

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Capital plays vital role in the economic development of a country. The major concern of many countries of the world has been to accelerate their development process and increase the welfare of their people. This can be done through sound investment. And for mobilization of inevitable resources from one sector to another, banks plays very important role of bridging of the deficit units. They are vital to long term growth and prosperity of economy since they provide the channel though which needed fund can be raised. It is a mechanism though which public savings are channelized to industrial and enterprise.

The growth of financial institution in a country depends upon the amount of savings available, proper organization of intermediary, to bring the investors and business ability together for mutual interest. The capital required for corporation is not possible without the help of the financial institution; the capital market is such powerful machinery which gives opportunity to the investors to invest their saving in ordinary share, debentures and government securities.

Private sector and public sector both can play the vital role for the growth of the economy of any country. Integrated and speedily development of the country is possible only when competitive banking service reaches nook and comers of the country. Commercial banks occupy an important place in the framework of every economy because they provide capital for the development of the industry, trade business and other resources deficit sectors by investing the saving collected as deposits. All the economic activities of each and every country are greatly influenced by the commercial banking business of the country.

The relationships between bank and business activities are inter-dependence. The necessary part of the business activities are banks which are established to safeguard people's money and there by using the money in making loans and investments. There are several commercial banks operating inside and outside the valley. Every bank

invest its money some profitable financial sector, which many result in profitable business in the long range. An investment is the commitment of money that is expected to generate additional money. Human nature doesn't satisfy for whatever he/she has at present tends to have more than whatever he/she has. So expecting the additional return he/she tends to sacrifice the current resources. Whenever we talk about the return risk too much not be avoided, because in every step and type of return, risk is involved. So we can say "no" risk can gain "no" return.

The network of a well-organized financial system of the country has great bearing in capital formation. It collects scattered financial resources from the masses and invests them among those engaged in commercial and economic activities of the country. It has been well established that the economic activities of any country can hardly be carried forward without the assistance and support of financial institutions. Financial institutions have catalytic role in the process of economic development. Thus, commercial banks have become the heart of financial system. A key factor key in the development country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective. CBs formulate sound investment policies, which help maximize quality of investment and eventually contribute to the economic growth of a country. (Helfert, 1992)

Nepalese banking sector has faced drastic change. From few government banks providing limited services, Nepalese banking sector has come a long way with large numbers of banks and financial institutions offering wide range of services. At present, the industry is witnessing a phase of competition. Consumers have seen a quantum leap in the quality of offered by commercial banks. The role of commercial bank in every nation of world is purist of attaining the goal of rapid economic development.

The market share of commercial banks clearly shows the government banks are largest commercial bank in term of capital fund, deposit mobilization and loan and advances. However, the private sectors banks are more profitable than the government owned banks.

In the Nepalese context, the Nepal commercial Banks act 2031 B.S. defines a commercial bank as one that exchange money, accepts deposit grants loans and performs commercial banking function.

Pandey (1997), define the main functions of commercial banks is accepting deposit and advancing loans. Bank is a financial institution that deals with monetary transactions. In acts as intermediates between those who have surplus money and those who need it. Banks attracts the inoperative saving accounts or fixed account according to the desire of the customers. Bank attracts the inoperative savings of the public in the form of deposit. The deposits are maintained by banks as current account, saving accounts or fixed account according to the desire of customers. Bank further invests their deposits or lends it to business man and traders for interest earning. Due to the function, bank is contribution a lot in boosting the economy of the nation in various activities of agricultural, commercial and industrial sector.

Nowadays, banks have also been observed providing the credit in consumption spending through a number of electronic cards such as credit cards, debit cards, and the smart cards. Out of these three electronic cards, credit cards seem to be the most popular form of installment credit available to consumers. Through the encoded piece of plastic, the consumer has instant access to credit for any purchase up to a pre-specified limit. In the financial language, the credit cards has removed the liquidity constraint that restricted the spending power of thousands consumers, demo crazing access to credit and spending power. These cards are used for very different purposes today, depending on the income and lifestyle of the user. Customers who use credit card merely as a substitute for cash are referred as convince users. These people tend to be in upper and stable income brackets and do not necessarily seek stores accepting their cards. Customers who maintain large outstanding credit card balances are referred to as installment users because they pay only a portion of their outstanding balance each month. These individuals frequently are in lower and middle income brackets and tend to be the most profitable credit card customers for card issuing banks.

1.2 Statement of the Problems

Although banking industry in Nepal is making remarkable progress and growth it's not without the problem. At the present context the main problems faced by the business sector as well as banking sector is the unstable situation and poor economic

growth of the country but besides these common problems another problem faced by the banking industry is the lack of optimal structure. The success and prosperity of a bank relies heavily on the maximization of the financial performance analysis is not proportionate which in turn affects the value maximization of the bank.

The present study focuses on the existing financial performance analysis of some selected banks. More specifically this seeks to solve the answer of following questions.

- How sound is the operational result in relation to their profitability?
- What are the comparative position of two banks in terms of liquidity, leverage capital adequacy and profitability?
- How sound is the operational result in relation to their profitability?

1.3 Objectives of the Study

Every part of activity has its own objectives. The objective of the study is to evaluate the comparative analysis of financial performance of NABIL and SCBNL with the help of ratio analysis and other portfolios. Besides, the following specific objectives are to support the evaluation and comparison of the efficiency and progress of these banks.

- To analyze liquidity, leverage, capital adequacy and profitability position of selected banks.
- To examine the trend of total deposit , total investment, loan and advance, net worth, net profit, earning per share and market value
- To analyze the financial strength and weaknesses of the concern banks
- To evaluate the financial position of NABIL and SCBNL.

1.4 Significance of the Study

Since financial performance analysis is essential indicators of company's financial decision making, it is to a large extent a determinant of company's profitability. Regarding the economic structure of the country, the banks do not have sufficient investment opportunities. Rapidly increasing financial analysis would not analyze

strengths, weakness, opportunities and threats of selected banks. The result of the research will be helpful for banks especially for sample to formulate strategies to face the increasing competitions. The study no doubt will also have multidimensional importance for various areas. Significance to student and various groups those banks for the evaluation of performance of their banks and in comparison which other bank. This study helps these banks to indentify its hidden weakness regarding financial administration and necessity of the present study is justified.

1.5 Limitations of the Study

Every field of activity has their own limitation. No one can perform their activity by ignoring this limitation. This study has attempted to evaluate the comparative analysis between financial performance of the NABIL and SCBNL. Reliability of statistical tools used and lack of research experience are the major limitation. The following are the limitations of the study:

- This study has been focused on the comparative study of financial performance of two banks i.e. NABIL and SCBNL with the help of financial tools.
- This study has been carried out based on the published financial documents such as balance sheet, profit and loss account related journals magazines and books. These published documents have their own limitations
- The study has been based on the secondary data only.
- The study is mainly based on secondary data so the reliability of this study depends upon the accuracy of published data.
- Out of 31 commercial Bank licensed by Nepal Rastra Bank. Only (2) banks are taken in to account for this study
- This study has analyzed and evaluated of data to the latest five years period

1.6 Organization of the Study

This study has been organized in to five chapters' each one is devoted to some aspects of the study of financial performance analysis. Chapter one is concerned with introduction two with review of literature chapter three with Research Methodology and lastly fifth one includes conclusions and recommendations of the study. The rationale behind this is to follow the simple research methodology approach.

Chapter I: Introduction

This chapter deals with the subject matter of the study consisting introduction, profile of concerned banks, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter-II: Review of Literature

This chapter includes a discussion on the conceptual framework and review of the major empirical works as well as review of Nepalese studies. The conceptual considerations and review of related literature conducted in this chapter provides a framework with the help of which this study has been accomplished.

Chapter-III: Research Methodology

This chapter describes the research methodology employed in the study. This chapter deals with research design, nature and sources of data and tools analysis.

Chapter-IV Data Presentation and Analysis

This chapter consists of presentation and analysis of data which deals with the empirical analysis of the study.

Chapter- V: Summary, Conclusion and Recommendations

This chapter indicates the summary, conclusions and recommendations o the study Recommendation sheet, Declaration, Acknowledgement, Table of contents, List of table, List of figure, Abbreviation has been included at the beginning of this report whereas; bibliography and appendixes have been included at the end.

CHAPTER – II

REVIEW OF LITERATURE

This chapter deals with review of literature. Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies or other conclusions and deficiencies may be known and further research can be conducted. Since completely new and original problems are rare it is necessary to show how the problem under investigation relates to previous research works done under similar topic, however a previous study not be exactly replicated. It is believed that the review of literature is literature which is helpful to show the needs of the research work and to justify the work. It tries to clear the conceptual thought and bank related terms.

2.1 Conceptual Framework

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

“Financial performance means financial activities of the company directed towards achieving its value maximizing objective. For the better financial activities, efficient decisions are necessary and those better financial activities contribute to excellent financial performance which in turn results to growth of the organization” (Ezram, 1996)

(Paul, 1996) define the “Financial performance as a part of the financial management is the main indicator of success and failure of the firm. Its decision plays a vital role to increase the profitability by analyzing past performance and efficiency of the firm from accounting data and financial statements. The volume of profit earned by the firm is one of good financial performance of the firm. Profit is essential for a firm to survive, grow in long run as well as to maintain capital adequacy through retained earnings. However profit cannot be solely predicting the financial performance of the firm”.

Since financial performance as part of management there are different institutions that affect or are affected by the decision of the firm. Financial condition of business, firm should be sound from point of view of shareholder, debenture holders, and financial institution nation as whole.

Through the type of analysis varies according to the specific interest of the party involve shareholders of the firm are concerned principally with the present and expected future earnings, the stability of the earnings as well as their variations with the earning of other enterprises. This indicates that they concentrate their analysis on the profitability of the firm.

“Management of the firm is interested in all aspects of financial analysis is to adopt good financial management system for the internal control of the enterprise. Similarly, trade creditors are primarily interested in the cash flow ability of enterprise to service debt over long run. Similarly, all the concerned groups are directly or indirectly interested about the financial performance of the firm” (Ronald, 1995:19)

The absolute accounting figures are reported in the financial statement-balance sheet, profit and loss account and other statements do not provide a meaningful understanding of the performance and financial position of the firm. An accounting figure conveys meaning when it is related to some other relevant information.” A qualitative judgment about the firm’s financial strength and weaknesses of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account”(Crosse,1963:91)

Joint venture company banks in Nepal are profit making business institutions. So the profit earned by a venture commercial bank in Nepal is the main financial performance indicator of the bank. However, it cannot be exclusively forecast the performance of the bank by analyzing the profitability status only. Every aspects of the financial analysis is to be consider for financial performance of the bank. An analysis of income and bankruptcy score of the bank is also the important indicator of the bank’s performance.

In the financial world, a bank's performance has mainly focused on financial performance decision. A commercial bank's is to be examined for various reasons. Bank regulators identifying banks that are experiencing severe problems so that they can give remedy to them.

“Financial analysis involves the use of various financial statement, the first is the balance sheet, which represents the firm's position at a moment in the income statement that depicts a summary of the firms profitability over time ” (Van and Wachowicz, 1997).

(Western and Copeland, 1991:49). “analysis of interpretation of financial statement, the first is an attempt to determine the performance of any organization so that a forecast may be made of the prospects of future earning , ability to pay interest , debt maturity and probability of sound dividend policy. ”

In the world of Myers, “financial statement analysis is largely a study of relationship among the various financial factors in a business disclosed by a single set of statement and study of trends of these factors as shown in a series of statement. “(Myers 1961, 14). “It is the process of identifying the financial strength and weakness of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account” (Pandey, 1994).

“it is also the analytical and judge mental process that helps answers question that have posed. Therefore, it means to end a part from the specific analytical answers, the solution to financial problems and issues depend significantly on the views of the parties involved in the related issues and on the nature and reliability of the information available” (Helfert, 1992:22).

Besides it can be taken as the starting point of making plans, before using any sophisticated forecasting and planning procedures, financial data can be used to analyzed a firms past performance and assets its present financial strength. Management of the firm would be particularly interested in knowing the financial strengths to make their best use and to spot out the financial weakness to take corrective actions.

“The analysis makes an attempt to dissect the financial statements into their components on the basis of the purpose on one hand and between individual components and total of these items on the other. In course of studying and evaluating the financial position of the organization, a study of trends of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization” (Srivastav,1993).

“Financial statement analysis involves a comparisons of a firm’s performance with that of other firms in the same line of business, which is often, identified by the firm’s industry classification” (Weston, Besley and Brigham, 1996:78). “financial analysis is process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet which represents analysis snapshot of the firm’s financial position analysis at analysis moment in time and text , income statement that depots analysis summary of the firm’s profitability overtime” (Horne and Wachowicz, 1997:120).

“With respect to the problems identified from the analysis, pertinent care should be made to distinguish between the cause and symptom of problem.” (Hampton, 1998:99) “Through the application of analytical tools, profitability and financial health of concerns is evaluated in a proper, critical and scientific manner.” (Jain, 1996:36) the analysis of transactions determines the solvency of business and measure of operations as compared to similar concerns. The analysis reveals how far the dream and ambition of the top management have been converted into reality during each financial year. The analysis, being technique of x raying the financial position as well as progress of concern it enables managers and investors take decision that will affect the company’s future.

“Most of users of financial statement are interested in assessing the bank’s overall performance. Following factors affect the evaluation of bank’s overall performance” (Read and Smith, 2006: 67)

- The structure of balance sheet and profit and loss account.
- Operating efficiency and internal management system.

- Managerial decisions taken by the top management regarding interest rate, lending policies, exchange rate.

Environmental changes such as changes in technology, government, economy etc. There are various methods or techniques used in analyzing the financial statement. One of them is the ratio analysis which is regarded as most powerful tool of analysis to make quantitative judgment about the financial position and performance of the banks. Financial ratios themselves do not indicate position of the institution, a standard or norm is needed to judgment them. Mostly used criterion is analyzing trend in performance and making comparison over time with similar banks and trends, industry average and a peer group ratings.

2.2 Commercial Bank

2.2.1 Meaning of Commercial Bank

Banks undertaking business with the objective of earning profits are commercial banks. Commercial banks pool scattered fund and channel it to productive use. Commercial banks can be a various forms such as deposit banks, industrial banks, saving, mixed banks etc. commercial bank it would been impossible to meet the financial needs of the country. Commercial bank act 1974 defines commercial bank ‘a commercial bank means bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions’

“Commercial bank is a corporation which accepts demand deposits of many persons, government establishment and business unit. They make funds available through their lending and investing activities to borrowers, individuals business firm and government establishment unit. Therefore, commercial banks are those banks that pool together the savings of community and arrange for their productive use. They supply the financial needs of modern business by various means. “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. They can’t finance in fixed assets. A part form financing, they also lender services like of bills, and cheques, safe depositing of valuables, financial advising, etc. to their customers” (Vaidhya, 2002:24)

“ a commercial bank is one which exchange money, accepts deposit, grant loan and performs commercial banks functions and which is not a meant for co-operation, agriculture, industries, or specific purpose.” (Nepal commercial bank act 2013 B.S) under Nepal commercial bank act 2013 B.S, some sales and functions of commercial bank have been defined and emphasized commercial banks provides short term trade and commerce. They accept deposit form public, and grants and loans in different forms. They purchase and bills of exchange, promissory notes, exchange foreign Currency etc. however, central bank is the main bank of any nation that directs and controls all the banks whose existence is the country in Nepal. Nepal Rastra bank is the central bank of the country. The entire commercial banks perform their functions under rules, regulations and the directions provided by Nepal Rastra bank.

2.2.2 The Major Functions of Commercial Banks are Explained in brief:

Accepting Deposit

According to sir john Paget, “it is a fair deduction that no person of body, corporate or otherwise, can be bankers who doesn't 1) take deposit account,2) take current account,3) issues and pay cheque and 4)collect cheques for his customers. “All are related to the acceptance of deposit. Therefore, accepting the deposits by the banks is oldest function.

Creating Money

The major function of commercial bank that separates it from other financial institution is the ability to create investing activities. The power of commercial banking system to create money is a great economic significance as it results in the elastic credit system that is necessary for economic progress at a relatively steady growth rate.

Agency Services

A bank also performs number of services on behalf of the customers. The following bank under agency services.

- Dealing with lie transaction of foreign exchange business.
- Serving as an agent of correspondent on behalf of the customer.
- Issuing letter of credit, circulate note, bank notes, traveler's cheques etc.

- Purchase and sale of different kinds of securities, remittance of funds.
- Collection and payments of cheques
- Cheque promising notes, coupons, dividend and other types of bonds etc.
- Keeping valuable, articles in safe custody
- Providing financial advising to various persons and bodies whenever required.

Advancing Loans

Another major function of commercial bank is to providing loans and advances from the money which it receives by way of deposits for the development of industry, trade and commerce, services and agriculture also. The main purpose of commercial bank is to boost up the development pace of communities as well as that of economy as whole.

Pooling of National Saving

Commercial banks permits vital services to all sector of economy by providing facilities for the pooling national saving and making them available for a economically and socially desirable purpose. The saver is rewarded by the payment of interest on his saving. These pooled funds are made available to business who use them for the expansion of their productivity capacity and customers for such items as housing and customers goods.

Safe Keeping .

of Valuable.

The safe keeping of valuable is the ablest services provided by commercial banks. The protection of valuables fall into two areas: department of bank, safe deposit boxes and safekeeping. Safe deposit boxes are made available to customer on rental basis that may be useful and provides a place for securities, deeds, insurance policies and personal items of valuable only to owner. In other hand safekeeping differs from safe deposit box services in that the bank has custody of the valuables and acts as an agent for customer.

2.2.3. Role of Commercial Banks in the Economic Development

The economic development of a country vastly depends upon the commercial banks of the country. The role of commercial banks directly relates with the economic development of the country. Commercial banks receive surplus money of people in the various forms of deposits and lend those deposits to different business houses and corporate bodies who are in need of money in different form on loans and advance. Thus, it provides a link between surplus and deficit amount of the economy. Earning profit to his shareholders is also the major aiming of the commercial banks as many other houses.

“Commercial banks have succeeded in becoming a heart of financial system as the hold deposits of government agencies, business firms, millions of people of the nation and make them available through their lending and investing activities to other government agencies, business firms, millions of people of the nation. Like many other developing countries including Nepal lack capital formation and proper mobilization of funds. This also stand the major problem in the economic development of a nation. Commercial bank grants long-term loans to industries, which result in increase in the productivity capacity of an industry. The loan given to agriculture sectors enhances the agricultural production. Similarly the loans advanced to different people and corporate bodies help them to increase their incomes and profits” (Bhandri, 2003).

So finally we can conclude that the future of the country is greatly determined by the active role played by the commercial banks. Similarly, in the context of Nepal too, different commercial banks such as Nabil Bank Limited are supporting in the economic development of the country.

2.2.4 Concept of joint Venture Bank

“Joint venture bank is an innovation in finance and it is on growing stage, mostly in developing countries. In developing countries, foreign investment plays a significant role for economic development by following capital, technology , skill, management efficiency and others” (Dahal and Dahal, 1999)

Joint venture means, a business contract of management effort between two persons, companies or organizations involving risk & benefit sharing. When two or more independent forms mutually decide to participate in a business venture, contribute to the total equity more or less capital & establish a new organization, it is known as joint venture.

“A joint is farming of two forces between two more enterprises for the purpose of carrying out a specific operation like: industrial or commercial investment, production trade” (Gupta,1984:122) “joint venture banks are the commercial banks formed by joining the two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods and services” (Bhandari,2033:20).

For the enlistment of economic growth & to rival upon poverty problem of under developed country like Nepal they need strong banking system. Since, earlier established CB's (i.e. NBL & RBB) are not proficient to contribute efficiently, “HMG/N deliberate policy of allowing foreign JVB'S to operate in Nepal with a view to encourage local traditionally run JVBs to enhance their bankable capacity through competition, efficiency improvements, modernization via computerization & prompt service”.

“joint venture banks have been contributing a lot towards the promotion and expansions of both export and import trade. They provide both pre-shipment and post-shipment finance to exporters. Since, these bank are new, urban based and manage by foreign management they started their operation with automated system which could easily attract the elite group of business community due to their prompt service and modern management. In this way.JVBs are successful to bring healthy competition among banks, increase in foreign investment, promote and expand import and export trade, introduce new techniques and technologies. All this reveal the vital role and need of JVBs in banking sector of finance industry” (Garg, 1968:231)

A healthy and tidy commercial banking system in European countries is one of the causes of their rapid economic development and this is a lesson to the nations of third world. The concept of joint venture bank is a new is a new innovation in finance and it is on growing stage, mostly I developing countries.

“The primary objectives of this joint venture are always to earn to profit by investing and granting loan and advance to people associated with trade, business and industry etc. that mean they are required to mobilize their resources property to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country” (Sharma, 2001:38)

The developing countries, foreign investment play a significant role for the economic development by flowing the capital, technology, skills, managerial efficiency and other. So, local foreign joint investments have been considered more important. Joint venture banks in Nepal are of this type of investment.

2.3 Role of Joint Venture Bank in Nepal

In our context, joint venture bank is an association between Nepalese investors (financial and non- financial institution as well as private sectors) and the foreign (parent) bank, having experience in highly mechanized and efficient modern banking service in many parts of the world, for professional and competitive operation that is made highly beneficial the combined efforts.

“Joint venture banks are important for the economic development of mixed economy’s follower like Nepal. Nepalese economic situation and investment necessity provide a significant weight to joint venture bank which bring foreign capital, experience, technology, skill and art. Broadly, Government of Nepal adopted a policy for allowing foreign joint venture commercial banks to enhance their capacity building, competitiveness, efficiency and modernize their functions to give prompt customer services. As a result of the new commercial bank’s act and liberalization policy of 1980, joint venture banks operate in Nepal with view to encourage efficient

banking services to increase foreign investment in the country and to bring healthy competition in the banking sector” (Sharma, 2001: 45)

The main objective of JVBs are to provide modern banking facilities to the general public, businessman, industrialists and other professional to grant loans and advances on agriculture, commerce and industrial sectors. “the establishment of JVBs gave new horizon to the financial sector of the country. The objectives of JVBs in Nepal can be enumerated as below” (Sharma, 2001:47)

- Introducing advance banking techniques and services.
- Introducing foreign investment in Nepal.
- Providing more resources for generating more capital for investment.
- Increasing international network of bank branches.
- Bringing healthy competition environment in financial system.

The Role of JVBs in Nepal can be discussed as follows:

Information to foreign investor.

“The role of joint venture bank is significant for the collection of fund for mega-projects. The various types of publications to be acquainted with Nepalese rules, regulations and practices of concerned sector. Before the establishment of JVBs, some large project could be established through two or three local banks but mega-projects could not be established. Because of the political instability, after the restoration of multi-party democracy also the foreign investors have still been hesitating to invest in Nepal. In such a situation the publications of JVBs have been playing a vital role to the foreign investors” (Sharma, 2001:50).

Creation of Competitive Environment

“Clients will be beneficial either by higher rate of interest in their deposition or by lower rate of interest on credit. It is possible only under competitive environment. After the arrival JVBs, old banks are also been competitive, fair competition among banks, not only beneficial for bank themselves and economy. Fair personal management, efficient financial performance, quality in services and research and development is possible only in competitive environment” (Sharma 2001:50)

Contribution to National Economy

Joint venture banks comparatively are adopting new banking systems. They are already establishment in financial, garments, agriculture and housing needs and playing a significant role for contribute in national economy from own sector. Thus, through such bank's managerial and banking techniques, new ideas and philosophy, foreign investment and capital, healthy, competitive atmosphere and diversified market concepts transfer to other companies. But there is remarkable point that that the joint investment should be directed by the economic need and perspectives and not by political interest. Financial and legal rules, regulations and practices should be clear and convenient to foreign investors”

Modern Management and Banking Techniques.

“Modern managerial principles and practices in banking sector have been introducing by joint venture banks in Nepal. New banking techniques such as hypothecation and syndication are also introduced under NRB guidance. Various techniques followed by international banks in deposition, lending, exchange and other have been introducing by these banks in Nepal.

After the establishment of these banks, other new and old banks have begun computerizing their system. So, new banks have adopted new techniques such as tele-banking. Credit card and master card system in urban areas. Now these banks are oriented to follow up some developing techniques in international banking sector”
(Sharma, 2001:52)

Offering Better Links with International Market.

“The JVBS are usually better placed to raise resources internationally for viable projects in a developing country like Nepal mainly due to their credibility inland easier access to international market. It means our potential projects are globally recognized so that opportunity of financial and technical assistant will be high”
(Sharma, 2001:53)

2.4 Review of related studies

2.4.1 Review of Books

(Western and Brigham,1996) in their book “financial Management: Theory and practice” stresses on Risk-Return trade off as one of the major financial functions. They believe that the maximization of the value of the firm can be achieved through maximizations of returns in on hand and minimization of risk in the other. The relationship between the expected future state of the economy and the performance of individual firms enables a relation to be set forth between the state of the economy and the returns from investment in firms.

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

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

- Creation of value
- Investment decision
- Financing decision
- Financial management

(Van Horne,1997) in his book “ Financial analysis is process of identifying the financial strength and weakness of the firm by property establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm’s financial position analysis at analysis moment in time and next, income statement, that deposit analysis summary of the firm’s profitability overtime”. Finance is a broad field and there are various books written in this subject. The book of:

(Khan and Jain,1990) is considered to be a useful book in the financial management. The Modern approach of khan and Jain views the term financial management is broad sense and provides a conceptual and analytical framework for financial decision making. According to them, “The finance function covers both acquisition of funds as

well as their allocation, hence apart from the issues of acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses” The major financial decisions according to Khan and Jain are:

- The investment decision
- The financial decision
- The dividend policy decision

Pandey (1997), in his book “Financial Management” defines financial management as that managerial activity which is concerned with the planning and controlling of the firm’s financial resources. Pandey believes that among the most crucial decision of the firm are those, which relate to finance, and an understanding of the theory of financial management provides the conceptual and analytical insights to make the decisions skill fully.

Pandey further identifies two kind of finance function:

- (a) Routine functions.
- (b) Managerial functions.

The routine finance function do not require a great managerial ability to carry them out and they are chiefly clerical in nature. Managerial finance functions on the other hand are so called because they require skill full planning control and execution of financial activities. There are, according to Pandey four important managerial finance functions:-

- Investment or long –term assets miss decision.
- Financing or capital-mix decision.
- Dividend of profit allocation decision.
- Liquidity of short-term asset-mix decision

A summary of what the study have reviewed in various books of finance have been highlighted below.

Finance is defined as the acquisition and investment of fund for the purpose of enhancing the value of wealth of organization. The various finance areas include investments, public finance, corporate finance and financial institution. The basic

function of finance is to manage the firm's balance sheet in most efficient way. The balance sheet reflects how a firm acquired financing through the objective of the company must be to create value for its shareholders. Market price of company's stock represents its value and this can be maximized by firm's optimum investment, financing and dividend decision. The capital investment decision is the allocation of the capital to investment proposals whose benefits are to be realized in the future. As the future benefits are not known with certainty, investment proposal necessarily involve risk. Consequently they should be evaluated in relation to their expected return and risk. In the financial decision, the financial manager is concerned with determining the best financing mix or an optimum, capital structure. If a company can change its total valuation by varying its capital structure, an optimal financing would exists, in which market price per share could be maximized.

Another important decision of the firm, according to Van Home (1994), is its dividend policy. The decision includes the percentage of earnings paid to stockholder in cash dividends. The dividend payout ratio determines the amount of earnings retained in the firm and must be evaluated in the light of the objective of maximizing shareholder's wealth. The financial management involves the solution of the three major decisions altogether they determine the value of company to its share holders. Van Home believes that the objective of any firm is to maximize its value, and therefore, the firm should strive for an optimal combination of the three inter-related decisions solved jointly. The main thing is that the financial managers relate each decision to its effect on the valuation of the firm debt and equity resources, and it reflects the disposition of acquired financing among the various assets account.

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

- a. Analysis and planning
- b. Financial structure management
- c. Asset management

The first function financial analysis and planning is to understand the bank's current financial condition and plan for its future financial requirement in different economic scenarios. After analyzing the financial needs, the second function is to manage the

financial structure of the bank, which can be done by optimizing the use of debt and equity in the capital structure while deciding about this optimum structure, a financial manager must concentrate in minimization of cost of fund in one hand, and maximization of value of the firm in the other. Moreover financial structure management for a banking sector includes, a typical treasury function, which is also called funds management this function contributes a significant portion in profits earned by banks.

The final function is the management of the assets structure of bank. Advances of credit and investment in certain portfolios constitute the major portion of the bank's assets. The major financial function related to assets management is to decide for the least risky and most profitable alternatives of investments. This can be conducted by determining returns and risks associated with the loans and advances made by bank. All the above financial decisions or functions as mentioned by different writers are instrumental towards effective handling of financial management. Which includes activities beginning from rising or funds to efficient and effective uses of funds no matter either it is a banking or non-banking institution.

In the book "financial Management" Pandey (1997) has defined as "The finance statement provide a summarized view of the financial operation of the firm. Therefore, something can be learnt about a firm and careful examination of the financial statement as invaluable documents or performance reports. Thus, the analysis of financial statement is an important aid to financial analysis or ratio analysis is main tool of financial statement analysis.

Maskey and Subedi (2009) in their article "Development of the Nepalese Financial System" write that, a healthy financial sector is essential to facilitate sustainable economic growth. Theoretically, the channel by which financial development supports economic growth is via enhancing financial intermediation, for example, moving funds from savers to investors in a cost-effective manner which motivates individuals towards more efficient resource allocation decision. In the literature, there are four channels by which financial development affects economic growth:

- By improving the screening of funds- seeking investors and their subsequent monitoring, and thereby channeling the allocation of resources for its most profitable investments:
- By encouraging the mobilization of savings by means of providing diverse instruments that match the differing preference of savers;
- By lowering the transaction, screening, and monitoring costs through economies of scale;
- By enhancing various options of risk and liquidity management. Each of these four financial functions influences savings and investment decisions of economic agents and ultimately results in higher economic growth (NRB, 2009:31)

2.4.2 Review of Related Journals and Articles

Poudel (2063) in the journal entitled, “*Financial statement analysis: An approach to Evaluate bank’s performance*” write, balance sheet, profit and loss a/c and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of banks balance sheet and profit & loss a/c. the bank’s balance sheet composed of financial claim as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations which are generally contingent in nature are considered as off balance sheet items.

Principle objectives to analyze financial statements ate to identify liquidity, profitability and solvency. Most propose of the financial statements are interests in assessing the banks overall performance which is affected by the following factors:

- The structure of balance sheet and profit and loss a/c.
- Operating efficiency and internal management system
- Managerial decision taken by top management regarding interest rate, exchange rate, lending policies etc.

Maxwell Scientific Organization, (2011) “Financial performance analysis” Finance always being disregarded in financial decision making since it involves investment and financing in short-term period. Further, also act as a restrain in financial performance, since it does not contribute to return on equity (Rafuse, 1996). A well

designed and implemented financial management is expected to contribute positively to the creation of a firm's value (Padachi, 2006). Dilemma in financial management is to achieve desired tradeoff between liquidity, solvency and profitability (Lazaridis et al., 2007). Management of working capital in terms of liquidity and profitability management is essential for sound financial recital as it has a direct impact on profitability of the company (Rajesh and Reddy, 2011). The crucial part in managing working capital is required maintaining its liquidity in day-to-day operation to ensure its smooth running and meets its obligation (Eljelly, 2004). Ultimate goal of profitability can be achieved by efficient use of resources. It is concerned with maximization of shareholders or owners wealth (Panwala, 2009). It can be attained through financial performance analysis. Financial performance means firm's overall financial health over a given period of time. Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goal of such analysis is to determine the efficiency and performance of firm's management, as reflected in the financial records and reports. The analyst attempts to measure the firm's liquidity, profitability and other indicators that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value. Indian pharmaceutical industry has played a key role in promoting and sustaining development in the vital field of medicines. It boasts of quality producers and many units have been approved by regulatory authorities in USA and U.K. International companies associated with this sector have stimulated, assisted and spearheaded this dynamic development in the past 58 years and helped to put India on the pharmaceutical map of the world. The public sector has been the backbone of the Indian economy, as it has acted as a strategic partner in the nation's economic growth and development. Public sector enterprises possess strong prospects for growth because they harness new business opportunities, and at the sometime expanding the scope of their current business.

2.4.3 Review of Thesis

Various thesis works have been done in different aspects of commercial banks such as lending policy, investment, policy, financial performance analysis, resource mobilization and capital structure, the review of some previous study, which is

relating to the Nepalese banking sector, is the most relevant sources and assistants for this research.

Das (2010), in his thesis entitled “*A comparative study on financial performance of NGBL and NSBI*”, has pointed out following objectives.

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

Major finding 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 NSBI.
- The loan and advance ratio of NSBI is higher than NGBL, which implies that NSBI is successful in utilizing the outsider’s fund.
- Long term debt to total assets of NGBL, is slightly higher than NSBI which implies more use of long term debt.
- Earnings per share mid-dividend per share ratio of NSBI is very low in comparison to NGBL.

Pradhan (2009) conducted a study entitled “*Financial performance analysis of Nepal Bank Limited*”. the main objectives of this thesis is to analyze the liquidity position of the bank,

- To evaluate activity and operation with reference to fund collection & mobilization,
- To evaluate the earning and profitability position,
- To identify the relationship between total deposit and total investment
- To observe return over the period.

The following conclusions are derived from the study:

- The Nepal Bank Limited has not maintained a balanced ratio among its deposit liabilities, consequently.
- The bank does not seem to be able to utilize its high cost resources in high yielding investment portfolio.
- The investment portfolio of the bank has not been managed so efficiently as to maximize the returns.

- There is lack of demarcation of between operational activities of the bank.

The operational efficiency of the bank is found unsatisfactory because of the series of operational loss over first three years. The allocation of loans and advances by the bank does not seem as meaningful as the productive sectors portfolio. As compare to social and other loans, agriculture sector and service sector loans are quite negligible. As a result, the profitability of the bank is in negative trend in first three fiscal years. The lower return on investment of the bank and prevailing payout ratio is not justified at all. Lower market value is a reflection of a weaker financial performance of the bank. The growth rate of total investment is not proportionate. The trend ratio of the total assets and total investment is increasing and their ratio is fluctuating.

Thapa (2010) entitled “*Credit management of commercial Bank of Nepal*” , examines following issues in his research

- To assess the utilization of loan in different sectors by commercial bank.
- To find out the relevance of the financial sector reforms program.
- To measure the comparative output of credit management in commercial banks of Nepal.
- To examine the level of the non-performing loan investment that exists within the banking industry.
- To provide suggestions for the future betterment of credit management system in the commercial banks.

He concludes that the global economic recession has highly effected the financial institution of most of the developed countries. Slowly the recession is showing its effects in developing countries like Nepal too. The decreasing growth rate in the remittance business and the liquidity crisis are some example of it. High differences in the balance of payment, low level of exports, increasing imports and the economic dependence with India, instable political environment and uncertain government policies are the current economic situation of the country.

Since the commercial bank function in the same environment, they have to be highly aware with the environment and take the proactive measure to be safe and reliable. High proportion of the commercial bank lending towards real estate has been major concern in the present context. Crisis of the physical cash few months back and liquidity crisis in the financial market have been highly affecting the commercial

banks. The rise in the interbank rate, restriction of lending to the real estate to certain percent, and maintaining the optimum cash deposit ratio are the major challenges for the commercial banks.

Present economic scenario is the result of past performance of the financial institutions. With the above challenges and the uncertainty in the financial market, commercial banks have to be the best and provide the quality service to survive. Among the three sample banks, Nabil and NIBL are the top commercial banks of Nepal whereas BOK is the rising commercial bank. From the analysis, it is seen that Nabil bank has performed well in all the aspects and has achieved most of the standards with higher returns. But there are some areas where the bank has to focus on like meeting the standard of provisioning to loan losses and the managing adequate liquidity. NIBL has performed better every year with the higher growth rate most of the sectors. NIBL has managed to decrease their loan losses in the recent years and able to maximize the profit. They also have some problem with non performing loan provisioning where the bank should put an eye on. Yet the bank is performing hard to meet every standard. Bok being a rising bank has been performing well in recent years. They had adequate liquidity in these five years with higher CRR and the investment in government securities. They are able to maintain the optimum CD ratio and achieved satisfying growth rate in net profits. In the case of loan loss provisioning they have also failed in some way where they should focus on and perform harder to be in the stand.

Pradhan (2008) has conducted thesis titled “*A study of Non-performing Assets of Commercial Banks of Nepal*” with reference to Nepal Bank Limited, Rastriya Banijya Bank, Nepal Bangladesh Bank, Everest Bank and Standard Chartered Bank Nepal Limited. The main objectives of his study are to find out the proportion of non – performing loan and the level of NPAs in total assets, total deposit and total lending, evaluate the relationship between loan and loan loss provision, present the trend line of the non-performing assets, loan and advances, loan loss provision of selected commercial banks.

He also write the improper credit policy and credit appraisal system, lack of supervision and monitoring, economic slowdown, overvaluation of collateral, borrower's misconduct, political pressure to lend for un-creditworthy parties, etc are the major causes of occurring NPAs.

He has concluded that the “Nepalese banks have to remain focused in their efforts to recover their spiraling bad loans, or non-performing assets, to sustain the positive trend of improving assets quality. Better risk management techniques, compliance with the core principles for effective banking supervision, skill building and training and transparency in transaction could be the solution. Removal of non-performing loans from the banking system even through government and quasi government fund at times, is essential. But official assistance should be so structures as to avoid moral hazard. To conclude with, till recent past, corporate borrowers even after defaulting continuously never had any real fear of bank taking any action to recover their dues despite the fact that their entire assets were hypothecated to the banks. This is because \there was no legal act framed to safeguard the real interest of the banks. While NPA con not be eliminated, but can only be contained, it has to be done not a heavy cost of provisioning and increasing the portfolio of credit. Along with recovery fresh inflow of NPA should be brought down at a level much less than the quantum of its exit. If this specific goal is reached, there is an eventual solution for this problem. Good governance is essential for the success in NPA management”

He has recommended that, proper financial analysis should be done before lending to the borrowers, banks should take enough collateral, so that the at least can able to recover it principle and interest amount in case of being unable to repay by the borrower, to hire asset management company to reduce the non –performing assets, to search new investment areas and all banks should provide appropriate training regarding loan management, risk management, credit appraisal etc to the employees.

Sadula (2012) in his thesis entitled “*financial performance of commercial Banks and returns to investors: with the 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 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 provide is highest return on equity as compared to other commercial banks of the banks

Gnawali (2012) has conducted a study on "*Study on the Relationship between financial performance and Profitability of Joint Venture Commercial Bank and NRB,*" and this study tries to analyze the relationship between capital structure and profitability of the company.

This study has following other specific objectives:

- To study the debt servicing capacity of above JVBs
- To analyze the relationship between capital structure and profitability of the company.
- To highlight there growth and policy of banks.
- To examine the existing financial position.
- To provide suggestion and recommendation.

The major findings of the study are as follows:

The capital structure of the JVBs is highly levered.

The largest item of the bank in the assets side is loan and advances which is the main cause of an assists in the bank an area of the main resources a bank failure to overcome this commercial bank are strongly recommended to follow liberal lending policy.

The banks are required to maintain improved capital structure by increasing equity base i.e. issuing more equity capital expanding general reserve and retained more earnings. It will compromise among the conflicting factors of cost and risk.

The bank's most unsatisfactory performance in net profit and earnings per share deteriorates yearly. This is mostly due to sudden decrease interest rate of loan and investment. So in this scenario the bank should explore the new ways of service marketing increase its income based on fees and the bank should attract its clients on low or non interest bearing deposits.

2.5 Research Gap

Large numbers of research are available bearing the same topic, “A cooperative analysis of financial performance of banks”. The previous study can't be ignored because they provide foundation of the present study. However, the researcher will sustain gap by covering the relevant data and information from the year 2005//06 to 2009/10. Moreover, the researcher has selected three leading commercial banks of Nepal as sample Banks i.e. Nabil bank ltd, Everest bank ltd, and Himalayan bank Nepal ltd. It is clear that new research can't found on that exact topic comparative analysis on financial performance of these three selected banks. Under this topics many researcher have been done but none of the researcher undertaken regarding the study of financial performance of between the Nabil bank ltd, Everest bank ltd and Himalayan bank Nepal ltd. These banks are leading commercial banks as compared to other commercial banks which we can find for the perfect compersian between highly growing commercial bank rather than rapidly growing new commercial banks. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore it is the major concern of stakeholders to know the financial situation of the bank. Nabil, Everest and Himalayan bank are the leading commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the financial performance which is the major concern of the stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial bank. To complete this research works many books, journals, articles, and various published and unpublished dissertate

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. (Kothari, 2004).

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 from the writing the hypothesis and their operational implications to the final analysis of data".

The present study tries to analyze the capital structure of the selected commercial banks in the present e-generation. In this research, research design is used for analytical as well as descriptive methods of collected data. The study is 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 two 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 are used to analyze and interpret.

3.2 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 are collected in order to achieve the real and fact data as far as available.

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

3.3 Data Processing and Presentation Procedure

The information or data obtain from the different sources are in raw form. From that information, direct presentation is not possible so it is necessary to process data and converts it into required form. Only after then, the data is presented for this study. For this study, only required data are taken from the secondary sources (Bank's publications) and are presented in this study. For presentation different tables are used. Similarly in same case graphical presentation are also made. So far a computation is concerned. It has been done with the help of scientific calculator and spreadsheet software Microsoft Excel.

3.4 Tools for Analysis and Presentation

3.4.1 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 figures. 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.

3.4.1.1 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.

3.4.1.2 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).

3.4.1.3 Fixed Deposit to Total Liability Ratio

The fixed deposit of bank is termed as long-term debt collected from customers, which a bank generally accepts for maximum period of two years. Whereas, total liability includes long term debt and short term debt. Fixed deposit to total liability ratio can be calculated as:

$$\text{Fixed Deposit to Total Liability Ratio} = \frac{\text{Fixed Deposit}}{\text{Total Liability}}$$

3.5.1.3 Net Worth to Total Liabilities Ratio of NABIL & NIBL

The shareholder's equity also called a net worth of a bank includes paid-up Capital and Reserve Funds. Whereas, total liability includes long term debt and short term debt. Net Worth to total liability ratio can be calculated as:

$$\text{Net Worth to Total Liability Ratio} = \frac{\text{Net Worth}}{\text{Total Liability}}$$

3.4.1.4 Analysis of Debt to Equity Ratio

Debt is between borrowed funds and owner's capital. This ratio reflects the relative claims of creditors and shareholders against the assets of the firm. The ratio is important tool to appraise the financial structure of the firm.

A higher ratio shows a large share of financing by the creditors relatively to the owners. So, there is a larger claim against the assets of the firm, which is the danger signal for the creditors. It would be risky for the creditors. A high proportion of debt in the financial structure would lead to inflexibility in the operations of the firm because the firm is legally liable to pay the interest even if the firm is having loss and a smaller ratio shows smaller claim of creditors. To the creditors, relatively high stake of the owners implies sufficient safety margin and substantial protection against shrinkage in assets (Weston and Brigham, 1981).

Debt to equity has been calculated in following ways:

Debt to Equity Ratio in terms of Fixed Deposit to Net Worth

$$D/E = \text{Fixed Deposit} / \text{Net Worth}$$

3.4.1.5 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. This ratio is calculated by:

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

3.4.1.6 Return on Equity (ROA)

These ratios measure that how much profits are generated on the amount by the shareholders. This ratio is helpful in measuring the degree of effectiveness with which funds of the shareholders are being utilized. It is also helpful in comparing the relative profitability and soundness of different firms. Higher ratio indicates the more efficient management and utilization of shareholders' funds. This ratio can be calculated as:

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}} \times 100$$

3.4.1.7 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. This ratio is calculated by:

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

3.4.1.8 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.

3.4.1.9 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 and advances. In other words, how quickly total collected deposits are converted into loans and advances given to clients to earn income. It is computed by dividing the total amount of loans and advances by the total deposit fund. Higher ratio indicates higher/proper utilization of funds and low ratio is the signal of inefficiency or remaining idle.

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

3.4.1.10 Loan & Advances to Fixed Deposit Ratio

This ratio measures how much amount is used in loans and advances in comparison to fixed deposit. Fixed deposit is interest-bearing long-term obligations, whereas loans and advances are the major sources of investment in generating income for commercial banks. It is calculated as follows (Weston and Brigham, 1981)

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

3.4.1.11 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 loans and advances to the client i.e., to determine to what extent collected saving deposit amount is being deployed in providing loans and advances to generate income. Saving deposits are interest-bearing obligations for short-term purposes, whereas loans 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 purposes. It is calculated as follows.

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

3.4.1.12 Market Value Analysis

The market value ratios represent a group of ratios that relate to the firm's stock price to its earnings and book value per share. These ratios give management an indication of what investors think of the company/banks' past performance and future prospects.

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 and Brigham, 1981)

3.4.1.13 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:

Net profit after preference dividend

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.

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

3.4.1.14 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. Price–earnings ratio shows how much the investors are willing to pay per dollar of reported profits (*Weston & Brigham, 1981:296*). This ratio is calculated as follows:

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

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

3.4.1.15 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. 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:

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

3.4.2 Statistical Tools

3.4.2.1 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,

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

Where,

$\sum X$ = Sum of all values of the observations.

n = Number of observations.

X = Values of variables.

3.4.2.2 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,

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

3.4.2.3 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,

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

Where,

σ = Standard deviation

\bar{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.

3.4.2.4 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

3.4.2.5 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.

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

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

3.4.2.6 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 is 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 financial performance analysis of NABIL and SCBNL. The ratios are designed and calculated to highlight the relationship between financial items and figures. Those ratios are as follows. The capital structure of a bank has been analyzed incorporating the analysis of relationship between fixed deposits and shareholders equity, its composition and index, financial mix ratio and capitalization rate analysis.

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

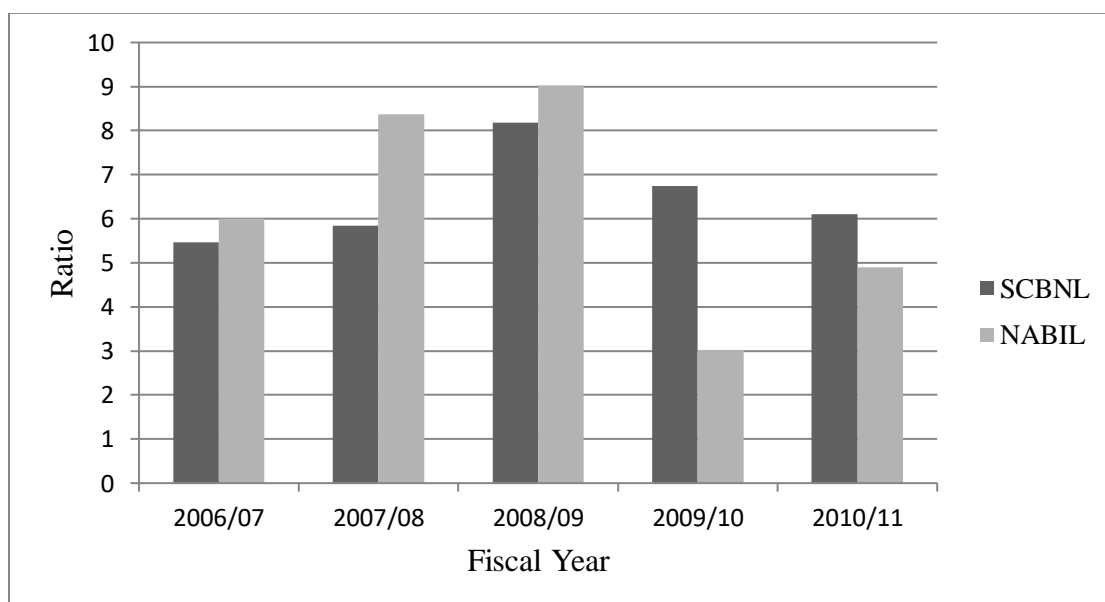
Comparative Cash Reserve Ratio

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 \bar{X}	6.46	6.26
S.D.	0.95	2.22
C.V.	14.70	35.46

Source: Appendix I

Figure 4.1

Comparative Cash Reserve Ratio



The above table 4.1 shows 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.

The above 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 Analysis of Fixed Deposit

The fixed deposit of bank is termed as long-term debt collected from customers, which a bank generally accepts for maximum period of two years.

Table 4.2

Fixed Deposit Position and Index Table of NABIL & SCBNL

(Rs. In millions)

Fiscal Year	NABIL			SCBNL		
	Fixed Deposit	Index $p_1/p_0 \times 100$	% Change	Fixed Deposit	Index $p_1/p_0 \times 100$	% Change
2006/07	5435.2	100		3196.5	100	
2007/08	8464.1	155.73	55.73	3301.1	103.27	3.27
2008/09	8310.71	152.91	-1.81	7107.7	222.36	119.09
2009/10	14711.16	270.67	77.01	9175.07	287.03	64.67
2010/11	16840.0	309.85	14.48	10136.24	317.10	30.07
Average			36.35			54.275
Standard Deviation (S.D.)			36.35			43.29
Coefficient Of Variation (C.V.)			99.98			79.76

(Source: Appendix I)

Figure 4.2

Fixed Deposits of NABIL & SCBNL

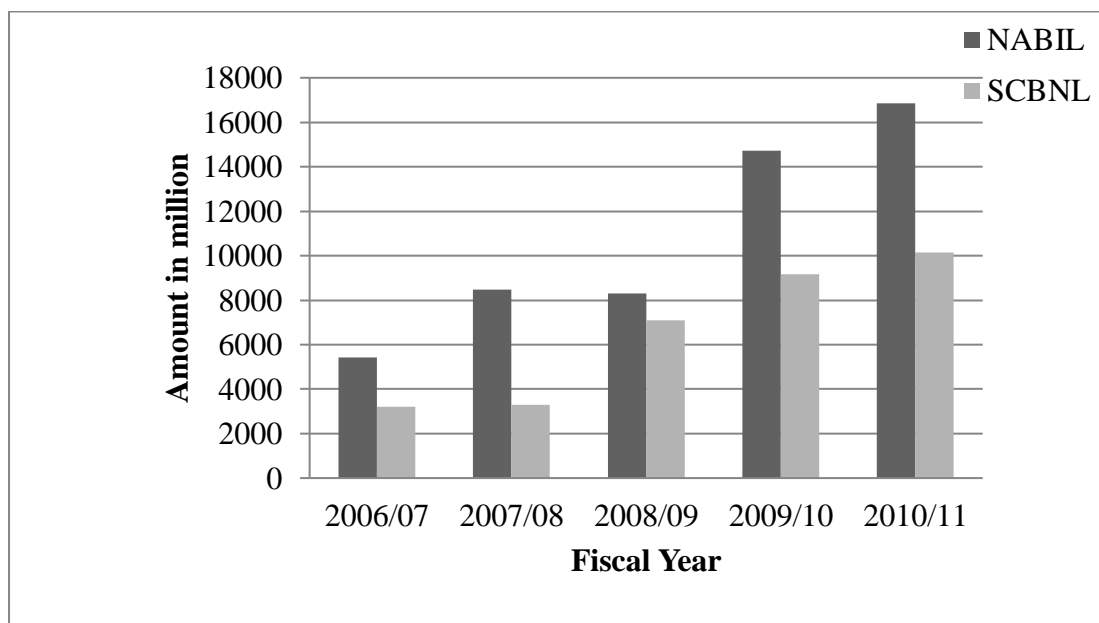


Table 4.2 and figure 4.2 shows that fixed deposited of NABIL are increasing during every fiscal year except in F.Y. 2008/09. This shows that the bank is concentrating to increase fixed deposits in it financial mix or capital structure. The fixed deposit of NABIL is increased by 55.73% in F.Y. 2007/08 over the last F.Y. and decrease by 1.81% in F.Y. 2008/09. It is increasing by 77.01%, in F.Y. 2009/10, which is the highest increment over the past seven years. Again, it is increased by less percentage 14.48% in fiscal years 2010/11. Thus, the banks are giving more emphasis to increase importance to decrease fixed deposit in F.Y.2008/09. The index shows the fixed deposit is increased by 309.85% during the entire study period.

Similarly, fixed deposit of SCBNL is increased by 3.27% in F.Y. 2007/08 and followed by 119.09% in 2008/09, which was the highest change though out the study period. It increased by 64.67% in F.Y. 2009/10 and at last it is increased by 30.07% in F.Y 2010/11. The index shows that fixed deposit was increased by 317.10% during the entire study period. In average, the fund collected in the firm of fixed deposits is more by SCBNL (Av. = 54.275%) than NABIL (Av. = 36.35%). The variability of deposits is found more in NABIL (C.V. = 99.98) than SCBNL (C.V. = 79.76). Both the banks were found increasing fixed deposits in its financial mix.

Table 4.3

Fixed Deposit to Total Liability Ratio of NABIL & SCBNL

(%)

Fiscal Year	NABIL	SCBNL
	Ratio	Ratio
2006/07	19.94	12.04
2007/08	22.79	10.68
2008/09	18.95	19.24
2009/10	28.21	25.22
2010/11	28.97	25.83
Average	23.77	18.60
Standard Deviation (S.D.)	4.63	6.36
Coefficient Of Variation (C.V.)	19.46	18.06

(Source: Appendix IV)

Figure 4.3

Fixed Deposit to Total Liability Ratio of NABIL & SCBNL

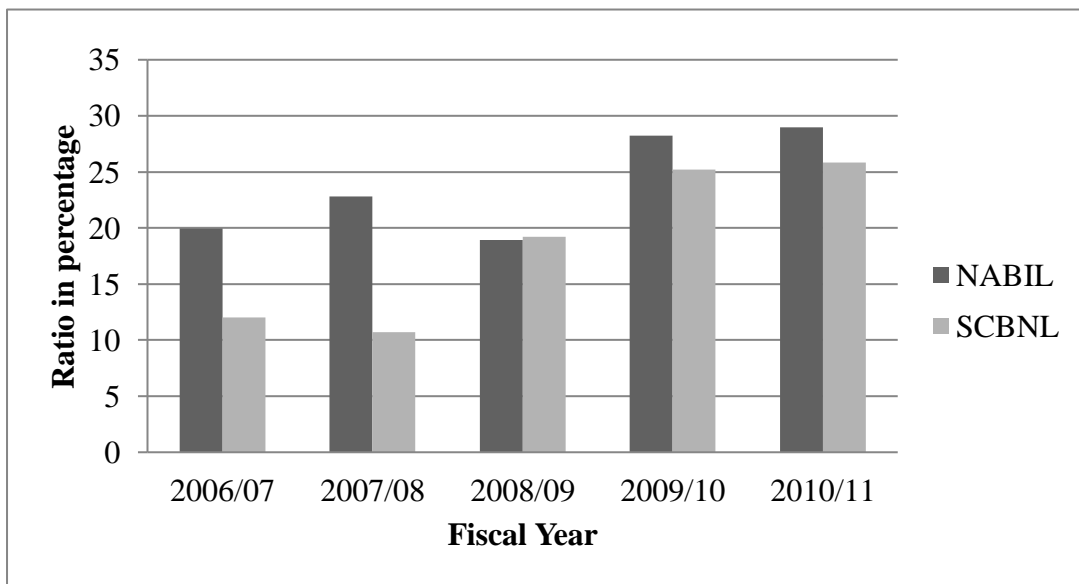


Table 4.3 and figure 4.3 indicate that fixed deposit to total liabilities of NABIL is 19.94% in F.Y.2006/07It became 22.79% in F.Y. 2007/08. It is decreased in F.Y. 2008/09 and becomes 18.95 and recorded as the minimum throughout the study

period. 2009/10 and 2010/11 by 28.21% and 21.97% respectively, which is the highest over the study period.

Similarly, fixed deposit to total liabilities of SCBNL is 12.04% in F.Y 2006/07. The minimum fixed deposit was 10.68% in F.Y. 2007/08 over the study period. It was increased in every F.Y. except in F.Y. 2007/08. In F.Y 2010/11 it becomes 25.83%, which is the highest fixed deposit portion in total asset over the study period.

The average value of NABIL is 23.37 and SCBNL is 18.60. Thus, NABIL has higher portion of fixed deposited in total liabilities than of SCBNL. Also fluctuation of the ratio is quiet more on NABIL (C.V. = 19.46%) than SCBNL (C.V. = 18.06%).

4.1.3 Analysis of Shareholder's Equity

The shareholder's equity of a bank includes paid-up Capital and Reserve Funds, which are presented in following table.

Table 4.4

Shareholders Equity Composition and Index Table of NABIL & SCBNL
(Rs.)

Fiscal Year	NABIL			SCBNL		
	Net Worth	Index $p_1/p_0 \times 100$	% Change	Net Worth	Index $p_1/p_0 \times 100$	% Change
2006/07	2057.1	100		2116.35	100	
2007/08	2437.2	118.48	18.48	2492.55	117.78	17.78
2008/09	3130.2	152.17	28.44	3052.47	144.23	26.45
2009/10	3834.2	186.39	22.49	3369.71	159.22	14.99
2010/11	4572.1	222.26	19.24	3677.77	173.78	14.56
Average			22.16			18.45
Standard Deviation (S.D.)			4.53			4.78
Coefficient of Variation (C.V.)			20.45			25.91

(Source: Appendix I)

Figure 4.4

Net Worth of NABIL & SCBNL

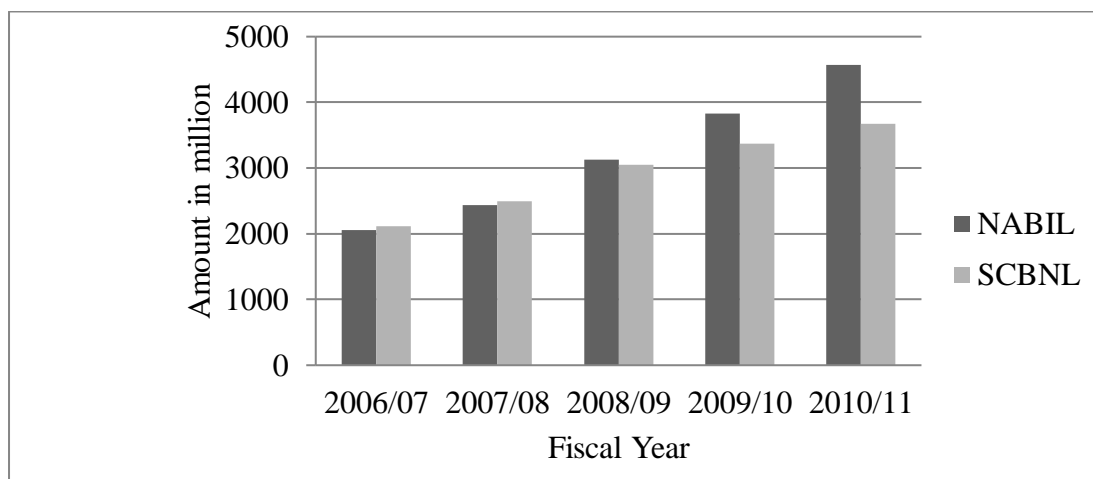


Table No. 4.4 and figure no. 4.4 shows that shareholder's equity of both banks i.e. NABIL & SCBNL is increasing during every fiscal year. The highest increment in the shareholder's equity of NABIL is 28.44% in FY2008/09 and that of SCBNL is 26.45% in 2008/09. Similarly, the lowest increment in the equity of NABIL and SCBNL are 18.48% in FY 2007/08 and 14.56% in FY 2010/11 respectively. The variability of equity was found more in SCBNL (C.V. = 25.91%) than in NABIL (C.V. =20.45) and average for NABIL is 22.16 and SCBNL is 18.45.

Table 4.5

Net Worth to Total Liabilities Ratio of NABIL & SCBNL

Fiscal Year	NABIL	SCBNL
	Ratio	Ratio
2006/07	7.55	7.97
2007/08	6.56	8.07
2008/09	7.14	8.26
2009/10	7.35	9.26
2010/11	7.86	9.37
Average	7.29	8.59
Standard Deviation (S.D.)	0.49	0.60
Coefficient Of Variance (C.V.)	6.69	6.98

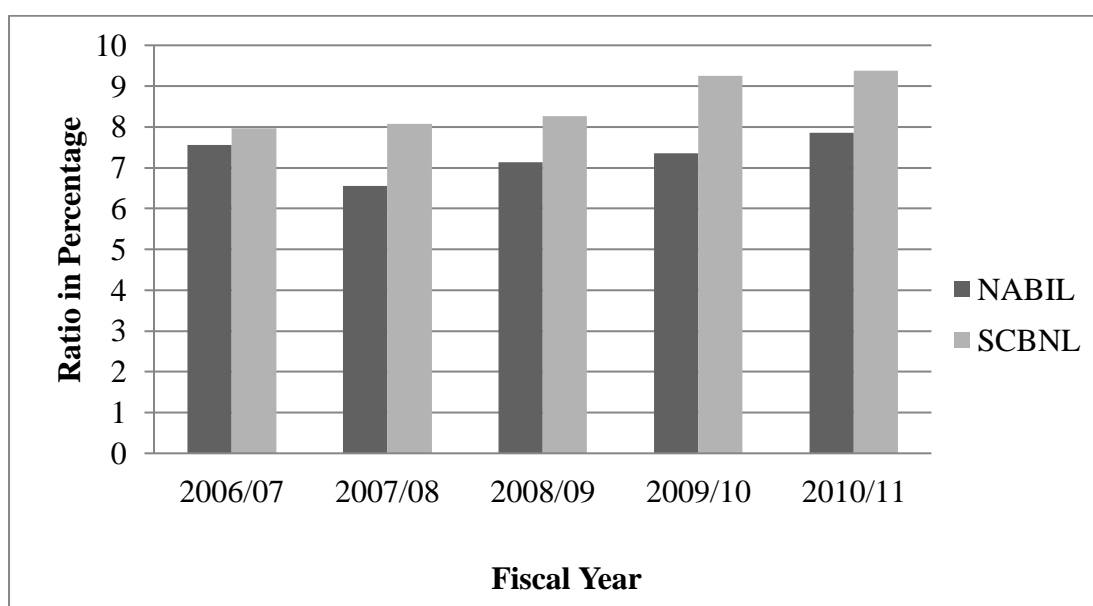
(Source: Annual Report & Appendix V)

Table 4.5 and figure 4.5 indicates that proportion of shareholder's equity i.e. net worth in total claims of assets (Total Liabilities) of NABIL and SCBNL. The highest ratio NABIL is 7.86% in the FY 2010/11 and the lowest is 6.56% in the FY2007/08. Again, the highest ratio of SCBNL is 9.37% in the FY 2010/11 and the lowest is 7.97% in FY 2006/07.

Thus, the proportion of shareholder's equity of SCBNL is higher than that of NABIL. And fluctuation of the proportion of shareholder's equity is quiet more in SCBNL (C.V. = 6.98%) than NABIL (C.V. = 6.69%). The average ratio of net worth to total asset of SCBNL is 8.59% and NABIL is 7.29.

Figure 4.5

Net Worth to Total Liabilities Ratio of NABIL & SCBNL



4.1.4 Analysis of Debt to Equity Ratio

Debt is between borrowed funds and owner's capital. This ratio reflects the relative claims of creditors and shareholders against the assets of the firm. The ratio is important tool to appraise the financial structure of the firm.

A higher ratio shows a large share of financing by the creditors relatively to the owners. So, there is a larger claim against the assets of the firm, which is the danger signal for the creditors. It would be risky for the creditors. A high proportion of debt

in the financial structure would lead to inflexibility in the operations of the firm because the firm is legally liable to pay the interest even if the firm is having loss and a smaller ratio shows smaller claim of creditors. To the creditors, relatively high stake of the owners implies sufficient safety margin and substantial protection against shrinkage in assets.

Debt to equity has been calculated in following ways:

Debt to Equity Ratio in terms of Fixed Deposit to Net Worth

$$D/R = \text{Fixed Deposit} / \text{Net Worth}$$

Table 4.6

Debt to Equity Ratio of NABIL & NIBL

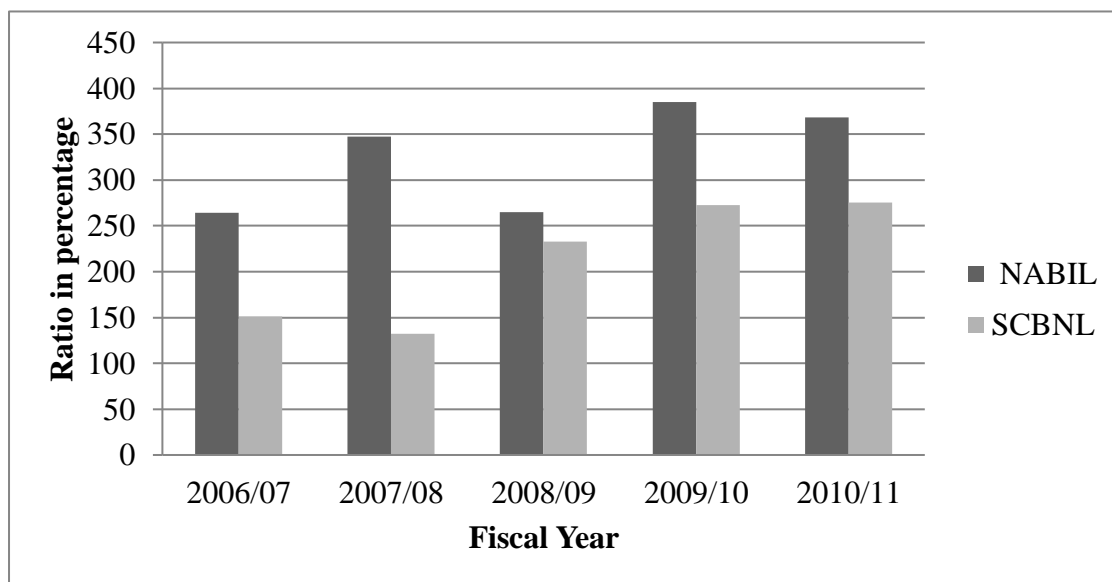
Fiscal Year	NABIL			SCBNL		
	Fixed Deposit (Rs in millions)	Net Worth (Rs in millions)	Ratio (%)	Fixed Deposit (Rs in millions)	Net Worth (Rs in millions)	Ratio (%)
2006/07	5435.2	2057.1	264	3196.5	2116.35	151.04
2007/08	8464.1	2437.2	347	3301.1	2492.55	132.44
2008/09	8310.71	3130.2	265	7107.7	3052.47	232.85
2009/10	14711.16	3834.2	385	9175.07	3369.71	272.28
2010/11	16840.0	4572.1	368	10136.24	3677.77	275.61
Average			325.8			212.84
Standard Deviation (S.D.)			57.56			60.26
Coefficient Of Variance (C.V.)			17.67			28.31

(Source: Appendix I)

The debt equity ratio is more significant to determine whether a fixed deposit is adequate to strengthen the profitability of the bank. Table no 4.6 reveal that both the banks have more D/E Ratio i.e. greater claims of creditors than owner.

Figure 4.6

Debt to Equity Ratio of NABIL & SCBNL



From table 4.6 and figure no. 4.6, D/E of NABIL in the F.Y. 2009/10 is 385% i.e. the greatest portion of the fixed deposit. It is 264% in the F.Y. 2006/07 i.e. the lowest portion of the fixed deposit throughout the study period. Similarly, D/E of SCBNL in the F.Y. 2006/07 is 151.04%. It is 275.61% in the F.Y. 2010/11 i.e. the greatest portion of the fixed deposit and 132.44% in the FY 2007/08 i.e. the lowest portion of the fixed deposit. The Average increment in the D/E of NABIL is 325.80% and that of SCBNL is 212.84% and C.V is 17.67 and 28.31 respectively.

4.1.5 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.

Table 4.7

Return on Assets

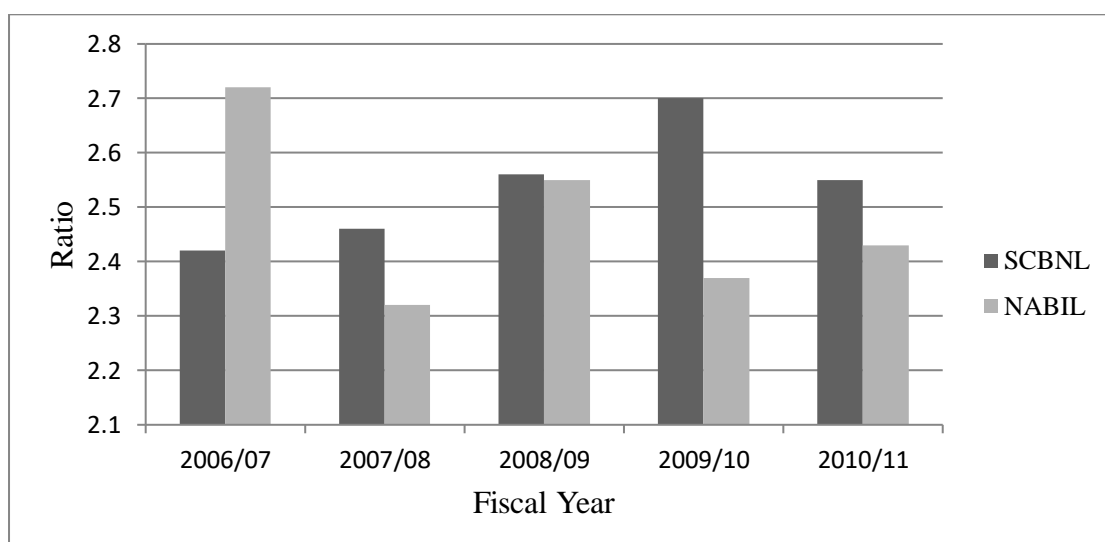
Year	Ratio %	
	SCBNL	NABIL
2006/07	2.42	2.72
2007/08	2.46	2.32
2008/09	2.56	2.55
2009/10	2.70	2.37
2010/11	2.55	2.43
Mean \bar{X}	2.54	2.48
S.D.	0.10	0.14
C.V.	3.94	5.64

Source: Appendix I

The table 4.7 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.

Figure 4.7

Return on Assets



The figure 4.7 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.

4.1.6 Return on Equity (ROE)

These ratios measure that how much profits are generated on the amount by the shareholders. This ratio is helpful in measuring the degree of effectiveness with which funds of the shareholders are being utilized. It is also helpful in comparing the relative profitability and soundness of different firms. Higher ratio indicates the more efficient management and utilization of shareholders' funds.

Table 4.8

Return on Equity

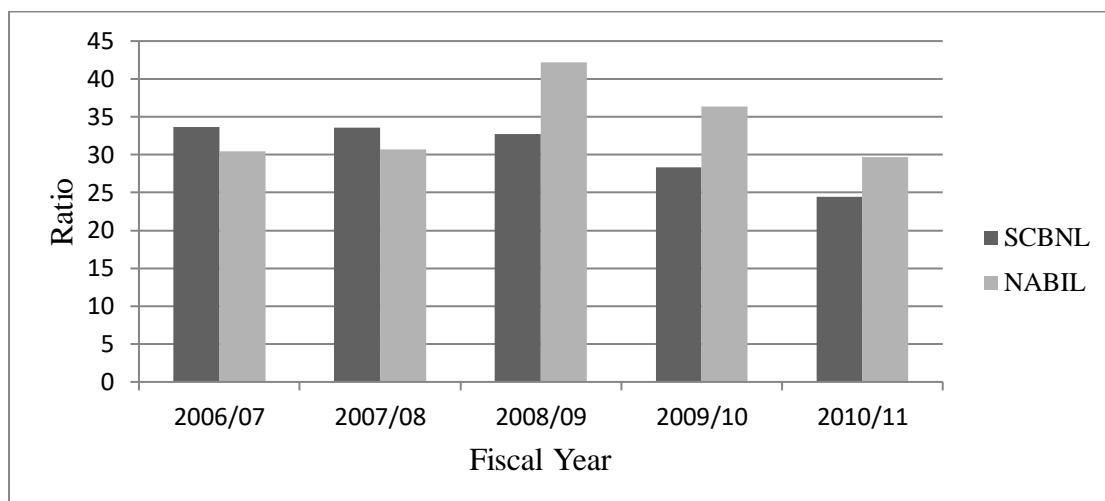
Year	Ratio %	
	NABIL	SCBNL
2006/07	30.47	33.64
2007/08	30.72	33.60
2008/09	42.22	32.74
2009/10	36.39	28.32
2010/11	29.69	24.47
Mean \bar{X}	33.90	30.55
S.D.	4.80	3.62
C.V.	14.16	11.85

Source: Appendix I

The table 4.8 shows the average ROE of SCBNL and NABIL which are 30.55% and 33.90%, respectively. As such NABIL has higher ROE than SCBNL. This show the higher ROE earning bank i.e NABIL has higher efficiency in utilizing their shareholders' fund. Both mentioned banks have lower CV i.e. 11.85% of SCBNL and 14.16% of NABIL, which shows the less fluctuation on ROE of both banks. But the fluctuation of NABIL is quiet higher than that of SCBNL.

Figure 4.8

Return on Equity



The figure 4.8 shows the ROE of both mentioned banks for fiscal year 2006/07 to 2010/11. ROE of SCBNL and NABIL are fluctuating. SCBNL has highest ROE on FY 2006/07 and NABIL has highest ROE on FY 2008/09.

4.1.7 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 4.9

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 \bar{X}	8.43	9.58
S.D.	1.54	1.69
C.V.	18.27	17.64

Source: Appendix I

Figure 4.9

Interest Income on Loan and Advance

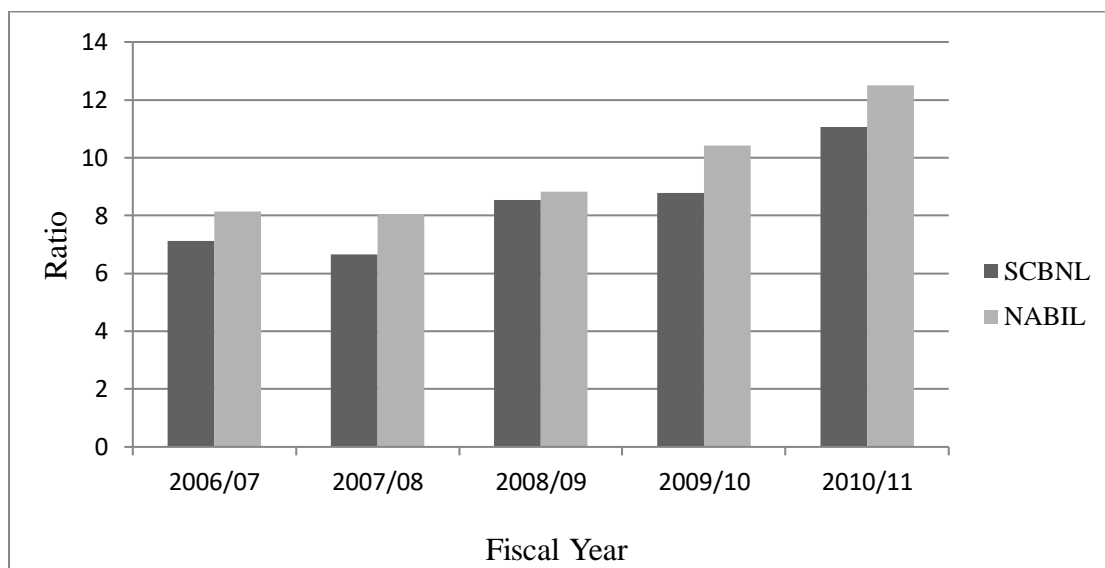


Table 4.9 and figure 4.9 shows that the interest income on loan and advance ratio of SCBNL and NABIL for the five fiscal years. The average ratio of SCBNL is 8.43% and of NABIL is 9.58%, which shows that the ratio of NABIL is highest than SCBNL. And the CV of SCBNL and NABIL are 18.27% and 17.64%, which 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.

4.1.8 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.

4.1.8.1 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.

Table 4.10

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 \bar{X}	43.60	70.62
S.D.	3.96	3.99
C.V.	9.08	5.65

Source: Appendix II

The table 4.10 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.

Figure 4.10

Loan and Advance to Total Deposit Ratio



The figure 4.10 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.

4.1.8.2 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 4.11

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 \bar{X}	2.55	2.63
S.D.	0.95	0.42
C.V.	37.25	15.97

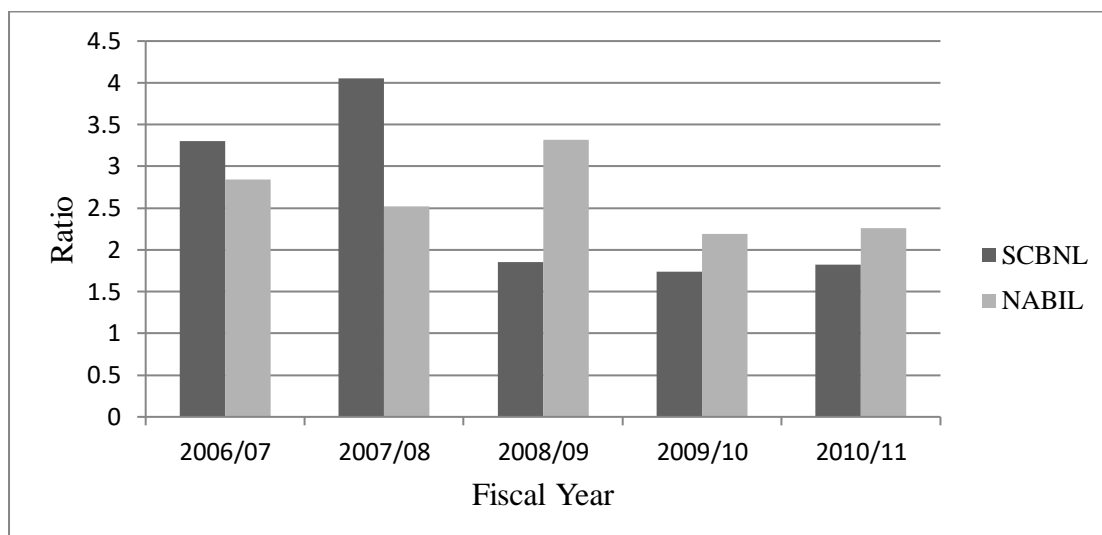
Source: Appendix II

The table 4.11 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 below figure 4.11 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.

Figure 4.11

Loan and Advance to Fixed Deposit Ratio



4.1.8.3 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 4.12

Loan and Advance to Saving Deposit Ratio

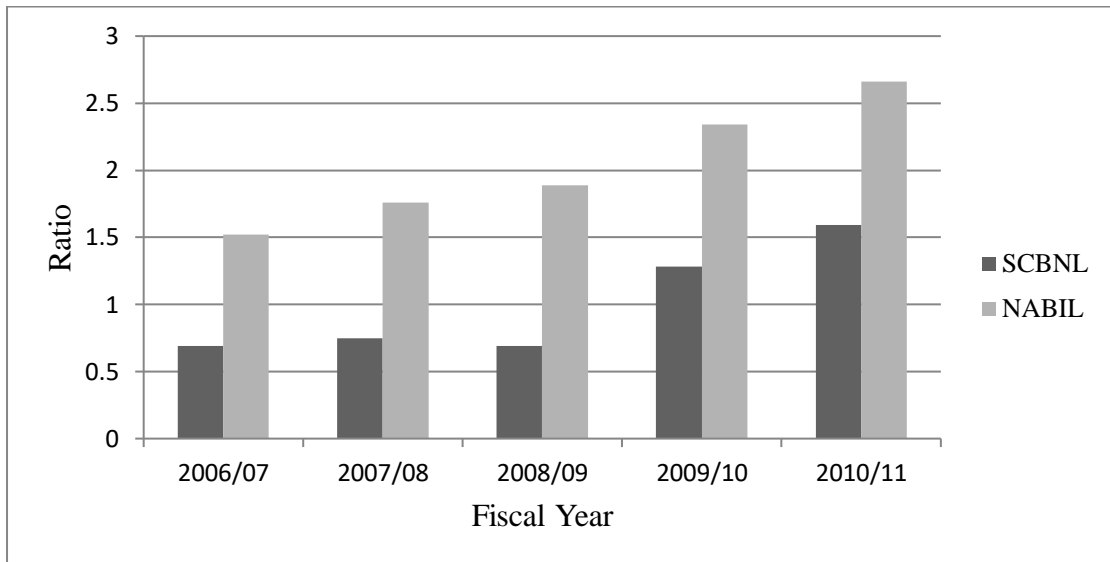
Year	Ratio	
	SCBNL	NABIL
2006/07	0.69	1.52
2007/08	0.75	1.76
2008/09	0.69	1.89
2009/10	1.28	2.34
2010/11	1.59	2.66
Mean \bar{X}	1	2.03
S.D.	0.37	0.41
C.V.	37	20.20

Source: Appendix II

The table 4.12 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.

Figure 4.12

Loan and Advance to Saving Deposit Ratio



The figure 4.12 shows the higher loan and advance to saving deposit ratio of NABIL than SCBNL on all the fiscal year.

4.1.9 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.

4.1.9.1 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.

Table 4.13

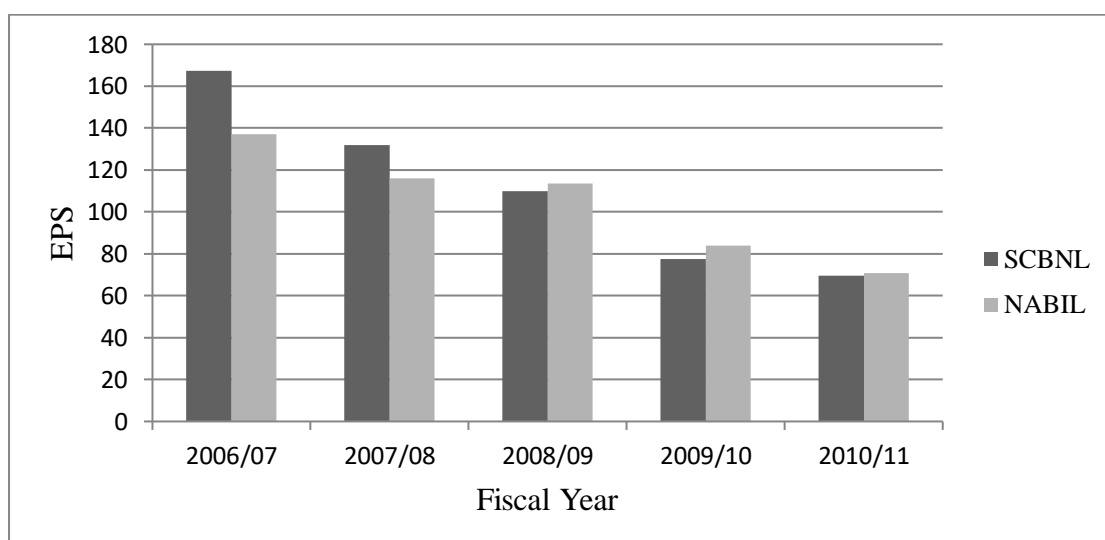
Earnings per Share

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 \bar{X}	111.29	104.07
S.D.	35.92	23.84
C.V.	32.28	22.91

Source: Appendix I

Figure 4.13

Earnings per Share



The table 4.13 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.

The figure 4.13 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.

4.1.9.2 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 4.14

Net Worth per Share

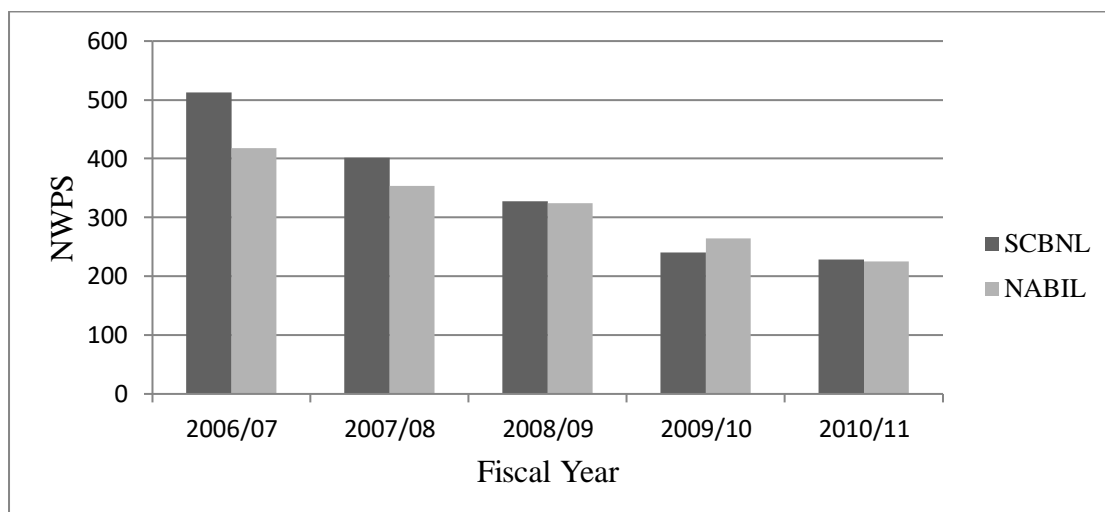
Year	Rupees	
	SCBNL	NABIL
2006/07	512.12	418
2007/08	401.52	354
2008/09	327.53	324
2009/10	240.95	265
2010/11	228.41	225
Mean \bar{X}	342.11	317.20
S.D.	105.65	67.51
C.V.	30.88	21.28

Source: Appendix I

The table 4.14 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 below figure 4.14 reflects the decreasing trend of NWPS of both banks. And NWPS of SCBNL is highest on all the fiscal year except FY 2009/10.

Figure 4.14

Net Worth per Share

**4.1.9.3 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 4.15

Price – Earnings Ratio

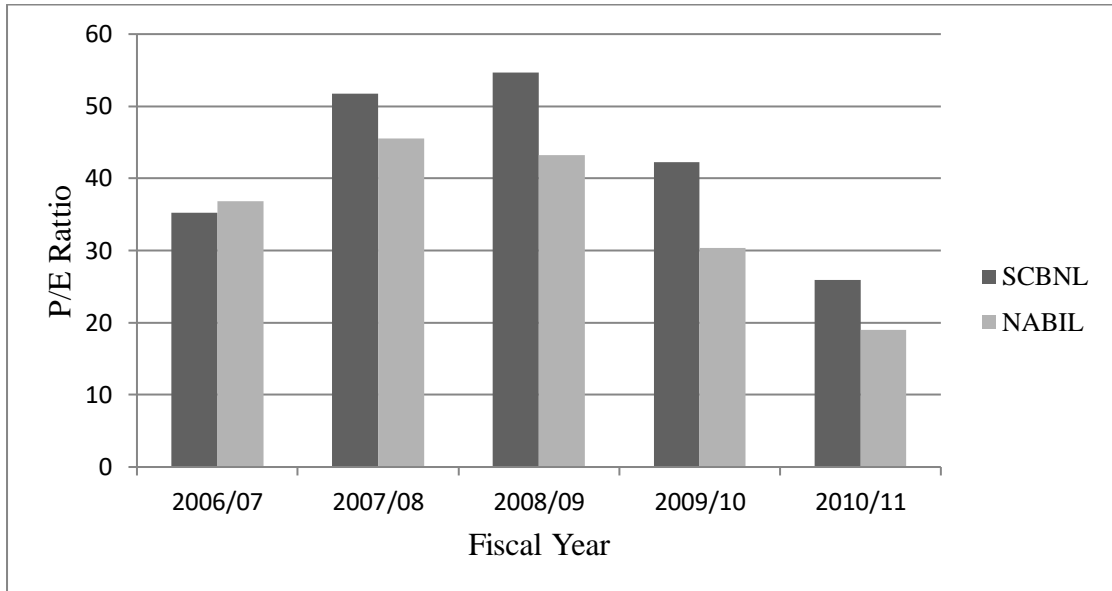
Year	Ratio	
	SCBNL	NABIL
2006/07	35.25	36.84
2007/08	51.77	45.53
2008/09	54.64	43.19
2009/10	42.23	30.33
2010/11	25.90	19.00
Mean \bar{X}	41.96	34.98
S.D.	10.58	9.58
C.V.	25.21	27.39

Source: Appendix I

The table 4.15 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.

Figure 4.15

Price-Earnings Ratio



The figure 4.15 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 NABIL is 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.

4.1.9.4 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 4.16

Cash Dividend on Share Capital

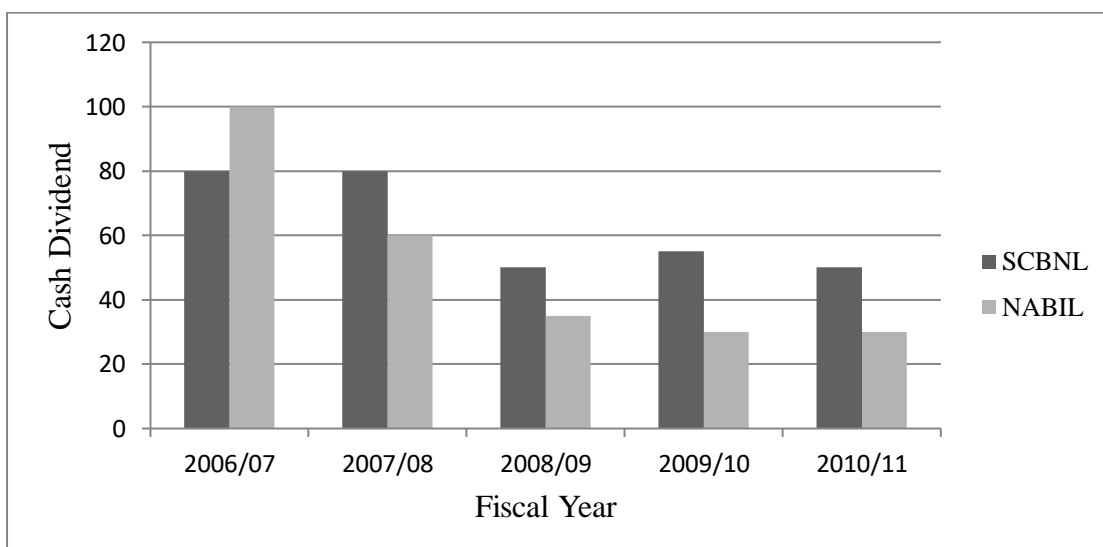
Year	Ratio (%)	
	SCBNL	NABIL
2006/07	80	100
2007/08	80	60
2008/09	50	35
2009/10	55	30
2010/11	50	30
Mean \bar{X}	63	51
S.D.	14	26.91
C.V.	22.22	52.76

Appendix I

The table 4.16 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 4.16

Cash Dividend on Share Capital



The figure 4.16 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.

4.2 Statistical Analysis

Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, regression analysis, co-relation analysis, trend analysis, various types of tests etc. There is convenient statistical tools are used in this thesis study.

4.2.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship under the following headings:

4.2.1.1 Correlation Coefficient between Fixed Deposits to Total Liability Ratio and Net Worth to Total Liabilities Ratio

MPS and DPS, MPS and EPS, DPS and EPS of NABIL and SCBNL using Karl Persons coefficient of correlation, value of coefficient of determination etc.

Table: 4.17

Coefficient of Correlation Analysis

Componants	NABIL		SCBNL	
	Correlation	Determination	Correlation	Determination
Fixed Deposit to Total Liability Ratio & Net Worth to Total Liabilities Ratio	0.409	0.1673	0.7450	0.5550
MPS and DPS	0.6356	0.4039	0.6656	0.4430
MPS and EPS	0.9351	0.8744	0.8151	0.6644

(Source: Appendix VI)

From table 4.17, it is found that coefficient of correlation between Fixed Deposit to Total Liability Ratio & Net Worth to Total Liabilities Ratio of NABIL & SCBNL are 0.409 and 0.7450 respectively. Here the correlation determinations are 0.1673 and 0.5550. MPS and DPS of NABIL and SCBNL are 0.6356 and 0.6656 respectively. It is shown that both SCBNL and NABIL have the positive relationship between these two variables. Moreover, the coefficient of determination of NABIL is 0.4039. It means 40.39 percent of variation in MPS has been explained by DPS. Similarly, value of coefficient of determination of SCBNL is 0.7809. It refers that 78.09 percent of variation in MPS affected by DPS.

Again, the researcher found that the coefficient of correlation between MPS and EPS of NABIL is 0.9351. In addition, coefficient of determination of is 0.8744. It means only 87.44 percent of MPS is explained by EPS. There is high degree of positive correlation coefficient between MPS and DPS of NABIL. Similarly, coefficient of correlation between MPS and EPS of SCBNL is 0.8151. In addition, coefficient of determination of is 0.6644.

4.3 Major Findings of the Study

Basically in this research work, all the data has been obtained from secondary sources. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from the analysis of working capital management of the selected banks with comparatively applying five years data from 2006/07 to 2010/11.

The major findings of the study derived from the analysis of financial tools of the selected banks are given below:

- Average cash reserve ratio of NABIL is near NRB directives of 6.5% and CRR of SCBNL is somehow lower than NRB directives. In comparison, NABIL has higher average CRR than SCBNL which measures the ability to meet short-term obligation and reflect the short-term financial strength and solvency of the bank than SCBNL.
- The major components of Total fixed deposit of NABIL & SCBNL are local currency and foreign deposit currency and Total shareholder equity are paid

up capital & Reserve fund. The level of Total deposit and Total shareholder equity are in increasing trend over the study period.

- The trend of fixed deposit index and net worth index is in increasing trend but changing percentage of both banks total deposit and net worth are in fluctuating trend and sometimes it becomes negative also.
- The capital structures of both banks are good. Fixed deposit to total liabilities ratios of both banks are in fluctuating and increasing trend.
- Both the banks have more debt equity ratio (DER) i.e. Greater claims of creditors than owners, which shows that the banks have somehow able to reduce the claim of creditors than that of owners. The average ratio of NIBL was higher than the average ratio of NABIL. The variability of fixed deposit to net worth is higher in SCBNL than NABIL.
- SCBNL has quiet higher ROA than NABIL. This shows the higher ROA earning bank i.e SCBNL has higher 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 higher than that of SCBNL.
- NABIL has higher average ROE than SCBNL. This show the higher ROE earning bank i.e. NABIL has higher efficiency in utilizing their shareholders' fund.
- The average interest income on loan and advance of SCBNL is 8.43% and of NABIL is 9.58%, which shows that the ratio of NABIL is slightly 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.
- Mean ratio of loan and advance to total deposit 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.
- 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 shows more consistent EPS on NIBL than NABIL.

- 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 NSBIL. But the CV of NABIL and SCBNL are 21.28% and 14.41% which shows a more consistent of NWPS of NABIL.
- 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.
- NABIL has lowest average cash dividend i.e. 51% than that of SCBNL i.e. 63%. And the variation on cash dividend is slightly higher on NABIL than on SCBNL due to the higher CV.
- The correlation co-efficient between MPS and DPS, Fixed Deposit to Total Liability Ratio & Net Worth to Total Liabilities Ratio, MPS and EPS of both banks are positive.

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Without the significant improvement in the economic conditions, the growth and prosperity of a developing country like Nepal cannot be assured. The commercial banks play a major role in the economic growth of the nation. Commercial banks accumulate the funds by mobilizing scattered and idle resources from the savers in order to fulfill the fund requirement of productive sectors, promote trade and industrialization in the country, thereby, raising the employment opportunities and earning to the laborers who are the service providers to such industries and traders, which ultimately further promotes saving into the banks. More saving means more funds available in the bank for further investment. Thus, as the chain reaction, the economy growth of a nation can be realized.

To be a major contributing factor in the growth of the nation's economy, the commercial banks also have sustainable existence and growth of themselves. So, the banks must ensure reasonable profitability for which capital structure management decision is one of the important functions. As the banks are joint stock companies promoted by shareholders, it must primarily concerned with determining an optimal capital structure in the view of providing reasonable return on the funds of the shareholders.

The financial performance analysis of any investing entity is the main key to ensure its return and make it more sustainable even in adverse environment. A commercial bank also has to plan for the reasonable capital structure. When a firm and/or an individual affect savings for the expectation of greater degree of future utility, the financial system allow them to earn an additional income on the accumulated savings, which is termed as a return on investment. Therefore, rate of return on investment is cash plus accrued capital gain. It is generally expressed on the basis of annual percentage rate.

Risk on the other hand is the chances of loss. Risk can be thought as the possibility that actual return from holding a security will deviate from an expected return. An asset is concerned as risky if its future return is highly volatile. The risk pertaining to an investment can be measured by computing standard deviation, coefficient of variance, covariance coefficient and beta coefficient and so on.

Investors always want to secure a higher return by taking a minimum level of risk. But theoretically, if they want to secure a higher return, they should also assume a higher risk. Again, at lower risk they should remained satisfied with lower return as there is positive relationship between risk and return.

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.

Capital is the base of business firm. In the absence of capital or money, no one can imagine the existence and promoting of a business firm. For the smooth running of a business firm, different types of capital in the optimum level are required. Generally, there are two types of capital. One is debt capital and another is equity capital. Equity is owner's capital where as debt is the capital of creditors. Debt capital can be also divided in two parts. They are short term debt and long term debt.

5.2 Conclusions

On the basis of entire research study some conclusions have been deduced. This study particularly deals about the financial performance analysis of commercial bank in Nepal. The present study is mainly an attempt to give account of comparative study about commercial banks in different aspects such as analyzing fixed deposits,

analyzing shareholders equity, analyzing MPS, EPS, DPS and other related ratios and indicators of the basis of financial statement.

After conducting the capital structure management of NABIL and SCBNL, covering the study period of 2006/07 to 2010/11, the following conclusions can be drawn from the study;

- This study is particularly deals with conclusion about “Comparative Financial Performance Analysis of NABIL Bank Limited and Standard Chartered Bank Nepal Limited”. The financial performance decision is crucial because of the need to maximize returns to various organizational constituencies, and also because of the impact such a decision has on an organization’s ability to deal with its competitive environment. This present study evaluated the capital structure ratios and the relationship between capital structures of firms. The study reveals that the companies are financially leveraged with a large percentage of total debt being short term. Commercial bank has been using debt. The higher D/E ratio constitutes that the outsider’s claim in total assets of the banks in owner’s claim.
- The major components of Total fixed deposit of NABIL & SCBNL are local currency and foreign deposit currency and Total shareholder equity are paid up capital & Reserve fund. The level of Total deposit and Total shareholder equity are in increasing trend over the study period.
- The private sector banks have been successful in increasing their deposits .The operating profits have gone up, so have the provision for loan loss. In short, banking sector in Nepal is somehow doing well even though it has to face a number of hurdles.
- Financial performance analysis of any investing entity is the main key to ensure its return and make it more sustainable even in adverse environment. A commercial Bank also, being a commercial and investing institution (investor), has to plan for the reasonable capital structure.
- When an individual and a firm affect savings for the expectation of greater degree of future utility, financial system allow them to earn an additional income on the accumulated savings, which is termed as a return on investment. Rate of Return on investment, therefore, is cash plus accrued capital gain. It is generally expressed on the basis of annual percentage rate.
- Data relating to various activities of the Bank has been collected presented in tabular and various pie charts, figures and bars diagrams form and are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various accounting financial, mathematical and statistical tools and findings of the study have

been listed in a systematic manner. All these works are compiled in the fourth chapter titled as 'Data Presentation and Analysis' of this study.

- During the research works, an extensive review of various literatures, books, past thesis, journals have been made and Internet materials from relevant web site were also consulted. The works were compiled into the chapter two titled as 'Review of Literature' of this study report.

5.3 Recommendations

In this section of the study, it endeavors to recommend few points that can be helpful to stakeholders as well as to the company. These recommendations are based upon above calculations and drawn conclusions. These recommendations are guidelines which would be helpful in taking prompt and appropriate decision about capital structure.

Capital structure is a serious matter, which affects EPS, Value of the firm, cost of capital etc. Between both the companies, NABIL is found to have the lesser cost of capital and higher value in comparison to SCBNL. However, in the context of both companies; they have not given more attention in the capital structure matter seriously. So it is recommended that both the companies follow or give more attention into the theoretical aspects of the capital structure management and try to manage their activities accordingly.

SCBNL has higher EPS than NABIL and EPS of both banks are in decreasing. The number of shares outstanding and low earnings might be the factor of decreasing EPS, which increases the strength of the share and improve the market price. The management of both banks should be eager to increase its performance in the market so that investor should hold the share.

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.

Both the banks are more concentrating in the area of loan and advances. But due to the competitive market and present worse economic and political condition of the country, investment in the sector of loan and advances only is not favorable. So, both banks should also give the emphasis in the other commission based sector like bill purchase and discount, government security and other investment so that profit could be secure.

Banks are not able to mobilize to its deposits in terms of loans due to lack of sufficient safe investment opportunities. Thus it is suggested to the government to improve the political situation of the country.

As published report of concerned banks are the major sources of data and information regarding this topic, untimely and late publication makes the researcher wait long and they also do not put available information regarding capital structure on their published report. So joint venture banks are suggested to publish all necessary publication in time and in their publication respectively for the convenience of researcher and other interested people.

As the key to success for any organization and for good financial system in the country capital investment is essential, this is possible only by proper decision making of capital structure. So all the joint venture banks are supposed to set proper and practical in financial management.

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

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Websites

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www.nepalstock.com

APPENDIX

Appendix I

Five Years Financial Summary of NABIL

Particulars	2006/07	2007/08	2008/09	2009/10	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
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
Total Net Worth (Rs. In Millions)	2057.1	2437.2	3130.2	3834.2	4572.1
Return on Equity	30.47	30.72	42.22	36.39	39.69
Total Liabilities	27253.39	37132.75	43867.39	52150.23	58141.43

Source: Annual Reports of Respective Banks

Five Years Financial Summary of SCBNL

Particulars	2006/07	2007/08	2008/09	2009/10	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
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
Total Net Worth (Rs. In Millions)	2116.35	2492.55	3052.47	3369.71	3677.78
Return on Equity (In %)	33.64	33.60	32.74	28.32	24.47
Total Liabilities	26539.64	30898.59	36936.33	36379.1	39238.47

Source: Annual Reports of Respective Banks

Appendix-II (A)

Calculation of Loan and Advances to Total 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-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

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

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

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

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

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

Similarly, calculation is done for others ratio.

Appendix: IV

Computation of Fixed deposit to Total Liabilities Ratio of NABIL & SCBNL

(Rs. In millions)

Year	NABIL		SCBNL		Ratio NABIL = FD/TL	Ratio SCBNL = FD/TL
	Fixed Deposit	Total Liabilities	Fixed Deposit	Total Liabilities		
2006/07	5435.2	27253.39	3196.5	26539.64	19.94	12.04
2007/08	8464.1	37132.75	3301.1	30898.59	22.79	10.68
2008/09	8310.71	43867.39	7107.7	36936.33	18.95	19.24
2009/10	14711.16	52150.23	9175.07	36379.1	28.21	25.22
2010/11	16840.0	58141.43	10136.24	39238.47	28.97	25.83

Appendix: V

Computation of Net worth to Total Liabilities Ratio of NABIL & SCBNL

(Rs. In millions)

Year	NABIL		SCBNL		Ratio	Ratio
	Net worth	Total Liabilities	Net worth	Total Liabilities	NABIL = NW/TL	SCBNL = NW/TL
2006/07	2057.1	27253.39	2116.35	26539.64	7.55	7.97
2007/08	2437.2	37132.75	2492.55	30898.59	6.56	8.07
2008/09	3130.2	43867.39	3052.47	36936.33	7.14	8.26
2009/10	3834.2	52150.23	3369.71	36379.1	7.35	9.26
2010/11	4572.1	58141.43	3677.77	39238.47	7.86	9.37

Appendix – VI

Calculation for Mean value, Standard Deviation, Correlation between Fixed Deposit to Total Liability Ratio & Net Worth to Total Liabilities Ratio of NABIL

Year	FD/TL Ratio (X ₁)	NW/TL Ratio (X ₂)	x ₁ =X ₁ - \bar{x}_1	x ₂ =X ₂ - \bar{x}_2	x ₁ . x ₂	x ₁ ²	x ₂ ²
2006/07	19.94	7.55	-3.832	0.26	-0.99	14.68	0.07
2007/08	22.79	6.56	-0.982	-0.73	0.72	0.96	0.53
2008/09	18.95	7.14	-4.822	-0.15	0.72	23.25	0.02
2009/10	28.21	7.35	4.438	0.06	0.27	19.70	0.006
2010/11	28.97	7.86	5.198	0.57	2.96	27.02	0.32
N ₁ = 5 N ₂ = 5	$\sum X_1 = 118.86$	$\sum X_2 = 36.46$			$\sum x_1 . x_2 = 3.68$	$\sum x_1^2 = 85.62$	$\sum x_2^2 = 0.946$

For Fixed Deposit to Total liabilities Ratio,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{118.86}{5} = 23.772$$

$$\text{S.D } (\sigma) = \sqrt{\frac{\sum(X1-X1)^2}{N1}} = \sqrt{\frac{85.62}{5}} = 4.14$$

For Net Worth to Total Liabilities Ratio,

$$\text{Mean } (\bar{X}) = \frac{\sum X2}{N2} = \frac{36.46}{5} = 7.29$$

$$\text{S.D } (\sigma) = \sqrt{\frac{\sum(X2-X2)^2}{N2}} = \sqrt{\frac{0.946}{5}} = 0.43$$

Correlation between Fixed Deposit to Total liabilities Ratio and Net Worth to Total Liabilities Ratio of NABIL,

$$\begin{aligned} (r_{12}) &= \frac{\sum X1X2}{\sqrt{\sum x1^2 \sum x2^2}} \\ &= \frac{3.68}{\sqrt{85.62 \times 0.946}} = 0.409 \end{aligned}$$

Other calculation can be done similarly.