the fiscal year 2012/13 is 42987.8 millions.

4.2.2.2 Trend Analysis of Total Investments

Total investments of the two mentioned banks are forecasted with the help of trend analysis. Future total investments of the banks are shown in the table 4.20 as follows:

Table 4.20

Trend Analysis of Total Investment

Rs. In Millions

Banks	Trend of Total Investment						
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
SCBNL	13556	13927	17375	19871	17283	20421.8	21761.6
NABIL	8956	9966	10874	13714	13085	14923.29	16124.68

Source: Appendix V

Figure 4.18

Trend Analysis of Total Investment

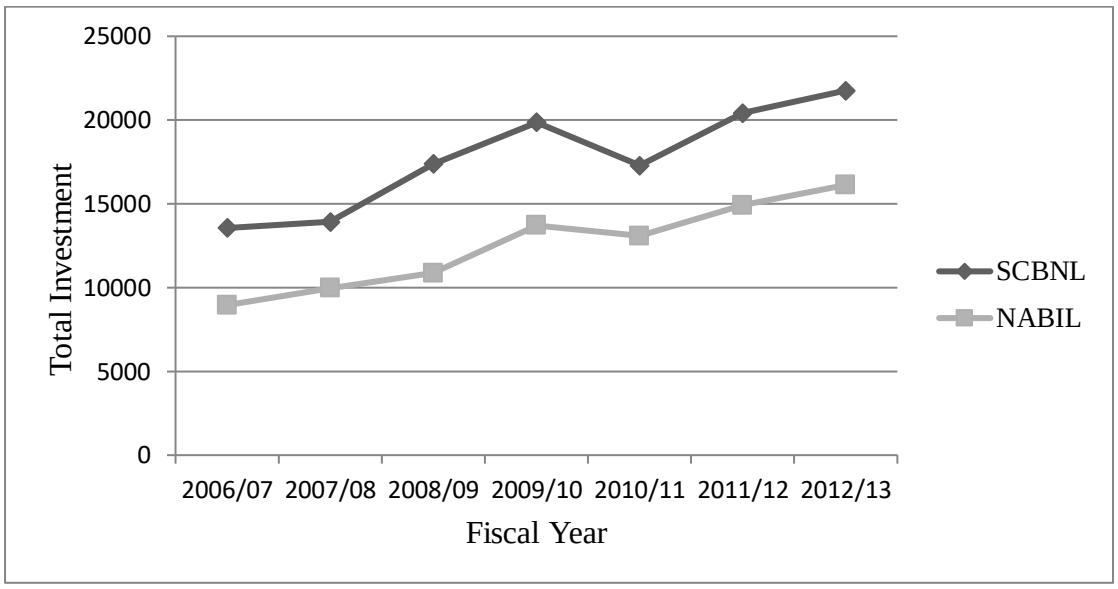


Table 4.20 and figure 4.18 predicts the total investment of the two mentioned commercial banks for the coming two years on the basis of current five years period. Slope of the both banks are positive, so that the total investment of both banks are in

increasing trend. Among the two mentioned banks SCBNL has higher forecasted total investment than that of SCBNL. A total investment of NABIL on fiscal year 2012/13 is 16124.68 millions and of SCBNL on the fiscal year 2012/13 is 21761.6 millions.

4.2.2.3 Trend Analysis of Net Profits

Net profits of the two mentioned banks are forecasted with the help of trend analysis. Future Net profits of the banks are shown in the table 4.21 as follows

Table 4.21

Trend Analysis of Net Profit

Rs. In Millions

Banks	Trend of Net Profit						
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
SCBNL	692	819	1025	1086	1119	1284.5	1396.6
NABIL	673	746	1031	1141	1337	1502.5	1674.8

Source: Appendix V

Figure 4.19

Trend Analysis of Net Profit

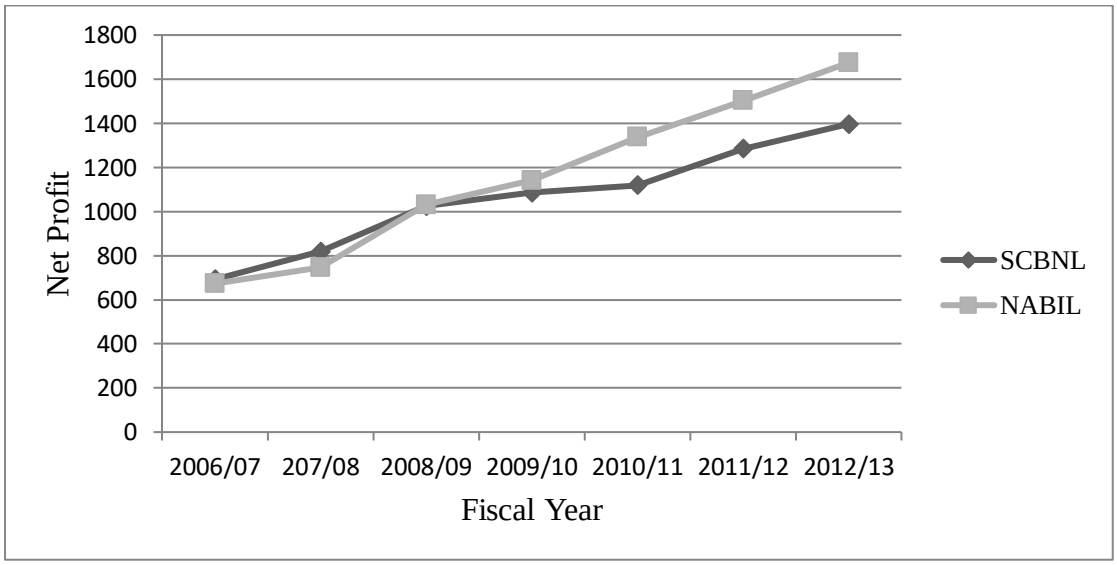


Table 4.21 and figure 4.19 predicts net profit of the two mentioned commercial banks for the coming two years on the basis of current five years period. Slope of the both banks are positive, so that net profit of both banks are in increasing trend. Among the two mentioned banks NABIL has higher forecasted net profit than that of SCBNL. A

net profit of NABIL on fiscal year 2012/13 is 1674.8 millions and of SCBNL on the fiscal year 2012/13 is 1396.6 millions.

4.3 Major Findings of the Study

a) Findings from Liquidity Analysis:

- Average cash reserve ratio of SCBNL and NABIL is not much different and both are near NRB directives of 6.5%. In comparison, SCBNL has higher average CRR than NABIL which measures the ability to meet short-term obligation and reflect the short-term financial strength and solvency of the bank than NABIL.

b) Findings from Profitability Analysis:

- The average net profit margin of SCBNL i.e. 34.84% is higher than that of NABIL i.e. 27.76% and that the net profit margin of SCBNL is more consistent than NABIL.
- SCBNL and NABIL have similar line up of ROA which shows the similar ROA earning banks have similar efficiency in utilizing their assets. Both mentioned banks have lower CV i.e. 3.94% of SCBNL and 5.64% of NABIL, which shows the less fluctuation on ROA of both banks. But the fluctuation of NABIL is quiet high than that of SCBNL.
- The average interest income on loan and advance ratio of SCBNL is 8.43% and of NABIL is 9.58%, which shows that the ratio of NABIL is highest than SCBNL. And the CV of SCBNL and NABIL are 18.27% and 17.64%, which shows that both mentioned banks have lower fluctuations.
- Average operating ratio of SCBNL and NABIL are 3.03% and 4.92% respectively, which shows that NABI has higher average operating ratio than SCBNL. The CV of SCBNL i.e. 13.53% is lowers than NABIL i.e. 23.58%, which reflects that the more consistent of operating ratio of SCBNL than NABIL.

c) Findings from Activity Ratio Analysis

- Mean loan and advance to total deposit ratio of SCBNL is 43.60% and of NABIL is 70.62%. The Standard deviation of loan and advance to total deposit ratio of SCBNL& NABIL were 3.18% and 3.59% respectively and CV of both

SCBNL & NABIL are 9.08% and 5.65% respectively. This indicates that the NABIL bank has successfully mobilized to total deposit.

- The loan and advance to fixed deposit ratio of NABIL has less fluctuation than SCBNL. It can be regarded as that NABIL had mobilized the funds obtained from fixed deposit in a better way than SCBNL banks.
- SCBNL has mean loan and advance to saving deposit ratio of 1 and NABIL has mean ratio of 2.03. CV of SCBNL and NABIL are 37% and 20.20% respectively which shows a more consistent of loan and advance to saving deposit ratio of NABIL than SCBNL.

d) Findings from Market Value Analysis

- SCBNL has average EPS of Rs. 111.29 and NABIL has average EPS of Rs. 104.07, which shows the highest EPS of SCBNL than NABIL. EPS of both banks are decreasing continuously during the fiscal period.
- SCBNL has average NWPS of Rs. 342.11 and NABIL has average NWPS of Rs. 317.20, which shows the highest average NWPS of SCBNL than NABIL. But the CV of SCBNL and NABIL are 30.88% and 21.28% which shows a more variation of NWPS of SCBNL.
- CV of P/E ratio of SCBNL and NABIL are 25.21% and 27.39% respectively which shows moderate fluctuations on both banks, but the fluctuation is high on NABIL than SCBNL due to higher CV.
- There is decreasing trend of cash dividend on share capital of both banks during the fiscal period. And the cash dividend on SCBNL is high on all the fiscal period except FY 2006/07.

e) Findings from Other Relevant Ratios

- SCBNL has mean ratio of staff expenses to total operating ratio of 23.98% and NABIL has mean ratio of 19.05%. This reflects that SCBNL has provide better salary and other allowances than NABIL.
- SCBNL has mean ratio of staff bonus to total staff expenses of 33.67% and NABIL has mean ratio of 42.54%, which shows that NABIL has higher mean ratio than SCBNL. It indicates that NABIL has higher operating profit than SCBNL.

- NABIL has higher average weighted average interest rate i.e. 4.37% than that of SCBNL i.e. 3.73%. Higher CV of SCBNL shows the greater variation on weighted average interest rate than that of NABIL.

f) Findings from Non-Performing Assets (NPA)

- Average NPA of NABIL & SCBNL is 0.93% and 1.18% respectively. This is very good signing it means, it is more efficient to utilize its assets and loan recovery. The CV of SCBNL and NABIL are 50.74% and 33.05% respectively. On the basic of CV NPA ratio of SCBNL is most fluctuating due to highest CV than NABIL.

g) Findings from Correlation Analysis

- The correlation analysis between total deposit and loan & advances results strongly significant relationship between the variables for both banks.
- The correlation between total deposit and investment results significant relationship between the variables for both banks.

h) Findings from Trend Analysis

- Total deposits of both banks are in increasing trend. Among the two mentioned banks NABIL has higher forecasted total deposits than that of SCBNL.
- Slope of the both banks are positive, so that the total investment of both banks are in increasing trend. Among the two mentioned banks SCBNL has higher forecasted total investment than that of SCBNL.
- Slope of the both banks are positive, so that net profit of both banks are in increasing trend. Among the two mentioned banks NABIL has higher forecasted net profit than that of SCBNL.

CHAPTER: V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

In this study, joint venture banks namely, NABIL Bank Ltd. and Standard Chartered Bank Ltd. are chosen for analyzing their financial performance by taking five years' data from 2006/07 - 2010/11. The study is mainly based on secondary sources. All the data are taken from NRB official website, concerned banks annual report, literature publication, balance sheet, profit and loss account, previous thesis report, different website, related books and booklets, journals and articles. After collecting data from different sources, it is analyzed by using financial and statistical tools. Findings are drawn by applying various financial tools viz. liquidity analysis, profitability analysis, activity ratio analysis, market value analysis, other relevant ratios analysis and non performing assets analysis. Similarly, statistical tools have been used viz. mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis.

In an attempt to fulfill the objectives of the research work, all secondary data are compiled, processed and tabulated as per necessity and figures, diagrams, different types of chart are also used. This study suffer from different limitation: it considers two banks only and time and resource are the constraints of the study. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization.

Average cash reserve ratio of SCBNL and NABIL is not much different and both are near NRB directives of 6.5%. In comparison, SCBNL has higher average CRR than NABIL which measures the ability to meet short-term obligation and reflect the short-term financial strength and solvency of the bank than NABIL.

The average net profit margin of SCBNL i.e. 34.84% is higher than that of NABIL i.e. 27.76% and that the net profit margin of SCBNL is more consistent than NABIL. SCBNL and NABIL have similar line up of ROA which shows the similar ROA

earning banks have similar efficiency in utilizing their assets. The average interest income on loan and advance ratio and operating ratio NABIL is higher than SCBNL.

Mean loan and advance to total deposit ratio of SCBNL is 43.60% and of NABIL is 70.62%. The Standard deviation of loan and advance to total deposit ratio of SCBNL& NABIL were 3.18% and 3.59% respectively and CV of both SCBNL & NABIL are 9.08% and 5.65% respectively. This indicates that the NABIL bank has successfully mobilized to total deposit. The loan and advance to fixed deposit ratio of NABIL has less fluctuation than SCBNL. It can be regarded as that NABIL had mobilized the funds obtained from fixed deposit in a better way than SCBNL banks. SCBNL has mean loan and advance to saving deposit ratio of 1 and NABIL has mean ratio of 2.03.

SCBNL has average EPS of Rs. 111.29 and NABIL has average EPS of Rs. 104.07, which shows the highest EPS of SCBNL than NABIL. EPS of both banks are decreasing continuously during the fiscal period. SCBNL has average NWPS of Rs. 342.11 and NABIL has average NWPS of Rs. 317.20, which shows the highest average NWPS of SCBNL than NABIL. CV of P/E ratio of SCBNL and NABIL are 25.21% and 27.39% respectively which shows moderate fluctuations on both banks, but the fluctuation is high on NABIL than SCBNL due to higher CV. There is decreasing trend of cash dividend on share capital of both banks during the fiscal period.

SCBNL has mean ratio of staff expenses to total operating ratio of 23.98% and NABIL has mean ratio of 19.05%. This reflects that SCBNL has provided better salary and other allowances than NABIL. SCBNL has mean ratio of staff bonus to total staff expenses of 33.67% and NABIL has mean ratio of 42.54%, which shows that NABIL has higher mean ratio than SCBNL. It indicates that NABIL has higher operating profit than SCBNL. NABIL has higher average weighted average interest rate i.e. 4.37% than that of SCBNL i.e. 3.73%. Higher CV of SCBNL shows the greater variation on weighted average interest rate than that of NABIL.

Average NPA of NABIL & SCBNL is 0.93% and 1.18% respectively. This is very good signing it means, it is more efficient to utilize its assets and loan recovery. The

CV of SCBNL and NABIL are 50.74% and 33.05% respectively. On the basic of CV NPA ratio of SCBNL is most fluctuating due to highest CV than NABIL. The correlation analysis between total deposit and loan & advances and between total deposit and investment results significant relationship between the variables for both banks. Total deposits, total investment and net profit are in increasing trend in both banks.

5.2 Conclusions

Following conclusions have been drawn from this research work:

Liquidity ratios are calculated to identify the situation of immediate cash and equipments to repay the customers and to meet other immediate liabilities at the time of demand. CRR of both banks are near NRB directives i.e. 6.5%, but quiet low. In comparison SCBNL has higher average CRR than NABIL which measures the ability to meet short-term obligation and reflect the short-term financial strength and solvency of the bank than NABIL.

Among the sample banks, SCBNL has higher average than NABIL which shows a better performance than NABIL. SCBNL and NABIL have similar line up of ROA which shows the similar ROA earning banks have similar efficiency in utilizing their assets. NABIL has higher operating ratio than SCBNL. NABIL has average loan and advance to total deposit ratio than SCBNL which shows that NABIL bank has successfully mobilized to total deposit. The loan and advance to fixed deposit ratio of NABIL has less fluctuation than SCBNL. It can be regarded as that NABIL had mobilized the funds obtained from fixed deposit in a better way than SCBNL banks.

SCBNL has highest EPS than NABIL. EPS of both banks are decreasing continuously during the fiscal period. There is decreasing trend of cash dividend on share capital of both banks during the fiscal period. And the cash dividend on SCBNL is high on all the fiscal period except FY 2006/07. SCBNL has higher mean ratio of staff expenses to total operating ratio than NABIL which reflects that SCBNL has provide better salary and other allowances than NABIL. NABIL has higher mean ratio of staff bonus to total staff expenses than SCBNL. It indicates that NABIL has higher operating profit than SCBNL.

From coefficient of correlation SCBNL and NABIL have positive and significant relationship between total deposit and loan and advance and between total deposit and total investment. Trend analysis shows the increasing trend of total deposit, total investment and net profit.

5.3 Recommendation

Based on the analysis, interpretation & conclusions, some of the major recommendations are mentioned as bellow:

- On the basis of liquidity ratio analysis it is found that select banks have the cash reserve ratio of nearly NRB directives, but quiet lower. Thus, it is recommended following NRB directives. To maintain liquidity in perfect, all banks have to follow the mid way, i.e. they should invest the idle deposit in productive sector and on the other hand they have enough cash balance to meet current requirement.

- On the basis of profitability ratio analysis, net profit margin measures the overall profitability of the firm by establishing relationship between profit and sales revenue whereas NPM is decreasing in the latest years. So NPM should increase for the better performance. 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. Operating expenses like administrative expenses, interest on short-term loan, discount allowed and bad debts can be reduced to increase net profit.

- As a private sector, banks cannot keep their eyes closed from the profit motive. They should be careful in increasing profit in a real sense to maintain the confidence of shareholder, depositors and all its customers. NABIL's profitability position is high than that of SCBNL. So NABIL is recommended to utilize risky assets and shareholder funds to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect cheap fund being more profitable.

- On the basis of activity ratio analysis it is found that all the selected banks have emphasized on issuing loan and advances. But as we know that the

increasing bottleneck competition and worsening economic and political condition has attributed this area to be very sensitive and risky. Therefore, it is suggested them to invest non-risky assets to increase the level of profit.

- Share holders are the real owners of the organization. So they should have the satisfaction with the rate of return on equity provided by the banks. To some extent, SCBNL and NABIL have been successful in providing a better return but in decreasing order.

- It is generously recommended to the banks to make comparatively sound contribution towards staff bonus out of total staff expenses at viewpoint of employee satisfaction and their effective utilization. This is must to maintain employee motivation and productivity.

- High weighted interest rate helps directly positively to net income, on the other hand low borrowing rate and high lending rate may discourage both lender and borrowers. So the banks should think about it. These sample banks have generally a quiet good interest rate spread so they should keep it constant.

- NPA is the most sensitive part of banking performance. The effectiveness of loan & recovery is depicted from NPA position. It is key variable for measuring bank's performance. The sample banks showing good performance in decreasing the NPA over the study period. So, these banks are recommended to keep the current performance so that NPA can be lowered down.

- Further studies can be conducted by increasing sample size, by increasing number of observations and by using other methodologies.

BIBLIOGRAPHY

Books

Cheney and Moses (1993), *"Introduction to Financial Management",* New York: Macmillan Publishing Company.

Hilton and Ronald (2002), *"Basic Business Finance",* New York: Inc Homewood Publications.

Khan, M.Y. & Jain, P.K. (1999), *"Financial Management",* New Delhi: Tata McGraw-Hill Publishing Company Ltd.

Munakarmi (2002), *"Financial Management",* New Delhi: Vikash Publishing House Pvt. Ltd.

Ojha, P.K. (2000), "*Financial Performance and common stock pricing",* Kathmandu: The Nepalese Management Review.

Pandey, I.M. (1982), *"Financial Management",* New Delhi: Vikash Publishing House Pvt. Ltd.

Pandey, I.M. (1995), *"Financial Management",* New Delhi: Vikash Publishing House Pvt. Ltd.

Pandey, I.M. (1999), *"Financial Management"*, New Delhi: Vikas Publishing House Pvt. Ltd.

Pearson, H., William, C.M. & Gordon, D. (1972), *"Basic Business Finance",* New York: Inc Homewood Publications.

Pradhan, S. (1992), *"Basics of Financial Management",* Kathmandu: Education Enterprises Pvt. Ltd.

Srivastava, R.M (2001), *"Financial Management and Policy"*, Mumbai: Himalaya Publishing House.

Van Horne, J.C. (1993), "*Financial Management and Policy",* New Delhi: Prentice Hall of India Pvt. Ltd.

Van Horne, J.C. (1998), *"Financial Management and Policy",* New Delhi: Prentice Hall of India.

Van Horne, J.C. (2000), *"Financial Management and Policy"*, New Delhi: Prentice Hall.

Wagle and Dahal (2004), *"Basics of Financial Management",* Kathmandu: Education Enterprises Pvt. Ltd.

Western, J.F., & Copeland, T.E. (1991), "*Short Term Financial Management".* New York: Prentice Hall.

Western, J.F., Beasley, S., & Brigham, E.F. (1987), "*Essential Managerial Finance",* New York: The Dryden Press, Harcourt Brace Publisher.

Western, J.F., & Copeland, T.E. (1991), "*Short Term Financial Management",* New York: Prentice Hall.

Articles and Journals

Ali (2011), *"Practical Implication of Financial Performance Theories: Empirical Evidence from Banks of Pakistan",* Calabar: Von Nostard Company.

Gautam (2004), "*WTO and Challenges of Financial Services Liberalization*," Nepal Rastra Bank Samachar: Kathmandu.

Shaka (2011), *"Training Manual on Fund Raising and Resource Mobilization for Charities and small NGO",* Aarthik Karobar: Kathmandu.

Thapa (2008) *"Nepal Banking System: Can on the Mess be Managed",* Nepal Rastra Bank Samachar: Kathmandu.

Yadav (2006) in his articles *"The growing trend of consumer banking",* The Nepalese Management Review: Kathmandu.

Thesis

Bhattarai, K. (2008), *"A Comparative Analysis of Financial Performance of NABIL, NIBL and SCBNL".* An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U.

Jha, A. (2001), "*A Comparative Study on Financial Performance of NGBL and NSBL",* An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U.

Lohani, P. (2011), *"A Comparative Study on Financial Performance Analysis of Commercial Bank's".* An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U.

Maharjan, M. (2010), *"A Study on Financial Performance of Standard Chartered Bank Nepal Limited".* An Unpublished Master Degree Thesis, Tribhuvan University.

Pradhan, R. (2004), *"A comparative study on financial performance of HBL and SCBNL"*. An Unpublished Master Degree Thesis, Nepal Commerce Campus, T.U.

Sadula, R. (2007), *"Financial Performance of Commercial Banks and Returns to Investors: With Special Reference to BOK, EBL, SCBNL, NIBL, NABIL".* An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U.

Subedi, R. P. (2009), *"Financial Performance Analysis of NABIL, HIMALAYAN, EVEREST, and STANDARD CHARTERED banks".* An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U.

Upreti, S. (2007), *"A Comparative Study on Financial Performance of NIBL, HBL, SCBNL and EBL"*. An Unpublished Master Degree Thesis, Nepal Commerce Campus, T.U.

Web Sites

www.nbl.com.np

www.scbnl.com.np

www.nepalstock.com

www.nrb.org.np

APPENDIX

Appendix - I

Five Years Financial Summary of NABIL

Particulars	2006/07	2007/08	2008/09	20009/10	2010/11
Cash Reserve Ratio (In %)	6.00	8.37	9.03	3.02	4.90
Net Profit Margin (In %)	32.16	29.68	30.56	24.11	22.29
Return on Assets (In %)	2.72	2.32	2.55	2.37	2.43
Int. Income on Loan and Advance (In %)	8.14	8.04	8.82	10.41	12.50
Operating Ratio (In %)	3.97	3.86	4.34	5.54	6.91
Loan and Advance (Rs. In millions)	15455.78	21365.05	27589.93	32268.87	28034.10
Total Deposit (Rs. In millions)	23342.75	31915.48	37348.25	46410.70	49696
Fixed Deposit (Rs. In millions)	5435.20	8464.1	8310.7	14711.16	16840
Saving Deposit (Rs. In millions)	10187	12159	14620	13783	14288
Earnings per Share (In Rs.)	137.08	115.86	113.44	83.81	70.67
Net Worth per Share (In Rs.)	418	354	324	265	225
P/E Ratio (In times)	36.84	45.53	43.19	30.33	19.00
Cash Dividend on Share Capital (In %)	100	60	35	30	30
Staff Expenses to Total Operating Ratio (In %)	24.41	21.17	23.96	13.76	11.91
Total Investment (In Millions)	8956	9966	10874	13714	13085
Staff Bonus to Total Staff Expenses (In %)	41.43	41.42	43.50	44.29	42.50
Weighted Average Interest Rate Spread (In %)	4.15	3.94	4.16	4.40	4.37
Non- Performing Asset (In %)	1.12	0.74	0.80	1.48	1.77

Source: Annual Reports of Respective Banks

Five Years Financial Summary of SCBNL

Particulars	2006/07	2007/08	2008/09	20009/10	2010/11
Cash Reserve Ratio (In %)	5.46	5.84	8.18	6.74	6.10
Net Profit Margin (In %)	34.55	34.94	36.84	36.47	31.40
Return on Assets (In %)	2.42	2.46	2.56	2.70	2.55
Int. Income on Loan and Advance (In %)	7.11	6.65	8.54	8.78	11.05
Operating Ratio (In %)	2.94	2.78	2.68	2.94	3.82
Loan and Advance (Rs. In millions)	10538	13355	13119	15932	18427
Total Deposit (Rs. In millions)	24670	29744	35872	35182	37999
Fixed Deposit (Rs. In millions)	3196.5	3301.1	7107.7	9175.1	10136.24
Saving Deposit (Rs. In millions)	15244	17856	19146	12430	11619
Total Investment (In millions)	13556	13927	17375	19871	17283
Earnings per Share (In Rs.)	167.37	131.92	109.99	77..65	69.51
Net Worth per Share (In Rs.)	512.12	401.52	327.53	240.95	228.41
P/E Ratio (In times)	35.25	51.77	54.64	42.23	25.90
Cash Dividend on Share Capital (In %)	80	80	50	55	50
Staff Expenses to Total Operating Ratio (In %)	23.75	24.28	23.58	26.43	21.86
Staff Bonus to Total Staff Expenses (In %)	33.71	34.63	36.70	32.93	30.40
Weighted Average Interest Rate Spread (In %)	3.95	4.01	3.98	3.44	3.28
Non- Performing Asset (In %)	1.83	0.92	0.66	0.61	0.62

Source: Annual Reports of Respective Banks

Appendix-II (A)

Calculation of Loan and Advances to Total Deposit Ratio

Rs. (In Millions)

Banks	Fiscal Year				
	2006/07	**2007/08**	**2008/09**	**2009/10**	**2010/11**
SCBNL					
Loan & Advance	10538	13355	13119	15932	18427
Total deposit	24640	29744	35872	35183	37999
Ratio %	42.77	44.90	36.57	45.28	48.49
NABIL					
Loan & Advance	15455.78	21365.05	27589.93	32268.87	38034.10
Total deposit	23342.75	31915.48	37348.25	46410.70	49696
Ratio %	66.21	66.94	73.87	69.53	76.53

Sources: Appendix I

Appendix-II (B)

Calculation of Loan and Advance to Fixed Deposit Ratio

(Rs. In Millions)

Name of Bank	Particulars	Fiscal Year				
		2006/07	**2007/08**	**2008/09**	**2009/10**	**2010/11**
SCBNL	Loan & Advance	10538	13355	13119	15932	18427
	Fixed Deposit	3196.5	3301.1	7101.7	9175.1	10136.24
	Ratio	3.30	4.05	1.85	1.74	1.82
NABIL	Loan & Advance	15455.78	21365.05	27589.93	32268.87	38034.10
	Fixed Deposit	5435.2	8464.1	8310.7	14711.16	16840
	Ratio	2.84	2.52	3.32	2.19	2.26

Sources: Appendix I

Appendix-II (C)

Calculation of Loan and Advance to Saving Deposit Ratio

(Rs. In Millions)

Name of Bank	Particulars	Fiscal Year				
		2006/07	**2007/08**	**2008/09**	**2009/10**	**2010/11**
SCBNL	Loan & advance	10538	13355	13119	15932	18427
	Saving Deposit	15244	17856	19146	12430	11620
	Ratio	0.69	0.75	0.69	1.28	1.59
NABIL	Loan & advance	15455.78	21365.05	27589.93	32268.87	38034.10
	Saving Deposit	10187	12159	14620	13783	14288
	Ratio	1.52	1.76	1.89	2.34	2.66

Sources: Appendix I

Appendix III

Calculation of Mean *($\bar{X}$),* Standard Deviation (SD)

And Coefficient of variation (CV)

Cash Reserve Ratio of NABIL

Year	Cash Reserve Ratio (X)	X^2
2006/07	6.00	36.00
2007/08	8.37	70.06
2008/09	9.03	81.54
2009/10	3.02	9.12
2010/11	4.90	24.01
Total	31.32	220.73

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{31.32}{5} = 6.26$$

$$\text{Standard Deviation}(\sigma) = \sqrt{\frac{\sum X^2}{N} - (\frac{\sum X}{N})^2}$$

$$= \sqrt{\frac{220.73}{5} - (\frac{31.32}{5})^2} = 2.22$$

$$\text{Coefficient of variation (CV)} = \frac{\sigma}{\bar{X}} \times 100\%$$

$$= \frac{2.22}{6.26} \times 100\% = 35.46$$

Similarly, calculation is done for others ratio.

Appendix-IV (A)

Calculation of Correlation coefficient between Deposits and Loan & Advances of NABIL

(Rs. In Millions)

Year	Deposits(X)	Loan & Advance(Y)	XY	X^2	Y^2
2006/07	23342.75	15455.78	360780408.6	544883977.6	238881135.4
2007/08	31915.48	21365.05	681875826	1018597864	456465361.5
2008/09	37348.25	27589.93	1030435603	1394891778	761204237.4
2009/10	46410.70	32268.87	1497620845	2153953074	1041279971
2010/11	49696	38034.10	1890142634	2469692416	1446592763
N=5	$\sum X$= 188713.18	$\sum Y$= 134713.73	$\sum XY$= 5460855317	$\sum X^2$= 7582019110	$\sum Y^2$= 3944423468

We have,

$$\text{Correlation coefficient(r)} = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 \times 5460855317 - 188713.18 \times 134713.73}{\sqrt{5 \times 7582019110 - (188713.18)2} \times \sqrt{5 \times 3944423468 - (134713.73)2}}$$

= 0.99

Coefficient of Determination (r^2) = r × r = 0.98

Again Probable Error of NABIL,

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}} = 0.6745 \times \frac{1 - 0.98}{\sqrt{5}} = 0.01$$

Appendix-IV (B)

Calculation of Correlation coefficient between Deposits and Loan & Advances of SCBNL

(Rs. In Millions)

Year	Deposits(X)	Loan & Advance(Y)	XY	X^2	Y^2
2006/07	24670	10538	259972460	608608900	111049444
2007/08	29744	13355	397231120	884705536	178356025
2008/09	35872	13119	470604768	1286800084	172108161
2009/10	35182	15932	560519624	1237773124	253828624
2010/11	37999	18427	700207573	1443924001	339554329
N=5	∑X= 163467	∑Y= 71371	∑XY= 2388535545	$\sum X^2$= 5461811645	$\sum Y^2$= 1054896583

We have,

$$\text{Correlation coefficient(r)} = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 \times 2388535545 - 163467 \times 71371}{\sqrt{5 \times 5461811645 - (163467)2} \times \sqrt{5 \times 1054896538 - (71371)2}}$$

= 0.85

Coefficient of Determination (r^2) = r × r = 0.72

Again Probable Error of SCBNL,

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}} = 0.6745 \times \frac{1 - 0.72}{\sqrt{5}} = 0.08$$

Appendix-IV (C)

Calculation of Correlation Coefficient between Deposits and Total Investment of NABIL

(Rs. In Millions)

Year	Deposits(X)	Total Investment(Y)	XY	X^2	Y^2
2006/07	23342.75	8956.31	209064905.3	544883977.6	80215488.82
2007/08	31915.48	9966.56	318087546.3	1018597864	99332318.23
2008/09	37348.25	10874.81	406155122.6	1394891778	118261492.5
2009/10	46410.70	13714.51	636500009.3	2153953074	188087784.5
2010/11	49696	13085.77	650310425.9	2469692416	171237376.5
N=5	$\sum X$= 188713.18	$\sum Y$ = 56597.96	$\sum XY$= 2220118009	$\sum X^2$= 7582019110	$\sum Y^2$= 657134460.6

We have,

$$\text{Correlation coefficient(r)} = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 \times 2220118009 - 188713.18 \times 56597.96}{\sqrt{5 \times 7582019110 - (188713.18)2} \times \sqrt{5 \times 657134460.6 - (56597.96)2}}$$

= 0.97

Coefficient of Determination (r^2) = r × r = 0.94

Again Probable Error of NABIL,

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}} = 0.6745 \times \frac{1 - 0.94}{\sqrt{5}} = 0.02$$

Appendix-V

Calculation of Trend Analysis

Total Deposits of NABIL

Year (X)	x=X-A	Total deposits (Y)	x^2	xY
2006/07	-2	23342.75	4	-46685.5
2007/08	-1	31915.48	1	-31915.48
2008/09	0	37348.25	0	0
2009/10	1	46410.70	1	46410.70
2010/11	2	49696	4	99392
Total		∑Y= 188713.18	$\sum x^2 = 10$	∑xY= 67201.72

Assume,

A=2009

Now,

$$a = \frac{\sum Y}{N} = \frac{188713.18}{5} = 37742.64$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{67201.72}{10} = 6720.172$$

Now for coming years,

For 11/12,

$Y = a + bx$

$= 37742.64 + (6720.172 \times 3)$

$= 57903.16$

For 12/13,

$Y = a + bx$

$= 37742.64 + (6720.172 \times 4)$

$= 64623.33$

Total Deposits of SCBNL

Year (X)	x=X-A	Total deposits (Y)	x^2	xY
2006/07	-2	24670	4	-49340
2007/08	-1	29744	1	-29744
2008/09	0	25872	0	0
2009/10	1	35182	1	35182
2010/11	2	37999	4	75998
Total		$\sum Y$=153467	$\sum x^2 = 10$	$\sum xY$= 32086

Assume,

A=2009

Now,

$$a = \frac{\sum Y}{N} = \frac{153467}{5} = 30693.4$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{32086}{10} = 3208.6$$

Now for coming years,

For 11/12,

$Y = a + bx$

$= 30693.4 + (3208.6 \times 3)$

$= 39779.2$

For 12/13,

$Y = a + bx$

$= 30693.4 + (3208.6 \times 4)$

$= 42987.8$

Total Investment of NABIL (In Millions)

Year (X)	x=X-A	Total investment (Y)	x^2	xY
2006/07	-2	8956.31	4	-17912.62
2007/08	-1	9966.56	1	-9966.56
2008/09	0	10874.81	0	0
2009/10	1	13714.51	1	13714.51
2010/11	2	13085.77	4	26171.54
Total		$\sum Y = 56597.96$	$\sum x^2 = 10$	$\sum xY = 12013.90$

Assume,

A=2009

Now,

$$a = \frac{\sum Y}{N} = \frac{56597.96}{5} = 11319.12$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{12013.9}{10} = 1201.39$$

Now for coming years,

For 11/12,

$Y = a + bx$

$=14923.26$

For 12/13,

$Y = 16124.68$

Total Investment of SCBNL

Year (X)	x=X-A	Total investment (Y)	x^2	xY
2006/07	-2	13556	4	-27112
2007/08	-1	13927	1	-13927
2008/09	0	17375	0	0
2009/10	1	19871	1	19871
2010/11	2	17283	4	34566
Total		$\sum Y = 82012$	$\sum x^2 = 10$	$\sum xY = 13398$

Assume,

A=2009

Now,

$$a = \frac{\sum Y}{N} = \frac{82012}{5} = 16402.4$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{13398}{10} = 1339.8$$

Now for coming years,

For 11/12,

$Y = a + bx$

$Y = 20421.8$

For 12/13,

$Y = a + bx$

$Y = 21761.6$

Total Profit of NABIL

Year (X)	x=X-A	Total Profit (Y)	x^2	xY
2006/07	-2	673	4	-1346
2007/08	-1	746	1	-746
2008/09	0	1031	0	0
2009/10	1	1142	1	1142
2010/11	2	1337	4	2674
Total		$\sum Y = 4929$	$\sum x^2$	$\sum xY = 1723$

Assume,

A=2009

Now,

$$a = \frac{\sum Y}{N} = \frac{4929}{5} = 985.6$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{1723}{10} = 172.30$$

Now for coming years,

For 11/12,

$Y = a + bx$

$= 1502.5$

For 12/13,

$Y = 1674.8$

Total Profit of SCBNL

Year (X)	x=X-A	Total Profit (Y)	x^2	xY
2006/07	-2	692	4	-1384
2007/08	-1	819	1	-819
2008/09	0	1025	0	0
2009/10	1	1086	1	1086
2010/11	2	1119	4	2238
Total		$\sum Y = 4741$	$\sum x^2$	$\sum xY = 1121$

Assume,

A=2009

Now,

$$a = \frac{\sum Y}{N} = \frac{4741}{5} = 948.2$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{1121}{10} = 112.1$$

Now for coming years,

For 11/12,

$Y = a + bx$

$= 1284.5$

For 12/13,

$Y = 1396.6$