

FINANCIAL PERFORMANCE EVALUATION OF JOINT VENTURE BANKS

(With Reference to Nepal SBI Bank & Everest Bank)

A THESIS

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RECOMMENDATION

This is to certify that the thesis

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FINANCIAL PERFORMANCE EVALUATION OF JOINT VENTURE BANKS

(with reference to Nepal SBI Bank & Everest Bank)

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I hereby declare that the work reported in thesis entitled, “**Financial Performance Evaluation Of Joint Venture Banks (With Reference To Nepal SBI Bank & Everest Bank)**” submitted to Office of Dean, Faculty of Management, Tribhuvan University, is my original work done in the form or partial fulfillment of the requirement for the master’s Degree in Business Studies (MBS) under the supervision of **Joginder Goet** and **Rama Kanta Bhattra** of **Shanker Dev Campus**.

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ABBREVIATIONS

&	:	And
A/C	:	Account
A.D	:	Anno Domini
BIS	:	Bank for International Settlement
B.S	:	Bikram Sambat
BVPS	:	Book Value Per Share
C.V	:	Correlation of Variation
DPS	:	Dividend PerShare
DPR	:	Dividend Payout Ratio
EAC	:	Earning Available to Common Shareholder
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
FY	:	Fiscal Year
HBL	:	Himalayan Bank Limited
i.e.	:	That is
Ltd.	:	Limited
MBS	:	Master of Business Studies
MVPS	:	Market Value Per Share
NGO	:	Non Government Organization
NO.	:	Number
NSBIBL	:	Nepal State Bank of India Bank Limited
NRB	:	Nepal Rastra Bank
NPAT	:	Net Profit After Tax
Pvt.	:	Private
%	:	Percentage
P/ER	:	Price-Earning Ratio
T.U	:	Tribhuvan University
TPS	:	Tax Per Share
USA	:	United States of America

CHAPTER -I

INTRODUCTION

1.1 Background of Study

Nepal in early 1950 AD began the process of economic and social development in spite of the lack of modern institutions and infrastructures. Budgetary system was introduced in 1952 AD (2008BS) in the same year, a separate ministry for planned and Development was established for uplifting the nation. Economic stabilization program, adopted in 2042 BS with the assistance of IMF can be taken as the beginning of economic liberalization in Nepal. Structural adjustment program brought in 2044 BS with the structural adjustment facility from IMF can be considered as the continuation of same policy. After the restoration of multiparty system the first elected government (2047 BS), encouraged the process of globalization in order to accelerate the process of economic liberalization and globalization the government enforced 'the Foreign investment and Technology Transfer Act-2049 and 'Foreign Investment and One Window Policy-2049' As per the arrangement in policies license should be taken from the related department for technology transfer Technology can be transferred in case of collage industries the fixed assets constituting up to twenty million rupees. Foreign investors should pay 15% tax on earning.

It is forty-seven years since the first five-year plan was executed up to now nine successive plans has already been implemented. A cursory look at these plans shows that the major focus has been laid on agro-sector, industrial sector and in the field of infrastructure development.

Similarly, the government enforced 'Industrial Enterprises Act-2049 formulated new 'Industrial Policy-2049 and 'Commercial Policy-2049. The policies include one window provision for internal and foreign investors, non-nationalization of new industries, implementation of full convertibility of Nepalese currency on current account etc. Non-requirement of license for the establishment of the industries other than having social cost was another aspect of the policy.

In the similar way, the government enforced the 'Privatization Act-2050 including its regulation and guidelines. The government developed various criteria for promoting private sector organizations. They include management contract, Partial privatization, and lease contract, asset selling and selling of shares. In case, the shares to the employees of enterprise, 25% to the public and management shares to the competent party or individuals.

Those policies have certainly contributed in the initial stage of globalization in the country. Their effectiveness can be measured in near future in terms of economy generating issues and enhancing overall GNP and GDP of the country. Since last decade, there have been a considerable growth in service sector activities in Nepal including a share increases in banking, Insurance, transportation, airlines, finance companies, co-operative societies, hydropower centers etc. A growing number of NGOs and INGOs, multinational companies are mushrooming in Nepal.

The concept of financial institutions in Nepal dates back more than sixty years. In 1994BS, first commercial bank, Nepal Bank Limited was established under the Banking Act-1993'. The government provided 51% equity of the bank and the promoters shared the rest Nepal Rastra Bank, the central bank emerged in 2013 BS under 'Rastra Bank Act-2012'. Since then, It has been providing policies and guidance to the financial sectors in one hands and is monitoring and controlling then in the

other Realizing the need of adequate banking services for the integrated and speedy development of industrial sector, Rastriya Banijya Bank came into existence in 2022 BS with 100% government equity.

After the establishment of Agricultural Development Bank in 2024BS, growth of banking institutions remained almost stagnant till 2040BS. No new banks opened in this period though some branches of previously established bank were extended. Liberalization policy of government formulated in 2038BS allowed private sectors to open joint venture banks in foreign collaboration Nepal Arab Bank Limited became the first commercial bank to register under new arrangement. The bank started its operation since 2041BS. It is an associated of Dubai Bank Limited, UAE and Nepalese promoters Nepal Indosuez Bank Limited and Nepal Grind lays Bank Limited were other joint venture banks established afterwards.

After restoration of multiparty democracy in the country, the government formulated new policies along with the amendment of existing policies. To accelerate the process of economic liberalization and globalization. As consequence, other six JVBs came in existence Nepal Bank of Ceylon Limited has been the youngest one until now Relation to the commercial banks, they have been altogether fifteen in number. These banks attempted to introduce foreign management skill technical knowledge and foreign capital. The situation created an environment of healthy competition among the existing financial institutions.

It evident that different nine joint venture banks were established in different dated with their head office mainly at Kathmandu, except Bank of Ceylon (Siddhartha agar).

Therefore, the present study focuses on the comparative financial performance analysis of Nepal SBI Bank Limited and Everest Bank Limited. For the purpose, the study evaluates the position of the bank with respect to liquidity, Leverage capital adequacy, turnover and profitability and tests the relationship between various variable. The study assumes the hypothesis that the performance of sampled banks does not differ significantly

1.2 An Introduction of the Sampled Banks

Everest Bank and Nepal SBI Bank are two JVBs out of nine. JVBs currently operation in Nepal Both of the banks is operating in Nepal. Both of the banks are operating with the joint venture of Indian Banks. These banks were established in the gap of sixteen months paid up of capital of 'both of the banks byes the review period of 1998/99 is almost equal. Both of them carry out their operation under Nepal Rastra Bank ACT-2012 and Commercial Bank Act-2012.

1.2.1 Nepal SBI Bank

Nepal SBI Bank was established in 2050BS.It started its operation on 23rd Ashad 2050. It is an associate of state bank of India and Nepalese entrepreneurs. Regarding the composition of equity capital, state Bank of India, general public employee's provident fund and Agricultural Development Bank share: 50%, 30%, 15% and 5% respectively. Under the technical service agreement signed between two Banks, state Bank of India has been providing top management service to the bank service to bank. The bank operates with objective of providing loan to industry, commerce and trade. It also wishes to have public benefited from the various services.

The bank has 12 branches in various parts of the kingdom. Its corporate office is located in Hattisar, Kathmandu and main branch office in Durbarmarg, Kathmandu. It has two other branches within the valley-new Road branch and Embally of India Extension counter. Eight branches outside the valley are in Birgunj, Biratnager, Bairahawa, Rampur, Britamod, Sisuwa, Pokhara and Dharan.

The bank has utilized advanced computerized technique in its operation. The software in the user is 'banco-2000' developed by info sis technology, India. The branches within the valley perform their routine works from Monday to Friday i.e. Five days a week.

Apart from the conventional facilities, other facilities made available by the bank are listed below.

- It provides loan and advances by means of term loan as well as working capital.
- It provides its customers with letter of credit and guarantees.
- It provides remittance facility to various parts of the world.
- It is going to introduce 'Swift Transfer' System in near future.
- It provides merchant banking facilities like underwriting of public issues and standing instructions.

Performance review of the bank depicts that the total deposits of the bank grew from 3744.50 million rupees in the fiscal year 2003/04 to 4380 million rupees in 2007/08, recording a moderate growth of 16.97%. During the same period, total loans and advance reached the level of 2963 million rupees from 2363 million rupees recording a growth of 2*5.36% over the previous year. Accordingly total negative growth of 70.28% the level of investment in government securities. Net profit, during the period declined to 16.70million rupees from 58.90 million rupees showing the negative growth of 71.58%.

1.2.2 Everest Bank

Everest Bank was established in 2051BS. It started its operation on 1st Kartik 2051. In the beginning, it had shared with United Bank of India Limited. But in 2053BS, United Bank handed over its proportion of equity to Punjab National Bank Regarding the composition of equity capital Nepalese promoters, General public and Punjab National Bank share 50%,30% and 20% respectively, the technical service agreement signed between two banks, Punjab National Bank has been providing top management service and banking expertise to Everest Bank. Punjab National Bank has helped the bank operates with the objective of providing full range of quality banking service to both the business community and general people.

The bank has 25 branches in various parts of the country; its head office is located in Baneswar, Kathmandu. Other branches located within Kathmandu valley are new Road, Balaju, chabahil, Lamizpat, Stungal, Pulchowk, Gwarko teku Branch. Remaining Branches outside the valley are in sunsari, Butwal, Birgunj, samara, Biratnagar, mangalapur, Birtamod, Itahari, Janakpur, Simra, ICD Dryport, Dhangadhi, Bhairawa etc.

The bank is using computerized banking technique. The software in the use is pumori Plus'. It is going to launch Anywhere Branch Banking System' through 'wide Area Network, in near future. The branches within the valley provide their services from Monday to Friday i.e. fifth days a week. However, the main branch in Baneshwar and New Road Branch are providing service through additional counters on Sunday too.

Apart from the conventional services, attractive services made available by the bank are listed below.

Apart from conventional deposit schemes, it has offered cumulative deposit scheme, unfixed deposit scheme and recurring deposit plan.

- It provides credit on competitive terms by way of term loans as well as working capital.
- It accepts foreign currency deposits at attractive rates and lends in competitive rate.
- It provides its customers with letter of credit as well as guarantees.
- It has been providing remittance facility to various parts of the world by means of swift transfer.
- It has been facilitation merchant banking facilities and standing instructions.

Performance review of Everest Bank shows that the total deposits of the bank reached 1949 million rupees in the fiscal year 2006/07 from 1125 million rupees in the pervious year indication an annual growth rate of 72.26%. During same period, total loans and advances reached 1365 million rupees from 872 million rupees showing the growth rate of 56.58%. According, total investment reached 283 million rupees from 218 million rupees showing the growth rate of 29.88%. Net profit during the period reached 252 million rupees from 250 million rupees showing an annual growth of 0.78%.

1.3 Statement of the Problem

The number of joint venture banks is being increased in response to the economic liberalization polices of the government besides joint venture banks, commercial banks are also being registered by Nepalese promoters other institutions offering similar nature of services like finance companies, co-operative societies and development banks are growing in large number these institutions have the tendency to centralize in major cities focusing the activities among the industrialists, traders and entrepreneurs.

As per the economic survey of fiscal year 06/07. Total credit and investment of the bank grew by lower rate than that of the previous year. The rate of resource utilization by commercial banks declined in the year as compared to the previous year. Sluggish securities market could not show any conspicuous sign of revival in the manufacturing sector banks have been facing the considerable pressure to lower the commercial banks are competing for limited opportunities narrow clientele base and barring investment in treasury bills. There are hardly any other opportunities available for short-term investment. Because of continued slackness in the economic activities in the country, the demand for credit has not picked up besides, competition in the banking sector has turned more and leading opportunities in good projects are very limited.

With the prevailing economic condition of the country. The investment in agriculture, manufacturing and industrial sectors has not grown satisfactory. Hence, the joint venture banks are also not succeeding perfectly to shift the deposit in profitable sectors competition being the burning issues at present their eyes for the better productive and growth.

The problem of the study lies on the issues related to the Nepal SBI Bank and Everest Bank answer to the following question.

- How far have Nepal SBI Bank and Everest Bank been able to shift the monetary resources from savers to users?
- How sound is the operational result in relation to their profitability?
- What is the comparative position of two banks in terms of liquidity, leverage capital adequacy and profitability?

1.4 Objective of the Study

Main objective of this research is to examine and evaluate the financial performance to two joint venture banks namely Nepal SBI Bank and Everest Bank. The specific objectives of this research are as follow:

- To examine and comparative the financial position of selected joint venture banks.
- To evaluate liquidity, Leverage, capital adequacy turnover and profitability position of Nepal SBI Bank and Everest Bank.
- To Provide appropriate Suggestions.

1.5 Significance of the Study

At present the joint venture bank are going a wide popularity through the efficient management and professional service and playing an eminent role in the economy. Regarding the economic structure of the country, the banks do not have sufficient investment opportunities. Rapidly increasing financial instruction are creating threats to the joint venture banks. In this context, the financial analysis would not analyze strengths, weaknesses, opportunities and threats of selected joint venture banks. The result of the research will be helpful for JVBs especially for sample to formulate strategies to face the increasing competitions. The study no doubt will also have multidimensional importance for various areas. These are mentioned below:

- Importance to shareholders
- Importance to policy formulators and academically professional.
- Importance to management bodies of these banks for the evaluation of the performance of their banks and in comparison which others banks.
- Importance to government bodies and policymaker such as Central bank.

- Interested outside parties such as investors, customers (depositors, loan takers as well others types of clients.), competitors, personnel of the banks stock brokers, dealers and market makers etc.
- Significance to student and various groups those having interested in banking sectors as well as the management bookies of these banks for the evaluation of performance of their banks and in comparison which other bank.
- This study helps these banks to identify its hidden weakness regarding financial administration and necessity of the present study is justified.

1.6 Limitation of the Study

This reach will try it's almost care to cover most of the importance sector; it is still subject to the following limitations in brief. Being a student, lack of the sufficient time and resources are the major limitation therefore the study has been conducted as partial fulfillment of the requirement for therefore the study has been conducted as partial fulfillment of the requirement for the master of business studies of the management faculty TU. of the nine JVBs, the study covers judgmentally selected two small samples i.e. Nepal SBI Bank and Everest Bank which is based on secondary data therefore the reliability of the study depends upon the accuracy of the provided published audited general report documents such as balance sheet, profit and loss account, statement which are circulated of the close of the financial year.

- The analysis period of research covers only five years i.e. the fiscal year 2006/2007 to 2010/20011
- It focuses on financial performance and does not cover other aspects.
- Relating to the literature review, only master level theses have been reviewed.

- In this study, only selected financial and statistical tools and techniques are used.

1.7 Organizing the Study

The study has broadly been dividing into five chapters:

Chapter I: Introduction- It deals about focus of the study, Statement of the problem, objective of the study, research hypothesis, importance, limitations, introduction of sampled banks and chapter schemes.

Chapter II: Conceptual Framework & Review of Literature- It includes with research design, Population and sample, sources of data, data collection procedure, data processing and method of data analysis used in the study.

Chapter III: Analysis and Interpretation of Data- This chapter analyzes the data and interprets the result so obtained.

Chapter IV: Summary, Conclusions and Recommendations-It summarizes the result of analysis and offers suggestive framework

CHAPTER-II

CONCEPTUAL FRAMEWORK & REVIEW

OF LITERATURE

A profile of joint venture banks in Nepal, concept of financial analysis performance analysis of bank and review of school thought Review of school thought will include the objective set by different researchers in the similar field of study. Therefore, this chapter is deals about concept of Bank, concept of commercial Bank, function of commercial bank, concept of joint venture bank, role of joint venture bank.

While conducting the research study, previous studies cannot be, ignore, as that information would help to check the chances of duplication in the present study. Thus, one can find what research study has been conduct and what remains to go with. Review of literature is basic stocktaking of available literature in the field of research. The textual constraints would help the researcher to support the area of research in order to explore the relevant and true facts for the reporting purpose.

2.1 Conceptual framework

2.1.1 Concept of Bank

A Bank is a financial institution, which plays significant role in the development of a country. It facilitates the growth if trade and industry of national economy. However, Bank is a resource for economic development, which maintains the self-confidence of various segment of society and extends credit to the people.

"A bank is a business organization that receives and holds deposits of fund from other, makes loans or extend credits and transfer funds by written orders of depositors" (Encyclopedia, vol.3, 1981).

"The business of banking is one of collection funds from the community and extending credit to people for useful purpose. Banks have played a pivotal role in making money from lenders to borrowers. Banking is a profit seeking business, not a community charity profit seeker it is expected to pay dividend and otherwise, add to the wealth of shareholders.

In England, Goldsmiths were the bankers in an ancient period. They used to lend money to the government and at the time of emergency to keep deposits for safety purpose. The people used to keep their ornaments to goldsmiths because they had safe box. In ancient time, the

Foreign exchange also used to be done by such goldsmiths, merchant and money lenders (Regmi, 1969:16).

In Nepal, Banking transaction took place only after the establishment of Nepal Bank Limited in 1994 B.S. being only bank at that time; it performed the activities of central bank to some extent. The central bank was essential to establish but no activity was done until 2007 AD. The country, then, realized to established under-Nepal Rastra Bank Act2012. Before that, the credit need of people for commercial and other purpose was mostly performed by the unorganized market of private moneylender (Nepal Rastra Bank).

In short, the term bank in the modern times refers to an institution having the following features:-

- It deals with money; it accepts deposits and advances loans.
- It also deals with credit; it has the ability to credit; the ability to expand its liability.
- It is a commercial institution; it aims at earning profit.
- It is a unique financial institution that creates demand deposits that serve as a medium of exchange and as a result, the bank manages the payment system of the country.

2.1.2 Concept of Commercial Bank

Commercial institutions are that financial institution, which deals in accepting deposits of people and institution and giving loans against securities. They provide working capital needs of trade industry and even to agricultural sector.

Moreover, commercial bank also provides technical and administrative assistance to trade, industries and business enterprise.

"Commercial bank is corporation demand deposits, subject to check and makes short term loans to business enterprises, regardless of the scope of its other service" (Principle of Bank operation U.S.A.1972:345).

"A commercial banker is dealer in money such as cheques and bills of exchanges. He also provides a variety of financial services" (The world Book, London, Vol14, 185:600)

2.1.3 Function of Commercial Bank

Commercial banks are the most important types of financial institution for the nation in terms of aggregate assets. Traditional functions of commercial banks are only concerned with accepting deposits and providing loans. However, modern commercial banks work for overall development of trade commerce, services and agriculture also. The business of banking is very broad in modern business age. The number and variety of services provided by bank will probably expand. Recent innovation in banking includes the introduction of credit cards, accounting services for business firms, factoring leasing; participating in the Euro dollar market and lock-box banking. (January, 1979). The main functions of commercial banks are as follows.

Accepting deposits

"It is fair deduction that no person or body, corporate or otherwise, can be banker who does not

- Take deposits A/C.
- Issues and pay cheques
- Collect cheques from his customers.

Here, all functions are related with the acceptance of deposits; therefore, accepting deposits by bank is the oldest function of bank. A bank accepts deposits in three forms viz current, saving and fixed A/C.

A fixed deposit is one where a customer is requested to keep a fixed amount with the bank for specific period, generally by those who do not need money for stipulated period. The bank pays a higher rate on such deposits.

Advancing Loans

The second major-function of a commercial bank is to provide 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 a whole.

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

Creating money

The major function of commercial banks that separates it from other financial institution is the ability to create and 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.

2.1.4 Concepts of Joint Venture Banks

A joint venture is joining of forces between two or more enterprises for the purpose carrying out a specific operation (Gupta, 1984:15-25)

2.1.5 Role of JVBs in Nepal

Joint Venture banks pose a serious challenge to the existence of the efficient any very traditional banks but the same challenge can be taken by the domestic banks as an opportunity to modernize them and sharpen their competitive Zeal's. Murari R. Sharma JVBs Nepal co-existing or crowding out Prashast Lalitpur, Nepalese journal public Administration

2.1.6 A Profile of Joint Venture Banks in Nepal

Brief Profile of Joint Venture Banks In Nepal

Bank	Date of Establish(BS)	Paid up capital as on mid-July 1999AD(RS. in million)	Equity composition	Head office
NABIL	2041-03-29	392.9	Dubai Bank Ltd-50%, General Public-30%, NIDC-10%, Rastriya Beema Sansthan-9.67%, Nepal Stock Exchange Ltd-0.33%	Kathmandu
NISBL	2042-11-16	135.6	Bnque Indoxuez-50%, General Public 20%, Rastriya Banijya Bank15%, Rastriya Beema Sansthan 15%	Kathmandu

GNBL	2043-10-16	339.5	Australian & Newzeland banking group (ANZ)-50%, Nepal Bank Limited-35%, General Public-15%	Kathmandu
HBL	2049-10-05	192	Nepalese Promoters 51%, Habib Bank of Pakistan-20%, General Public-15%, EPF-14%	Kathmandu
NSBIBL	2050-03-23	119.90	State Bank of India-50%, General Public-30%, EPF-15%, ADB/N-5%	Kathmandu
NBBL	2051-02-23	177.40	International Finance Investment & Commercial Bank of Dhaka-50%, General Public-30%, Nepalese Promoters-20%	Kathmandu
BOCL	2053-06-28	350	Ceylon Bank of Srilanka-45%, General Public-30%, Nepalese Promoters-17%, Nepal Insurance company Ltd.-8%	Kathmandu
BOKL	2051-11-28	90	Nepalese Promoters-50%, Siam Commercial Bank, Thailand-30%, General Public-20%	Kathmandu

2.1.7 Financial Analysis

Financial analysis involves the use of various financial statements the first is the balance sheet, which represent a snapshot of the firm's financial position at a moment in time and next is the income statement that depicts a summary of the firm's profitability over time (Venhorn and wachowicz,1997:120).

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

Through the application of analytical tools, profitability and financial health of a concern is evaluated in a proper, critical and scientific manner (Jain, 1996:36).

The analysis of transaction determines the solvency of business and the measure of efficiency 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 a technique of x-raying the financial position as well as progress of a concern, it enables managers and investors take decision that will affect the company's future.

2.2 Financial Performance

Profit is one of the basis indicators of sound financial performance. It is usually the result of sound business management, cost control, credit risk management and general efficiency of operation. Profit is essential for an enterprise for its survival, growth and maintains capital adequacy profit retention.

Though profit is important for any business concern including joint venture banks but profit cannot be the sole objective, for example neither the bank nor the community will be best served if the banker reasonably sacrifice the safety of its fund or the liquidity of the banking is an effort to increase income (American Institute of Banking,149).

Financial statements provide information about a firm's position as well as its operation over same period. However, the real value of financial statement uses in the fact that they can be use to predict the firm's financial position in the future, and to determine expected earnings and dividends. From an investors stand points, predicting the future is what financial statement analysis is all about, while managements stand points financial statement is useful to anticipate future conditions and for planning actions that will influence the future course of events (Weston and Brijham, 1998:93).

Ratio analysis is used to compare a firm's financial performance and status to that of other firms or to itself over time.

Financial ratios are the tools to analyze the financial conditions and performances. We calculate ratio because in this way we get a comparison that may prove more useful than the raw numbers by themselves.

Ratio Analysis

Ratio analysis is a powerful tool of financial analysis. In financial analysis, a ratio is use as an index or yardstick for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and the financial position of a firm. An accounting figure conveys meaning when it is relate to some other relevant information (Pandey, 1992:10).

2.3 Review of Related Studies

2.3.1 Review of Books

Finance is a broad field and there are various books written in this subject. The book of M.Y. Khan and P.K. Jain is considered a useful book in the financial management. The modern approach of Khan and Jain views the term financial management in broad sense and provides a conceptual and analytical framework for financial decision-making. According to them, " the finance function covers both acquisitions of funds as well as their allocation; hence, apart from the issues of acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses." The three major financial decisions according to Khan and Jain are:

- The investment decision;
- The financing decision;
- The dividend policy decision (Khan & Jain,1998:112)

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.

The financial management involves the solution of the three major decisions. Together, they determine the value of a company to its shareholders. Van Horne believes that the objective of any firm is to maximize its value and therefore, the firm should strive for optimal combinations of the three inter-related decision, solved

jointly. The main thing is that the financial managers relate each decision to its effect on the valuations of the firm.

M. Pandey further identifies two kinds of finance functions:

- Routine
- Managerial finance functions.

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

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

(Pandey, 1989:39)

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

Finance is defined as the acquisition and investment of fund for enhancing the value and wealth of an organization. The various finance areas include investment, public finance, corporate finance and financial institutions. 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 debt and equity resources, and it reflects the disposition of acquired financing among the various asset accounts. The major

financial functions required for managing the bank's balance sheet are summarizing below.

- Analysis and planning
- Financial structure management
- 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 funds if 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 earned by banks.

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

All the above financial decision or functions as mentioned by different writers are instrumental towards effective handling of financial management, which includes

activities beginning from raising of funds to efficient and effective use of funds; no matter either it is a banking or non-banking institution.

2.3.2 Review of Journals

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

Paudel, on banking challenges ahead 22 focuses in the potential areas where banks should invest to fight the prevailing economic recession. Currently growth in the profitability of JVBs has been mainly due to external factors such as the foreign exchange rate but not to the growth in the real sector of the economy. Therefore, to sustain enter new areas by marketing their credit in important sub sectors such as hydro electricity, tourism, irrigation etc.

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

Interest received on loans, advances, and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges.

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

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

- Financial adaptability (Liquidity)
- Financial performance (Profitability) and
- Financial Position of Banks (Solvency)

Most of the users of the financial statements are interested in assessing the bank's overall performance i.e. Profitability, which is affected by the following factors:

- The structure of balance sheet and profit and loss account.
- Operating efficient and internal management system.
- Managerial decision taken by top management regarding interest rate, exchange rate, lending policies etc.
- Environmental changes (technology, government, competition, economy)

According to Mr. Poudel, the other factors to be considered in analyzing the financial statements of banks is to assess the capital adequacy ratio and liquidity position. In line with the norms set by the Bank for International Settlements (BIS), capital adequacy of a bank is assessed based on risk-weighted assets. It indicates a bank's financial strength and solvency. Presently the capital funds of a bank should not be less than

8% (at least 4% should be in the form of tier-1 capital or core capital) of its risk weighted assets as capital funds. Banks facing with capital adequacy problem may increase capital, reduce assets, or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with which banks assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

He has laid down an approach to evaluate the bank's overall performance through balancing between the risk and return components of the bank.

Dr. Shrestha in his work commercial Bank's comparative performance evaluation 24 stresses on a proper risk management. He believes in the appropriate classification of loans under the performing and non-performing category. In the context he writes, "Adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six month need to be treated and unearned income".

Regarding the risk management of the bank Dr. Shrestha's other suggestions include;

Any customer having overdue loan of two years or more in his account should not be given other loan facilities.

Strong provisioning or reservations are required in restructuring portfolio relating to overdub loans.

All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.

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

The above journals focus in the various aspects of the bank's economic environment. NRB press communiqué shows the current domestic market scenario article by Radha Krishna Poudel concentrates work stresses in effective's way of evaluating the financial performance and Dr. Shrestha suggestions are focuses towards proper risk management. Whatever, aspects of the bank the above journals target, they all have to be combinable assessed and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy. (Shrestha, 2047, P.38)

2.3.3 Review of Previous Research works

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.

Tuladhar (2007) has conducted a study on *A study on investment policy of Nepal Grindlays Bank Limited in comparison to other Joint venture Banks of Nepal*

Main Objectives:

- To study the fund mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on balance sheet transactions.
- To study the liquidity, efficiency of assets management and profitability position.
- To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.

Major Findings:

- From the analysis of primary data concerning in which sector should JVBs invest; 28.37% respondents emphasized on educational sector to be invested by these JVBs as the potential investment sector.
- Consequently poverty stricken and deprived sector was given second priority (26.24), whereas industrial sector (18.44), tourism sector (16%), agricultural sector (16%) , and construction sector (4.25) are given third, fourth, fifth and sixth priority respectively.

Major Recommendations:

- Nepal Grindlays Bank Ltd. Has maintained consistent and successful liquidity than NABIL Bank Ltd.
- Himalayan Bank Ltd. The mean of total investment to total deposits ratio of Nepal Grindlays Bank Ltd. Is higher than the other JVBs.
- The mean of the loan and advances to total deposits ratio of Nepal Grindlays Bank Ltd. is less and inconsistent than NABIL Bank Ltd. and Himalayan Bank Ltd.

Regmi's (2008), has conducted a study on *A comparative study of the financial performance of HBL and NBBL* 30, he suggested NBBL to increase its current assets

because the bank is not maintaining adequate liquidity position in comparison with HBL. He further suggests to HBL to improve the efficiency in utilizing the deposits in loan and advance for generating the profit NBBL should try to maintain present position on this regards. Profitability position of HBL is comparatively better than the same of NBBL. So, NBBL is recommended to utilize its resources more efficiently for generating more profit margins. If resources held idle, bank faces high cost and causes the low profit margin. An ideal dividend payout ratio is based upon shareholders expectations and the growth requirement of the banks. NBBL is suggested to increase its dividend payout ratio. (Regmi, 2001, p.29)

Main Objectives:

- To perform an empirical study of the customer's views and ideas regarding the existing services and adopted invested policy of the Joint venture banks.
- The two banks should extend their resources to rural areas and promote the development of poor and disadvantaged group.
- In order to do so banks should open their branches in the remote areas with objectives of providing cheaper banking services especially HBL should initiated in this regard because it has few branches in comparison to NBBL.

Major Findings:

- Because of the start competition between banking, sectors both the banks are suggest to formulate and implement some sound and effective financial and non-financial strategies to minimize operational expenses to meet required level of profitability.
- The banks are further suggested to adopt modern banking technologies to enhance their better and wide market.

Major Recommendations:

- The growth ratio of net profit of Nepal Grindlays Bank Ltd. seemed to be more Satisfactory than NABIL Bank Ltd. but in case of Himalayan Bank it seemed to be very high.
- As capital structures of both the bank are highly levered both the banks are recommended to maintain and improve mix at debt and owner's equity by increasing equity share.

Kapadi (2009) has conduct research on *A Comparative Study on Performance of NABIL Bank Ltd and Standard Chartered Bank Limited*. The study of this thesis is the descriptive analytical method. The core objective of this thesis is to analyze the financial performance of NABIL bank and SCBNL this includes the examining of liquidity capital structure and activity and profitability ratios of the ratio joint venture sample banks.

Main Objectives:

- To examine the trend of deposits and loan and advances of NABIL bank and SCBNL.
- To study the liquidity profitability capital structure activity and capital adequacy position of NABIL bank and SCBNL.
- To suggest and recommended some measures by evaluating and finding financial performance of NABIL bank SCBNL on the basis of finding.

Major Findings:

- He found that most of the capital structure ratios show that the capital structure of both the banks is highly leveraged.
- Total debt to equity ratio of both the banks reveals that the claims of the outsider exceeds mere than that of the owner's over the bank asset. However NABIL bank seems to be more leveraged than SCBNL.

- Total debt to total assets ratio of both the banks has always been over 88, which indicates the excessively geared capital structure. Comparatively NABIL bank has used a little more debt financial than SCBNL. Long-term debt to total assets ratio of NABIL bank is seems to be greater as per mean, which shows more use of long-term debt by NABIL bank than by SCBNL.

Major Recommendations:

- In practice joint ventured banks are urban based; service quite a few elite, a fluent big customer are heavily dependent on free based activities. To overcome its situation they should be accessible to rural areas and possible loan and advances to its deposit. So the customers is enjoying by getting deposit borrowing and other services.
- Profitability ratios of banks are not satisfactory, if resources held idle bank have to bearded more cost and result would be lower profit margin. So portfolio condition of a bank should be regularly revised from time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank.

Manandhar (2010) in his thesis "*Financial performance analysis of Nepal Bangladesh bank ltd*" In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

Main Objectives:

- To analyze the functions, objectives procedure and activities of the NB bank
- To analyze the lending practices and resources utilizations of NB bank.
- To determine the impact of growth in deposit on liquidity and lending practices.

- To examine the lending efficiency and its contribution to profit.
- To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

Major Findings:

- NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances.
- The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances.

Major Recommendations

- The banks have enough liquated but enable to invest the liquidity in proper sector so it is recommended that the bank should made proper investment to commercial sector.
- The bank providing different scheme to attract good customer and has issued the deposit to the needy are to make profit for the bank.

Gautam (2011) has conduct research on *A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangladesh bank Limited* Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

Main Objectives:

- To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
- To access the debt servicing of the joint venture commercial bank.

- To examine the correlation and the signification of their relationship between different ratios related to capital structure.

Major Findings:

- Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank
- Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

Major Recommendations:

- The bank should use its funds in more portfolio sectors. It should utilize its risky assets and shareholders' funds and it should reduce its express and should try to collect cheaper fund being more profitable. 3 In the light of growing competition in the banking sector the business of the bank is customer oriented.

Poudel (2012) has conduct research on *A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangladesh bank Limited* Balance sheet, profit and loss a/c and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss a/c. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off- balance sheet items.

Main Objectives:

- To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.
- To obtained the objectives, some financial, statistical and accounting tools.

Major Findings:

- Long-term debt to net worth ratio of both the banks is following the fluctuating trend. The mean proportion of outsiders fund and owners fund employed in the total capitalization of NABIL bank is higher than that of SCBNL.
- This implies that it is following an aggressive strategy of higher risk higher return policy.
- The fixed asset to net worth ratio of NABIL bank is higher than that of SCBNL as per mean ratio. But the investment of owners' equity in fixed assets for both the banks are minimum as is commonly seen in various financial institutions.

Major Recommendations:

- The bank should develop on "Innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient way.
- It should strengthen and active its marketing function, as it is an effective tool of attracting and retaining customers.

2.4 Research gap

Previous researches on the basis of financial performance of commercial banks in Nepal. But this research is about joint venture bank of Nepal with sample of Nepal SBI Bank Limited and Everest Bank Limited. This research is about the financial performance of selected two banks. In the previous research, there is no clear-cut financial performance of joint venture banks. The research can help the people who wanted to know about the overall financial performance of joint venture bank in Nepal. There are two-selected bank to find out the comparative financial position of selected bank. Therefore, this topic may not new but the researches efforts may be appreciable. The review of the above mention bunch of research writes have definitely enriched my vision to elaborate analysis to come to the meaningful

conclusion in realistic term and thereby come with some conclusion, few key suggestions that help in improvement of commercial banks.

CHAPTER-III

RESEARCH METHODOLOGY

The rationale behind the study is to evaluate and assess the financial position or performance of the two newly operated joint venture banks viz. Nepal SBI Bank Limited and Everest Bank Limited. Thus, this chapter includes those methods and techniques used for finding out a fore said purpose.

Research methodology refers to the various sequential steps (a long with the rationale of each step) to be adopted by a researcher in studying a problem with certain objective in view. It is a way to systematic solve the research problem it may be understood as a science of studying how search is done scientifically. Includes the various steps that are generally adopted by a researcher studying his/ her research problem along with the logic behind them, it would be appropriate to mention here that research project are not meaningful to any one unless they are in sequential order which will be determined by the particular problem at hand therefore, this study aims at analyzing and interpreting the purpose of comparative financial performance or appraisal of two JVBs. This chapter focuses and deals with the following aspects or methodology.

- Research design
- Population and Sample
- Source of data
- Data collection procedure
- Method of Date analysis

3.1 Research Design

Research design is the task of defining the research problem. In other words, "A research design is the arrangement of conditions, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which the research is conducted.

General objective; of this research study is to examine and evaluate the financial performance of joint venture banks especially that of NSBIBL and EBL in order to achieve the objective, both descriptive and analytical research design has been followed. The study focuses on the examination of relationship between those variables that influence- financial decisions of the sampled banks hence; it is an ex-post factor research.

3.2 Populations and Sample

The population for this study comprises nine joint venture banks currently operating in the country. All the joint venture banks perform the functions of commercial banks under rules, regulations and directives of Nepal Rastra Bank. The sample consists of two judgmentally selected banks- Nepal SBI Bank and Everest Bank. These units represent 22.22% of the total population and are comparable to each other in various aspects.

3.3 Sources of Data

Although present study is on secondary data. However, necessary suggestion are also taken from various experts both inside the bank whenever required the necessary data is obtained from the head office of the JVBs such as, published balance sheet, profit and loss account and other related statement of accounts as well as the annual reports of the respectively banks. Likewise, other related and necessary information are also obtained from the publication of security exchange centre, Nepal Rasta Bank and other publications used for the purpose are book & booklets magazine journals, newspaper school of thought etc.

3.3.1 Data Collection Procedure

The problem of the study lies on the issues related to the comparative strengths and weaknesses of the banks. Because of liberal policy adopted by the government, financial institution has been emerging in the country. The sampled banks have been facing threats from such institutions. Therefore, the study has been ducted to examine and evaluate the financial performance of the sampled units. This study is also intended to fine the weaknesses and strengths so that appropriate suggestion can be provided to enhance the performance of the banks in coming days.

For the purpose, various data are required. With the view of obtaining the data, researcher made several visits of the sampled banks, in first visit, the researcher consulted the concerned authority of the bank and explained about the above stated problems and objectives of the study. He also explained why he is interested in these two banks and what he wishes to analysis after keeping forth the view of researcher. The authorities got convinced and appraised the effort. They assured that they would have far as possible. Regarding the information needed, they said that they would make them available up to the extended that does not affect the privacy and secrecy

of the bank. Researcher got pleased with the response shown by them and started the work.

In next visit, he approached share department and asked for the profit and loss account and balance sheet of the bank of last five years. In the department after explaining the need of such information the related staff provided the necessary statement.

To acquire the primary data, researcher made some other visit in the bank due to the increasing transactions and business of the employees in the bank; they could not afford time to the researcher whenever he needed. After some efforts, they could manage some time and hence, the researcher got the information through direct interview with them.

In late visit, the researcher met the accounting expert in the bank for the clarification of the component items of the statements so as to avoid the ambiguity and confusion.

Similarly, researcher obtained economic surveys, annual and periodic reports and banking directive from Nepal Rastra Bank, Baluwatar. There, he visited library and banking operation department. In the department, he explained why he needed such reports and hence, he became able to get those reports.

For the reference materials, the researcher visited Nepal Commerce Campus, Shanker dev Campus and Central Department of Management, T.U. Many visits in management department and various sections of central library, TU led the researcher to be successful in conducting this study.

3.4 Data Processing

Data obtained from the, various sources cannot be directly used in there original form further they need to be verified and simplified for the purpose of analysis. Data information, figure and facts so obtained need to be checke, rechecked edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful tables, which have been shown in Tablees. Homogenous data have been sorted in one table and similarly various tables have been prepared in understandable manner odd data excluded from the table. Using financial and statistical tools data have been analyzed and interpreted.

3.5 Method of Data analysis

Financial statement can provide information useful for the parties directly or indirectly involved in the business. For the purpose of study, the data collected and obtained are scanner and tabulated under various heads. The researcher has used two sorts of tools has been used to achieve the results. Here is the brief discussion of both the tools, which are used to analyze and interpret the financial performance of two JVBs i.e. Nepal SBI Bank LTD. and Everest Bank LTD.

- Financial tools
- Statistical tools

3.5.1 Financial tools

Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the precise knowledge of a business, which in turn, are fruitful in exploring the strengths and weaknesses of the financial policies and strategies. For the sake of analysis following various financial tools have been used in order to meet the purpose of the study.

3.5.1.1 Ratio analysis

Ratio analysis helps to summarize the large quantities of financial data and to make quantitative judgments about the firm's financial performance. Ratio is the expression of one figure in terms of another. It is the expression of relationship between the mutually independent figures, in financial analysis; ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio analysis is a very much powerful & widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. It helps the analysis to make qualitative judgment about the financial position and performance of the firm. Therefore, it helps to establish relationship among various ratios and interpret them specially, based on comparison between two or more firms or inter-firm comparison and comparison between present and past ratios for the same firm give enormous and fruitful results to examine the financial performance.

The obsolete accounting figure reported in the financial statement does 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. Therefore, the ratio is the relationship between two accounting figures expressed mathematically. It helps to summarize large quantitative relationship helps to form a quality judgment. However, " A single ratio itself does not indicate favorable or unfavorable conditions. It should be compared with some standard.

A ratio is simply a number expressed in terms of another number and it expresses the quantitative relation between any two variables.

Ratio can be calculated between any two items of financial statements. It means there may be as many ratios as there are the numbers of items. However, under the ratio analysis technique, it is not practical to work out all the ratios. Hence, only the required ratios have been worked out.

There are numerous ratios to analyze and interpret the financial form once of the enterprise or firm. However, for our purpose, only important and relevant ratios are used to check the financial health of two JVBs in Nepal, which are as below;

3.5.1.2 Liquidity Ratios:

Liquidity ratios are used to judge the firm's ability to meet short-term obligation. These ratios give insights into the present cash solvency of the firms and its ability to remain solvent in the event of adversities. It is the comparison between short-term obligation and the short –term resources available to meet these obligations. These ratios are calculated to find the ability of banks to meet their short-term obligation,

which are likely to mature in the short period. The following ratios are developed and used for our purpose to find the liquidity positions of the two joint venture banks.

- **Current Ratio:**

This ratio indicated the current short-term solvency position of a current ratio is the relationship between current assets and current liabilities. It is calculated by dividing the current liabilities by current assets, which is expressed as follows:

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

Current assets refer in those assets, which are convertible in cash within a year or so. They includes, cash and Bank Balance, investment in treasury bills, money at short call, or placement, loans and advances, bills purchased and discounted, overdrafts. Other short-term loans, foreign currency loans, bills for collection, customer's acceptance liabilities, pre-payment expenses, and other receivable. Similarly, current- liabilities refer to those obligations maturing within a year. It includes, current account deposits, saving account deposits, margin deposits, call deposits, intra-bank reconciliation A/c, bills payable, bank over-draft, provisions, accrued expenses, bill for collection, and customer's acceptance liabilities etc.

A higher ratio indicates better liquidity position. However, "A very high ratio of current assets to current liabilities may be indicative of slack management practice, as it might signals excessive inventories for the current requirement and poor credit management in terms of over-expanded account receivable.

Current ratio is a measure of firm's solvency. It indicates the availability of the current assets in rupees for every one rupee of current liability. As a conventional

rule, a current ratio of 2 to 1 is considered satisfactory. However, these rules should not be blindly followed, as it is the test of quantity not quality. In spite of its shortcoming, it is a crude-and quick measure of the firm's liquidity.

- Cash and bank balance to current & saving deposit ratio.

The ratio shows the ability of banks immediate funds to cover their (current Margin, call and saving) deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. The ratio is computed by dividing cash and bank balance by current and saving deposits. Cash and bank balance to current and saving deposits ratio.

$$\frac{\text{Cash \& Bank Balance}}{\text{Current \& Saving Deposit}}$$

Cash and bank balance comprises cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic bank and balance held in foreign banks current and saving deposit consists of all types of deposits excluding fixed deposits.

The ratio measures the ability of banks to meet its immediate up to total deposit obligations. The bank should maintain adequate cash and bank balance to meet the unexpected as well as heavy withdrawal of deposits. High ratio indicates sound liquidity position of the bank; however, too high ratio is not enough as it reveals the under utilization of fund.

- Cash and Bank balance to total deposit ratio

The ratio is calculated using following formula,

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

Total deposit consists of current deposit, saving deposit, fixed deposit, money at call and short notice and other deposits.

The ratio shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of the bank. Too high ratio is not favorable for the bank because it produces adverse effect on profitability due to idleness of high-interest bearing fund.

- NRB balance to current and saving deposit ratio

The ratio is computed by dividing the balance held with Nepal Rastra Bank by saving deposits,

$$\text{NRB Balance to Current Saving Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Current \& Saving Deposit}}$$

Commercial banks are required to hold certain portion of current and saving deposits in Nepal Rastra Bank's account. It is to ensure the smooth functioning and sound liquidity position of the bank. As per the directive of Nepal Rastra Bank, the required ratio is 8% therefore the ratio measures whether the bank is following the direction of NRB or not.

- NRB balance to fixed deposits ratio

The ratio is computed by dividing the balance held with Nepal Rastra Bank by fixed deposits accepted.

$$\text{NRB Balance to Fixed Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Fixed Deposit}}$$

It shows the percentage of amount deposited by the bank in Nepal Rastra Bank as compared to the fixed deposits. According to the direction of NRB, this ratio should be maintained 6%. Hence, the ratio so calculated finds whether the bank has obeyed the direction of central bank or not.

- Fixed deposit to total deposit ratio

It is calculated as follow:

$$= \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

The ratio shows what percentage of total deposit has been collected in form of fixed deposit. High ratio indicates better opportunity available to the bank to invest in sufficient profit generating long-term loans. Low ratio means bank should invest the fund of low cost in short-term loans.

3.5.1.3 Leverage Ratio

Leverage or capital structure ratios are used to judge the long-term financial position of the firm. It evaluates the financial risk of long-term creditors greater the proportion of the owner's capital structure, lesser will be the financial risk borne by supplier of credit funds.

Debt is more risky from the firm's point of view. The firm has legal obligation to pay interest to debt holders irrespective of the profit made or losses incurred by the firm. However, use of debt is advantageous to shareholders in two ways:

- They can retain control on the firm with a limited stake
- Their earning is magnified when rate of return of the firm on total capital is higher than the cost of debt.

However, the earning of shareholders reduces if the cost of debt becomes more than the overall rate of return. In case, there is the threat of insolvency. Thus, the debt has two folded impact-increases shareholder earning-increase risk. Therefore, a firm should maintain optimal mix of investors and outsiders fund for the benefit owners and its stability.

Under this group, following ratios are calculated to test the optimality capital structure;

- Debt-Equity ratio
- Debt-Asset ratio
- Debt to total capital ratio
- Interest coverage ratio

Debt –Equity ratio

The ratio is calculated by dividing total debt by shareholder's equity.

We calculate

$$= \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

Total debt consists of all interest bearing long-term and short-term debts. These include loans and advances taken from other financial institutions, deposits, carrying interest etc. Shareholder's equity includes paid-up capital, reserves and surplus and undistributed profit.

The ratio shows the mix of debt and equity in capital. It measures creditors' claims against owners. A high ratio shows that the creditors' claims are greater than those of owners are. Such a situation introduces inflexibility in the firms operation due to the increasing interference and pressures from creditors' low ratio imply a greater claim of owners than creditors. In such a situation, shareholders are less benefited if economic activities are good enough. Therefore, the ratio should be neither too high nor too low.

- **Debt-Asset ratio**

The ratio can be calculated by dividing total debt by total assets

$$= \frac{\text{Total Debt}}{\text{Total Assets}}$$

The ratio shows the contribution of creditors in financing the assets of the bank. High ratio indicates that the greater portion of the bank's assets has been financed through outsider's fund. The ratio should be too high per too low.

- **Debt to total capital ratio**

The ratio is obtained by dividing total debt by total capital of the firm.

$$= \frac{\text{Total Debt}}{\text{Total Capital}}$$

Total capital refers to the sum of interest- bearing debt and net worth/shareholder's equity.

It shows the proportion of debt in total capital employed by the bank. High ratio indicates greater claim of creditors. Contrary to it, low ratio is the indication of lesser claim of outsiders. For the sound solvency position, the ratio should not be too high or too low.

- **Interest coverage ratio**

The ratio is calculated by dividing net profit before deduction of interest and tax by interest charges.

$$= \frac{\text{Net Profit After Tax}}{\text{Interest Charges Ratio}}$$

The ratio, also known as times interest-earned ratio is used to test the debt servicing capacity of the bank. It shows the number of times the interest charges are covered by funds that are ordinarily available for their payment. It indicates the extent to which the earning may fall without causing any embarrassment to the firm regarding the payment of interest. Higher ratio is desirable, but too high a ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation.

3.5.1.4 Capital Adequacy Ratio

Capital adequacy ratio measures whether the firm has maintained sufficient capital or not. In other words, it helps to decide whether the existing capital is adequate or there is the not need or reforms. The ratio is tested to ensure the safety and stability of the firm in long run.

Over capitalization and under capitalization both have adverse effect on profitability of the firm. If the capital is excess, it remains idle, if the capital is insufficient, the firm

may not be able to grasp the opportunity from potential profitable sectors. Therefore, the commercial banks have been directed to retain sufficient ratio by the central bank. As per the directive this ratio should be 10 % of there total risk, weighted assets and total off-balance sheet transitions, Here, capital fund refers to the core capital and supplementary capital commercial banks cannot declare and distribute dividend until they meet capital adequacy ratio under this group, following ratios are tested.

- Net worth to total deposit ratio
- Net worth to total assets ratio
- Net worth to total credit ratio

- **Net worth to total deposit ratio**

The ratio is calculated by dividing net worth by total deposit = $\frac{\text{Net Worth}}{\text{Total Deposit}}$

The ratio measures the percentage of net worth in relation to the total deposits collection in the bank. The ratio is a yardstick to see whether the bank has maintained the capital fund according to the direction of Nepal Rastra Bank.

3.5.1.5 Turnover Ratio

Turnover ratios, also known as utilization ratios or activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. They measure how effectively the firm uses investment and economic resources at its command. Investments are made in order to produce profitable sales. Unlike other manufacturing concerns, the bank produces loans, advance and other innovation. So

it sells the same High ratio depicts the managerial efficiency in utilizing the resources they show the sound profitability position off the bank low ratio is the result of insufficient utilization of resources. However, too high ratio is also not good enough as it may be due to the insufficient liquidity.

Depending upon special nature of assets and sales made by the bank, following ratios are tested;

- Loans and advances total deposits ratio
- Loans and advances to fixed deposits ratio
- Loans and advances to saving deposit ratio
- Investment t to total deposit ratio
- Performing assets to total assets ratio
- Performing assets to total debt ratio

- **Loan and advanced to total deposit ratio**

The ratio is computed by dividing total loans and advances by total deposit liabilities.

$$= \frac{\text{Loan \& Advances}}{\text{Total Deposit}}$$

Loan and advanced consist of loans, advances, cash credit overdraft, foreign bills purchased and discounted.

The ratio indicates the proportion of total deposits invested in loans and advances. High ratio means the greater use of deposits for investing in loans and advances. However, very high ratio shows poor liquidity position and risk in loans on the

contrary; too low ratio may be the causes of idle cash or use of fund in less productive sector.

- **Loan and advances to fixed deposit ratio**

The ratio is calculated by dividing loans and advances by fixed deposit liabilities

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

The ratio indicates what proportion of fixed deposit has been used of loans and advances. Since fixed deposits carry high rate of interest, fund so collected need to be invested in such sectors, which yield at least sufficient return to meet the obligation. High ratio means utilization of the fixed deposit in form of loans.

3.5.1.6 Asset Quality Ratio

As explained earlier, turnover ratios measure the turnover of economic resource in terms of quantity. Only the investment is not of great significance, but the return from them with minimum default in payment by debtors is significant. A firm may be in a state of enough profit and though unable to meet liability. Therefore, asset quality ratios are intended to measure the quality of assets contained by the bank.

Following ratios are computed in this group:

- **Loan loss coverage ratio**

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

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

For the purpose, risk assets constitute loans and advances, bills purchased and discounted.

Nepal Rastra Bank has directed commercial banks to maintain provision for loan loss based on category of loans and risk grade. The ratio, therefore, measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. High ratio indicates that the major portion of loan is risky.

3.5.1.7 Profitability Ratio

Profitability ratios are designed to highlight the end-result of the business activities, which in the imperfect world of ours, is the sole criterion of cover all efficiency of business unit.

A company should earn profit to survive and grow over a long period. It is a fact that sufficient profit must be earned to sustain the operations of the business, to able to obtain funds from investors for expansion and growth; and to contribute towards the social overheads for the welfare of society. The profitability ratios are calculated to measure the operating efficiency of the company. Management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a reasonable return from their investment.

To meet the objective of study, following ratios are calculated in this group;

- Return on total assets

Return on total asset

The ratio is calculated by dividing net profit after tax by total on asset on the bank.

$$\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

Net profit refers to the profit deduction of interest and tax. A total asset means the assets that appear in asset of balance sheet.

It measures the efficiency of bank in utilization of the overall assets. High ratio indicates the success of management in overall operation. Lower ratio means insufficient operation of the bank.

3.5.1.8 Other indicators

Above stated ratios, throw light on various aspects of bank. Management investors and creditors can get information regarding their interest. Some indicators are dealt here which provide more knowledge about the performance of the bank. They are listed below.

- Earnings per share(EPS)
- Dividing per share(DPS)
- Tax per share (TPS)
- Dividend payout ratio(DPR)
- Price-earnings ratio (P/E Ratio)

Earnings Per Share (EPS)

It is obtained by dividing earning available to common shareholders by number of equity shares out-standing.

$$\frac{\text{Earning Available to Common Shareholders}}{\text{No. of Equity shares Outstanding}}$$

Earnings per share refers to the income available to the common shareholders on per share basis, it enables us to compare whether the earning based on per share basis has changed over past period or not. The investors favour high EPS. It reflects the sound profitability of the bank.

- **Divided Per Share(DPS)**

It is obtained by dividing earning paid to shareholder by number of equity shares outstanding.

$$\frac{\text{Earning Paid to Shareholder}}{\text{No.of Equity shares Outstanding}}$$

The net profit after the deduction of preference dividend belongs to equity shareholders. However, the income that really receives is the amount of earning distributed as dividend. Dividend may be distributed in form of cash or bonus share. Dividend distribution affects the price of share. Shareholders prefer high dividend. However, it may sometimes be wise to distribute less amount of profit in investment opportunities are available.

- **Tax Per Share (TPS)**

It is obtained by dividend tax paid to the government by number of outstanding equity shares.

$$\frac{\text{Tax Paid to the Government}}{\text{No.of Equity shares Outstanding}}$$

Tax is paid to the government after the deduction of interest income. Tax is paid only if profit is earned.

The ratio measures the contribution of shareholders for the development of the country as tax acts as a source of income for government. High TPS represents better profitability position of the bank, as it is the result of high profit.

- **Dividend payout ratio (DPR)**

It is obtained by dividing dividend per share by earning per share.

$$\frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

It shows the percentage of earning distributed to the shareholder. High ratio indicates less retention of earning in the bank. Low ratio means higher portion of income is held in the bank to grasp the profitable opportunities. Generally, the shareholder prefers high DPS.

- **Price-earnings ratio(P/E Ratio)**

$$\frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

P/E ratio is widely used to evaluate the bank's performance as expected by investors. It represents the investors' judgment or expectation about the growth in the banks earning. In other words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates greater expectation of the market towards the achievement of firm.

3.5.1.9 Income and Expenditure Analysis

This is a tool with the help of which the components of income and expenditure can be compared between two competitive firms. By this analysis, one is able to conclude which sources of income & expenditure are dominant in the related concern. Under income analysis, overall income is split up into major headings. Interest income, commission & discount, foreign exchange income and other income. Under expenditure analysis, entire operating expenses are split up into four major headings- interest expenses, staff expenses, office operation expenses and bonus facility.

3.5.2 Statistical Tools

Various statistical tools can be used to analyze the data available to the researcher. These tools are used in research in order to draw the reliable conclusion through the analysis of financial data.

Following tools are used for are purpose.

- Arithmetic mean
- Coefficient of variation

- Coefficient of correlation
- Probable error of correlation coefficient

3.5.2.1 Arithmetic mean

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

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

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{n} = \bar{X}$$

Where, n = number of observation

3.5.2.2 Variance

It is a statistical measure of the variability of a set of observations. The symbol is pronounced "Sigma Square". It is the measure of total risk. The smaller the variance, the lower the riskiness of the stock and vice versa.

$$62x = \frac{\sum_{T=1} \frac{\sum (X_1 - \bar{X}_1)^2}{n}}$$

Where,

N = No. of observation

\bar{x}_1 = Average rate of return

3.5.2.3 Standard deviation

It is the square root of the variance standard deviation

$$62x = \sum_{T=1}^n \sqrt{\frac{\sum (X_1 - \bar{X}_1)^2}{n}}$$

Where,

N = No. of observation

\bar{x}_1 = Average rate of return

3.5.2.4 Coefficient of variation

According to Prof. Karl Pearson, coefficient of variation is the percentage variation in mean, standard deviation being considered as the total variation in the mean. It is one of the relative measures of dispersion that is useful in comparing the amount of variation in data groups with different mean.

Coefficient of variation, denoted by C.V. is given by;

Where, a = Standard Deviation

i.e.

$$\sqrt{\frac{\sum x}{N} \times \frac{\sum d^2}{N}}$$

For comparing the variability of two distributions, we compute the coefficient of variation for each distribution. A distribution with smaller CV is said to be more homogeneous or uniform or less variable than other, conversely a series with greater CV is said to be more variable or heterogeneous than the other.

3.5.2.5 Probable Error of Correlation Coefficient

Probable error of correlation coefficient is a measure of testing the reliability of an observed value of correlation coefficient. It is calculated to find the extent to which correlation coefficient is dependable as it depends upon the condition of random sampling.

As,

$$\text{P.E.}(r) = \frac{0.6745}{n} \sqrt{1-r^2}$$

Where, r = Standard error

Reason for taking 0.6745 is that in a normal distribution 50% of observations lie in the range $\pm 0.6745 \sigma$ where, μ and σ denote the population mean and standard deviation.

CHAPTER-IV

ANALYSIS AND INTERPRETATION OF DATA

This chapter deals with the analysis and interpretation of data following the researcher methodology dealt in the chapter. In the course of analysis, data gathered from the various sources have been inserted in the tabular form according to 'heir' homogenous nature. The various tables prepared for the analysis purpose have been shown in annexes. Using financial and statistical tools, the data have been analyzed the result of the analysis has been interpreted keeping in mind the conventional standard with respect to ratio analysis, directives of NRB and other factors while using other tools. Moreover, financial performance of the sampled banks has especially been analyzed in cross-sectional manner. Specifically, the chapter includes analysis and interpretation of the following.

- Ratios analysis
- Income and expenditure analysis
- Correlation Analysis
- Lest Square liner trend analysis

4.1 Ratio Analysis

Ratio analysis has been adapted to evaluate the financial health, operating result and growth of the sampled banks. In order to analyze and interpret the tabled data, the following ratios have been used.

- Liquidity ratio
- Leverage ratio
- Capital adequacy ratios
- Turnover ratios
- Asset quality ratios
- Other indicators

4.1.1 Liquidity Ratios

Liquidity ratios have been employed to test the ability of the banks to pay immediate liabilities. These include current ratio, cash and bank balance to total deposit ratio, NRB balance to current and saving deposit ratios, NRB balance to fixed deposit ratio and fixed deposit to total deposit ratio.

- **Current ratio**

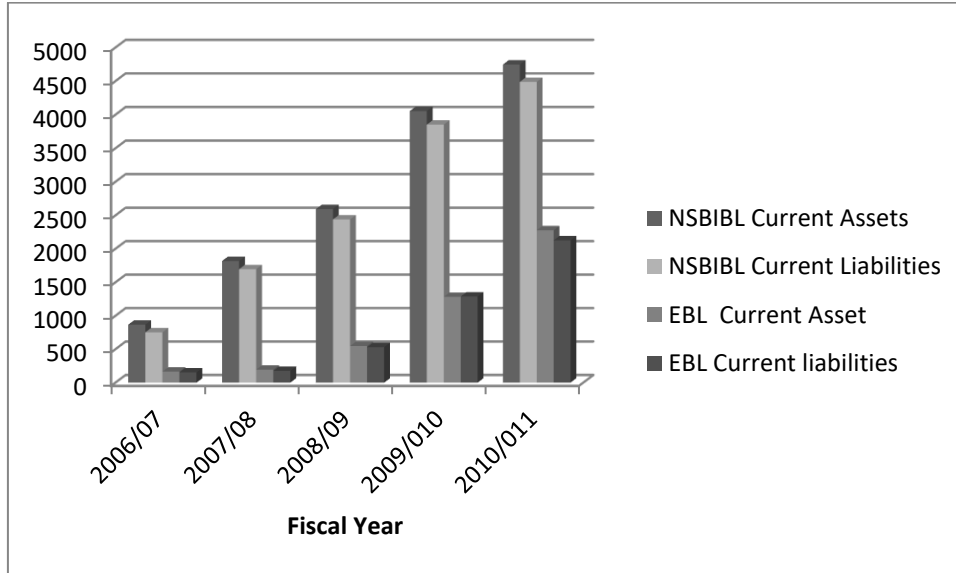
$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table: 4.1
Current ratio

Rs. Million					Amount in
Bank	NSBIBL		EBL		
Year	Current Assets	Current Liabilities	Current Asset	Current liabilities	
2006/07	866	751.43	165.33	153.52	

2007/08	1818.4	1695.35	193.34	175.43
2008/09	2594.17	2439.74	547.2	530.11
2009/010	4053.53	3851.69	1282.26	1287.61
2010/011	4747.21	4487.67	2277.32	2127.09
MEAN	1.08:1		1.04:1	
S.D	0.04		0.04	
C.V	3.39		4.26	

Figure: 4.1
Current Ratio



The above table 4.1 and figure 4.1 show that current ratio of NSBIBL for the study period remained 1 15:1, 1.07:1, 1.05:1 and 1.06: 1 respectively from the year 2003\2004 to 2007/2008. Mean of the ratios appeared 1.08:1 and CV appeared

2.39%. Similarly the ratios of EBL for the corresponding period remained 1.07:1, 1.10:1, 1.03:1, 1:1 and 0.98:1 means of the ratios came 1.04:1 whereas CV is 4.26%.

The ratio of both the banks shows slightly decreasing trend. In NSBIBL the ratio does not fall below 1:1 whereas with respect to EBL, it decline in as against non-decreasing trend in other years. Mean of the ratios in NSBIBL is slightly greater than that of EBL which depicts that bot5hy of the banks could riot maintain the conventional standard of 2:1. Having a glance at the nature of assets and liabilities of the commercial banks, the ratio below the state standard may be accepts as satisfactory, but it signifies that the bank have the poor liquidity position banks may face the problem of working capital if they need to pay the current liabilities at demand. Delay in payment of the liabilities may lead the banks to lose their goodwill. They will be the problem in winning the confidence of current depositors and short-term lenders. Between the two banks, NSBIBL seems to be slightly in the better position. The ratios remained more consistent in NSBIBL then in EBL.

The calculated value of t (1.4665) remained less than the tabulated value (2.306) at 5% level of significance. Hence, the null hypothesis has accept i.e. the mean of the current ratios of the sampled banks does not differ significantly.

- **Cash and Bank balance to current and saving deposit ratio**

Cash and Bank balance to

$$\text{Current \& Saving Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current \& Sving Deposit}}$$

Table: 4.2

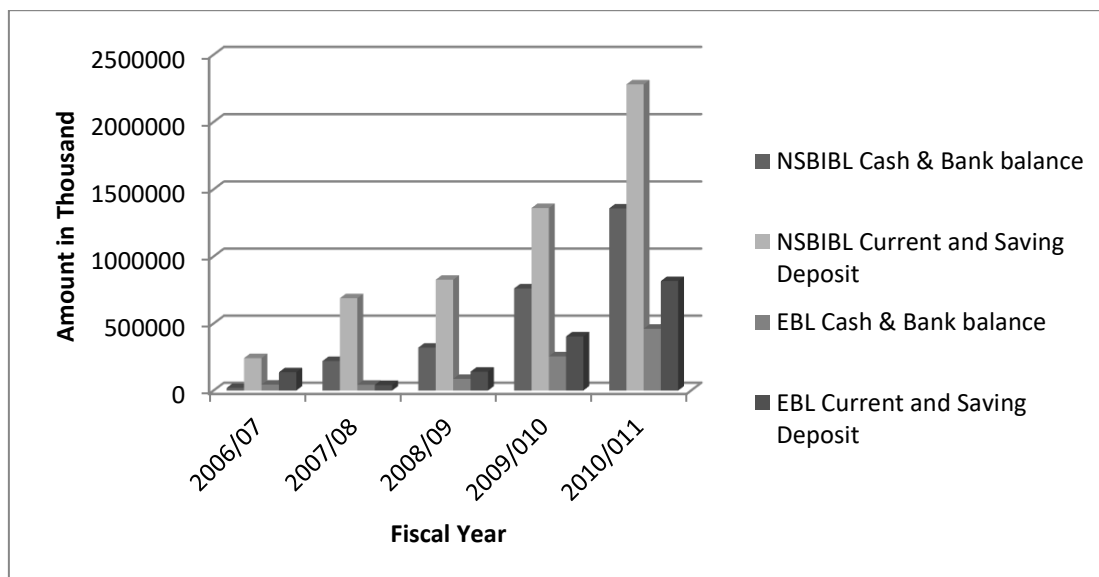
Cash and Bank Balance to Current and Saving Deposit Ratio

Thousand	Amount in Rs.
----------	---------------

Bank	NSBIBL		EBL	
Year	Cash & Bank balance	Current and Saving Deposit	Cash & Bank balance	Current and Saving Deposit
2006/07	20294.31	241705.35	44469.57	136557.38
2007/08	220396	688554.43	43696.47	41298.48
2008/09	320021	826258.72	87329.94	140605.71
2009/010	761558.06	1360884.26	255150.35	403524.21
2010/011	1357797.23	2279800.29	460719.04	816864.04
MEAN	54.05		64.02	
S.D	18.16		23.66	
C.V	33.61		36.96	

Figure: 4.2

Cash and Bank Balance to Current and Saving Deposit Ratio



The above table 4.2 and figure 4.2 shows that, the ratio remained 82.97%, 32.01%, 38.73 and 59.56% and 59.96% in NSBIBL in the respective years of the period. Mean and CV of the ratios are 54.05% and 32.61%, 62.23% respectively. Similarly, the ratio remained 32.57%, 105.81%, 62.11%, 62.23% and 56.40% in corresponding years of study period in EBL. Mean of the ratios appeared 36.96% whereas CV appeared 64.02%.

The ratios of both the banks revealed fluctuation trend over the period, of NSBIBL remained highest in the year 2006/07 and then it declined in consecutive years, the ratio appeared in increasing trend, it remained highest in EBL in the year 2006/07 (above 100%). The means ratio of EBL appeared greater than that of NSBIBL, which indicates that the former is more efficient in paying the immediate obligation. Higher CV of ratio in EBL as compared to NSBIBL signifies greater variation in the ratios.

The calculated value of t is less than the tabulated value at 5% level of significance (0.669 < 2.306). Hence null hypothesis has been accepted i.e. there is not significant difference between the ratios of two banks.

- **Cash and bank balance to total deposit ratio**

$$= \frac{\text{Cash \& Bank Balane}}{\text{Total Deposit}}$$

Table: 4.3

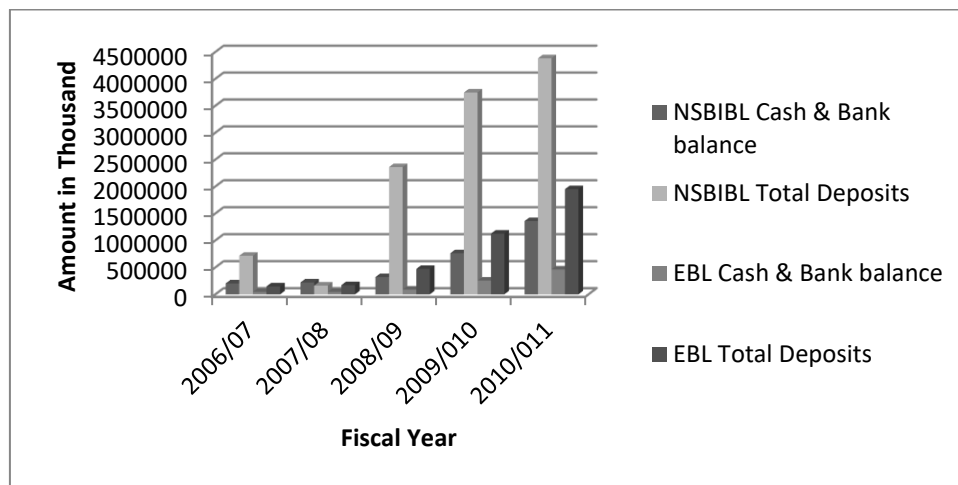
Cash and Balance to Total Deposit Ratio

Amount in Rs.				
Thousand				
Bank	NSBIBL		EBL	
Year	Cash &	Total Deposits	Cash & Bank	Total

	Bank balance		balance	Deposits
2006/07	202948.31	715844.35	44469.57	147212.38
2007/08	220396	162595.93	43696.47	170522.63
2008/09	320021	2358908.4	87329.94	471661.67
2009/010	761558.06	3744506.86	255150.35	1124903.12
2010/011	1357797.23	4380018.84	460719.04	1948946.58
MEAN	21.37			24.14
S.D	7.27			3.82
C.V	34.02			15.83

Figure: 4.3

Cash and Balance to Total Deposit Ratio



The above table 4.3 and figure 4.3 depicts that the ratios are 22.35%, 12.57%, 12.57% 20.34% and 31% in NSBIBL in the respective years of study period. Mean and CV of the ratios came 21.37% and 34.02% respectively. In the similar way, the ratio in EBI remained 30.21%, 25.63%, 18.52%, 22.68% and 22.64% in the corresponding years. Mean and CV of the ratios is 24.14% and 15.83% respectively.

Glancing at the nature of ratios, trend of cash and bank, balance to total deposit of both the banks appeared fluctuating. In NSBIBL, the ratio reached highest in the year 2007/2008. Mean ratio of EBL came higher than that of NSBIBL which means that EBL has the greater ability to repay the deposit i.e. EBL is more efficient to serve the customers from liquidity point vive. CV the ratios remained lower in EBL, which signifies greater consistency in it.

Calculated value of t appeared less than the tabulated value at 5% level of significance i.e. $0.6746 < 2.306$. Hence, null hypothesis has been accepted i.e. the difference appeared in the mean value of the ratio is not significant.

- NRB balance to current and saving deposit ratio
NRB balance to current and saving deposit ratio

$$\frac{\text{NRB Balance}}{\text{Current Saving Deposits}}$$

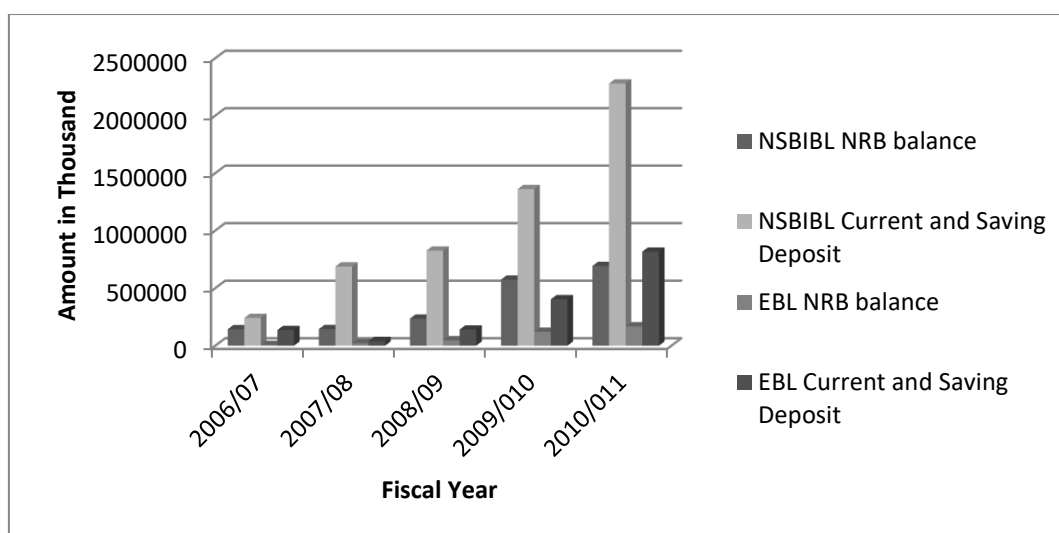
Table: 4.4
NRB Balance to Current and Saving Deposit Ratio

		Amount in Rs.		
		Thousand		
Bank	NSBIBL		EBL	
Year	NRB balance	Current and Saving Deposit	NRB balance	Current and Saving Deposit
2006/07	143018.15	241705.35	6599.52	136557.38
2007/08	144107.26	688554.43	21044.6	41298.48
2008/09	235505.03	826258.72	47260.02	140605.71

2009/010	574125.66	1360884.26	121474.05	403524.21
2010/011	693064.21	2279800.29	168150.35	816864.04
MEAN	36.24			28.02
S.D	13.34			15.2
C.V	36.81			54.25

Figure: 4.4

NRB Balance to Current and Saving Deposit Ratio



The above table 4.4 and figure 4.4 the ratios of NSBIBL is found to be 59.17%, 20.93%, 28.50%, 42.19% and 30.40% in the respective years of study period. Mean and CV of the ratios seemed 30.24% and 32.61% respectively. Similarly the ratios EBL remained 4.03%, 50.96%, 32.61%, 30.10% and 20.58% in the corresponding years. Mean of the ratios is 28.02% and CV is 54.25%.

The calculated ratios did not show particular direction of change in NSBIBL the ratio remained highest in the first year whereas in EBL, it remained highest in the second. In NSBIBL the ratio, in none of the years dropped below the minimum standard of 10% prescribed by NRB. But it declined below the standard in 2007/2008 in EBL. In

both of the banks, mean ratio lay at significant level above the standard. Comparatively, it is greater in NSBIBL, which indicates that NSBIBL is stronger in liquidity position than EBL. NSBIBL has deposited excess cash in NRB, which may affect the profitability adversely because idle cash earns nothing, from the CV analysis, it can be concluded that the ratio of EBL varied to a greater extent than that of NSBIBL.

The calculated value of t was less than the tabulated value at 5% level of significance (0.8132<2.306). Therefore null hypothesis has been accepted i.e. two banks do not differ significantly with respect to this ratio.

- **NRB Balance To Fixed Deposit Ratio**

NRB balance to fixed deposit ratio

$$= \frac{\text{NRB Balance}}{\text{Fixed Deposits}}$$

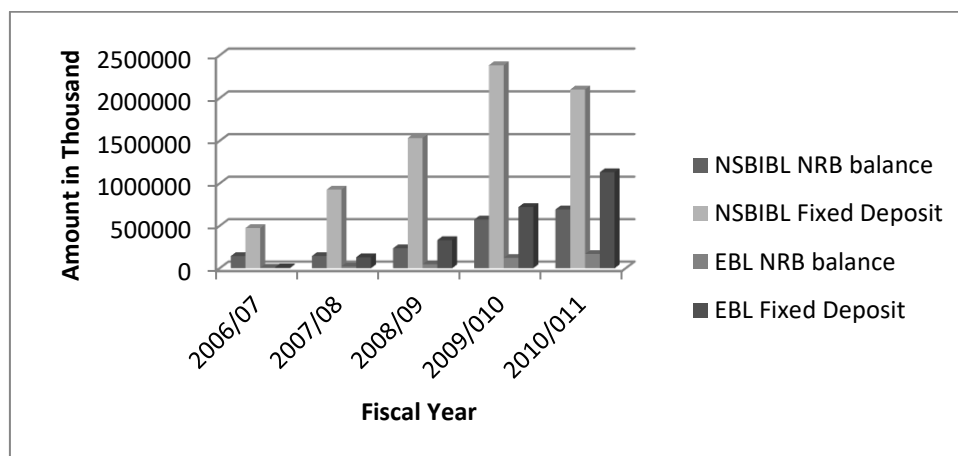
Table: 4.5
NRB Balance for Fixed Deposit Ratio

Amount in Rs.				
Thousand				
Bank	NSBIBL		EBL	
Year	NRB balance	Fixed Deposit	NRB balance	Fixed Deposit
2006/07	143018.15	474139	6599.52	10655
2007/08	144107.26	927205.85	21044.6	129224.15
2008/09	235505.03	1532649.69	47260.02	331055.96
2009/010	574125.66	2383622.6	121474.05	721378.91
2010/011	693064.21	2100218.55	168150.35	1132082.54

MEAN	23.63	28.84
S.D	7.27	18.57
C.V	30.77	74.77

Figure: 4.5

NRB Balance for Fixed Deposit Ratio



The above table 4.5 and figure 4.5 depicts that the ratios of NSBIBL reached 30.16%, 15.54%, 15.37%, 24.09% and 33% in the respective years under the study. Mean of the ratios appeared 22.63% and CV appeared 30.77%. Similarly, the ratios of EBL are 61.94%, 16.29%, 14.28%, 16.84% and 14.85% respectively loan of the ratios remained 24.84% and CV remained 74.77%.

The ratio of NSBIBL showed fluctuating trend in the period of review. It ranged from the minimum of 15.37% in the year 2006/2007 to maximum of 33% in the year 2008/2009. In all of the years, the ratio remained higher than 6%, the minimum

standard set by NRB. In EBL, the ratio was highest in the year 2006/07. In the latter years, it remained almost stagnant around 15%. In all the years of study period, it remained higher than the standard. Mean ratio of EBL came nominally greater than that of NSBIBL. It reveals that EBL has slightly thicker cushion against, the fixed deposit to be repaid than that of NSBIBL. Furthermore, CV of the ratios remained significantly higher in EBL, which reflects the greater fluctuation in the ratio.

The calculated value of t i.e. 0.1211 appeared less than the tabulated value at 5% level of significance i.e. 2.306. So, null hypothesis has been accepted i.e. mean ratio of two banks does not differ significantly.

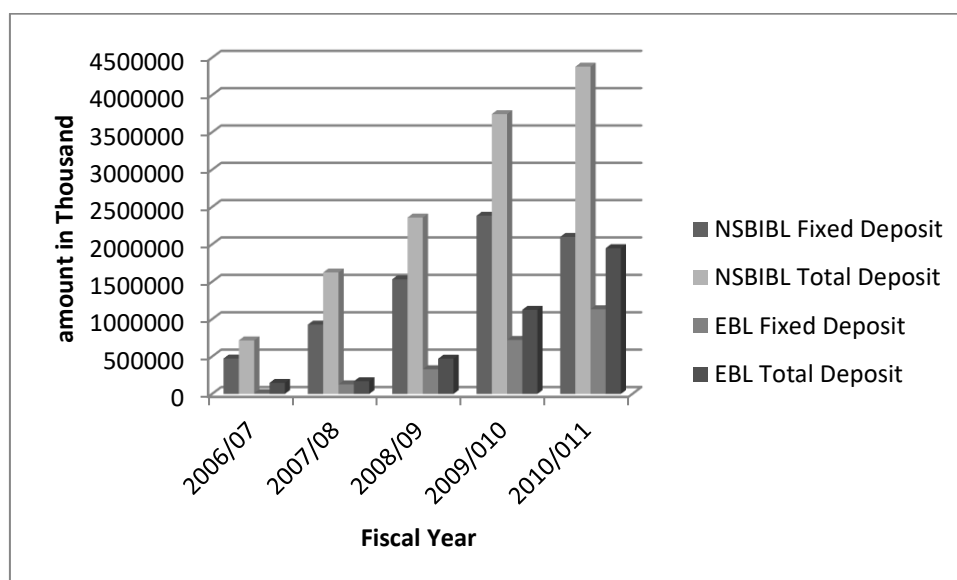
- **Fixed deposit to total deposit ratio**

$$= \frac{\text{NRB Balance}}{\text{Fixed Deposits}}$$

Table: 4.6
Fixed Deposit to Total Deposit Ratio

Amount in				
Rs. Thousand				
Bank	NSBIBL		EBL	
Year	Fixed Deposit	Total Deposit	Fixed Deposit	Total Deposit
2006/07	474139	715844.35	10655	147212.38
2007/08	927205.85	1624595.93	129224.15	170522.63
2008/09	1532649.69	2358908.4	331055.96	471661.67
2009/010	2383622.6	3744506.86	721378.91	1124903.12
2010/011	2100218.55	4380018.84	1132082.54	1948946.58
MEAN	59.98		55.09	
S.D	6.79		24.64	
C.V	11.33		44.74	

Figure: 4.6
Fixed Deposit to Total Deposit Ratio



The above table 4.6 and figure 4.6 highlights that the ratios of NSBIBL remained 66.23%, 57.07%, 64.97%, 62.66% and 47.95% in the respective years of study period. Mean and CV of the ratios are 59.98% and 11.33% respectively. Similarly the ratios of EBL are 70.24%, 75.78%, 70.19%, 64.13% and 58.09% in the corresponding years. Mean and CV of the ratios appeared 55.09% and 44.74% in the order mentioned.

The ratio of NSBIBL fluctuated every year during the study period it was highest in the first year but the lowest in the last. The ratio in EBL was least in the first year. It abundantly rose in the second year and then it started to decline. Mean ratio of

NSBIBL came higher than that of EBL. It suggests that greater portion of total deposit in NSBIBL has been occupied by fixed deposit in contrast to EBL. It can grasp the opportunity of investing the fund in more profitable loans. On the other hand, EBL has the opportunity to invest in current assets so as to strengthen its liquidity position. CV analysis depicts that the ratios in NSBIBL in the past years of research period remained more uniform than that of EBL. The calculated value of t remained less than the tabulated value at 5% level of significance ($0.3826 < 2.306$). Therefore null hypothesis has been accepted i.e. there is not significant difference between the mean ratios of two banks.

Overall liquidity position of the sampled banks appeared almost similar. In comparison, EBL seemed slightly stronger than NSBIBL. But the mean ratio of the banks did not differ significantly.

4.1.2 Leverage ratios

Leverage ratios have been analyzed and interpreted to judge the long-term financial health of the sampled banks. These include debt-equity ratios, debt-asset ratio, debt to total capital ratio and interest coverage ratio.

- **Debt-equity ratio**

$$\text{Debt Equity Ratio} = \frac{\text{Total Deposit}}{\text{Shareholders Equity}}$$

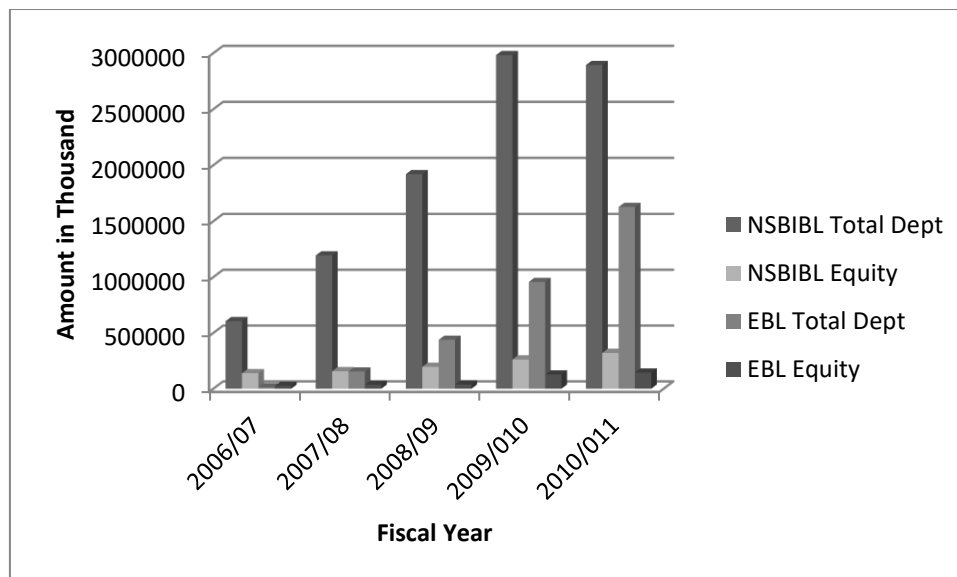
Table: 4.7

Dept-Equity Ratio

Amount in Rs. Thousand

Bank	NSBIBL		EBL	
Year	Total Dept	Equity	Total Dept	Equity
2006/07	606064.29	139309.10	14039.08	26057.58
2007/08	1194133.26	157088.54	154631.76	35617.43
2008/09	1920714.52	196527.33	438554.25	38320.17
2009/010	2982824.56	262270.85	956496.41	127435.67
2010/011	2894575.8	321059.82	1628031.96	145157.02
MEA	842.29		799.93	
S.D	237.22		290.3	
C.V	28.16		36.29	

Figure: 4.7
Dept-Equity Ratio



The above table 4.7 and figure 4.7 depicts that the debt–equity ratios of NSBIBL are 4.35, 7.60, 9.77, 11.37, and 9.02 in the respective years of study period. Mean and CV of the ratios appeared 8.42 and 20.16% respectively. Similarly the ratios of EBL

remained 5.49, 4.34, 11.44, 7.51 and 11.21 in the corresponding years. Mean of the ratios came 8.00 whereas CV is 36.29%.

The ratio of NSBIBL revealed rising trend up to the fourth year and then declined in the last. In case of EBL, it clearly showed the fluctuating trend. Average of the ratios appeared slightly greater in NSBIBL as compared to that in EBL. Both of the banks seem levered but in comparison, NSBIBL seems more levered in other words, capital structure of NSBIBL is riskier than that of EBL CV of the ratios remained lower in NSBIBL, which clarifies that the ratios of EBL are less consistent.

The calculated value of t i.e.0.2235 is less than the tabulated value i.e. 2.306 at 5% level of significance. Hence, null hypothesis has been accepted i.e. two banks do not differ significantly with respect to this ratio.

$$\text{Debt-asset ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Table: 4.8

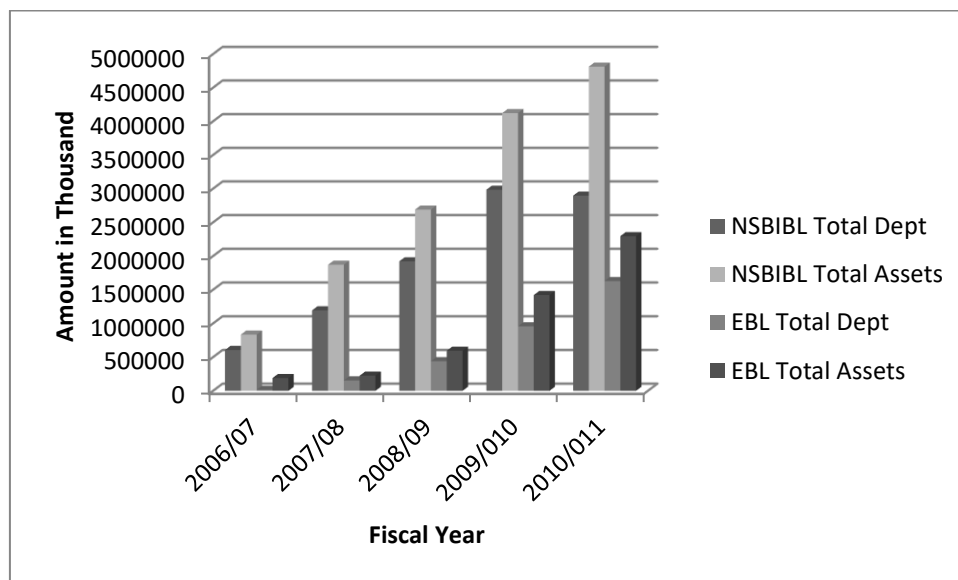
Dept-Assets Ratio

Amount in				
Rs. Thousand				
Bank	NSBIBL		EBL	
Year	Total Dept	Total Assets	Total Dept	Total Assets
2006/07	606064.29	833590.85	14039.08	189441.23
2007/08	1194133.26	1869814.49	154631.76	225171.2
2008/09	1920714.52	2688734.31	438554.25	594306.31
2009/010	2982824.56	4122575.7	956496.41	1419981.95
2010/011	2894575.8	4812000.97	1628031.96	2293136.58

MEAN	1.08:1	1.04:4
S.D	0.04	0.04
C.V	3.39	4.26

Figure: 4.8

Dept-Assets Ratio



The above table 4.8 and figure 4.8 depicts that the ratios for NSBIBL remained 67.82%, 62.86%, 71.44%, 72.35% and 60.15% in the respective years of study period from the years 2003/04 to 2007/2008. Average and CV of the ratios are 67.12% and 68.5% in that order. In the similar way, the ratios of EBL are 75.50%, 68.67%, 72.79%, 67.36% and 71.00% in the corresponding years. Mean of the ratio seemed 71.26% and CV seemed 4.27%.

The ratio reflected inconsistent policy of the banks in financing the assets proportion of interest-bearing debt for the purpose. Mean of the ratio came greater in NSBIBL

as compared to that in EBL, which signifies that the former followed more aggressive policy in raising the capital. ON the other hand capital structure of EBL seems less risky. Form the CV analysis, it can be noticed that the ratios of NSBIBL varied considerably throughout the review period.

The calculated value of t was less than the table value at 5% level of significance (1.3092<2.306). Hence null hypothesis has been accepted i.e. two banks do not differ significantly with respect to the debt-asset ratio maintained by them in immediate past five years.

- **Debt to total capital ratio**

$$= \frac{\text{Total Debt}}{\text{Total Capital}}$$

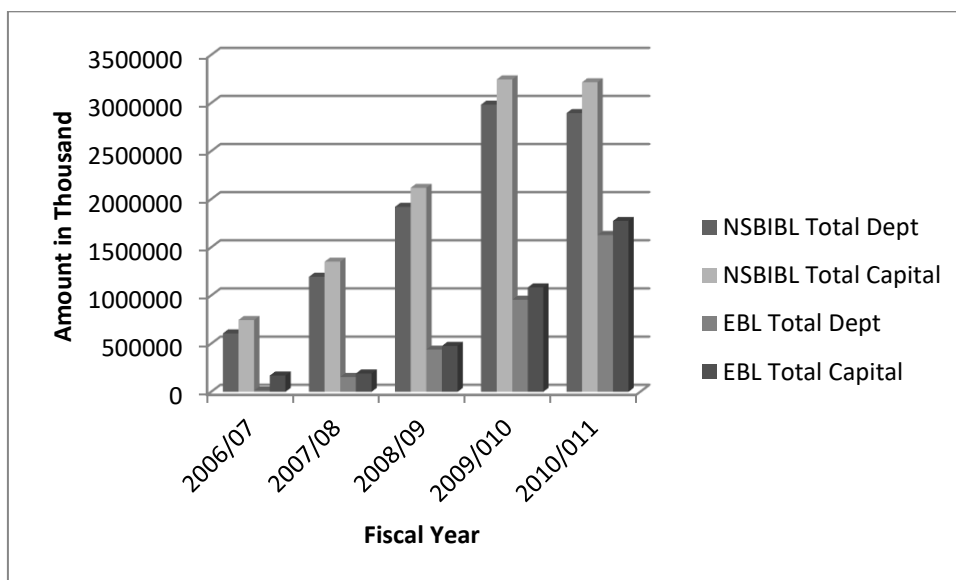
Table: 4.9

Dept to Total Capital Ratio

Amount in Rs.				
Thousand				
Bank	NSBIBL		EBL	
Year	Total Dept	Total Capital	Total Dept	Total Capital
2006/07	606064.29	745373.39	14039.08	169096.66
2007/08	1194133.26	1351221.8	154631.76	190249.19
2008/09	1920714.52	2117241.85	438554.25	476874.42
2009/010	2982824.56	3245095.41	956496.41	1083932.08
2010/011	2894575.8	3215635.62	1628031.96	1773188.98
MEAN	88.47		87.58	
S.D	3.76		4.15	
C.V	4.25		4.74	

Figure: 4.9

Dept to Total Capital Ratio



The above table 4.9 figure 4.9 a highlights that the ratios of NSBIBL remained 81.31%, 88.37% and 90.72%, 91.92% and 90.02% in the respective years of study period. Mean of the ratios came 88.47% and CV came 4.25%. In the similar way, the ratios of EEL for the corresponding years remained 84.59%, 81.28%, 91.96%, 88.24% and 91.81%. Average of ratios is 87.58% and CV is 7.74%.

Up to the third year of the period, the ratio of NSSBIBL showed rising trend and them, remained almost constant. But the ratios did not follow any particular trend in

EBL. The analysis makes it obvious that debt capital i.e. outsider's fund was dominant in the capital structure of both of the banks. NSBIBL seems ahead of EBL in rising the capital through debt as per the higher mean ratio CV of the ratio remained nominally lower in NSBIBL. Which indicates greater uniformity in the ratios of different years?

The calculated value of t came 0.3186, which is less than fable value i.e. 2.306 at 5% level of significance. That's why null hypothesis has been accepted i.e. the mean ratio of two banks does not differ significantly.

- **Interest coverage ratio**

$$= \frac{\text{Net Profit before interest \& Tax}}{\text{Interest Charge}}$$

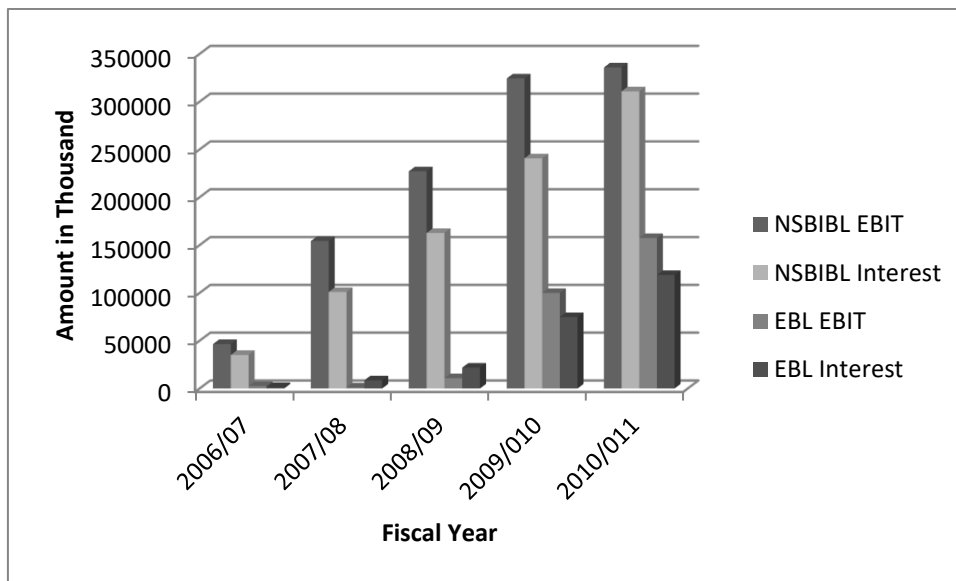
Table: 4.10

Interest Coverage Ratio

Amount in Rs. Thousand				
Bank	NSBIBL		EBL	
Year	EBIT	Interest	EBIT	Interest
2006/07	46500.07	35087.51	2507.41	1440.5
2007/08	154201.18	100875.23	1089.88	8515.58
2008/09	227116.23	162646.26	10824.96	21875.86
2009/010	324278.85	240745.68	99938.51	74721.13
2010/011	335810.49	310795	157395.27	118702.2
MEAN	1.34		0.26	
S.D	0.15		1.14	
C.V	10.96		442.48	

Figure: 4.10

Interest Coverage Ratio



The above table 4.10 reveals that the ratios of NSBIBL remained 1.11, 1.53, 1.40, 1.35 and 1.08 in the respective year of review period. Mean and CV of the ratios seemed 1.34 and 10.96% respectively. Accordingly, the ratios in EBL is maintained -1.34, -0.13, 0.49, 1.34 and 1.33 in the corresponding years. Mean of the ratios in the bank is 0.26 whereas CV was 0.442, 0.48%.

The ratio in NSBIBL depicted increasing trend up to the second year and then declined gradually in the latter years. In all the years of study period, the fund available for the payment of interest remained more than the requirement; however the margin was not satisfactorily high. It remained negative in EBL for first two year. In the third year, it became positive but less than one. In last two years it remained greater than one and showed almost static nature. Mean ratio of NSBIBL came much

higher than that of EBL, which reveals the better debt servicing capacity of NSBIBL. By comparing the CV of the ratio, it can be concluded that the ratio of EBL for different five years varied considerably.

The calculated value of t remained less than the table value 5% level of significance (2.0982<20306). That's why, null hypothesis has been accepted i.e. debt-servicing capacity of the sampled banks does not differ significantly.

From the analysis of leverage ratios, both of the banks seemed levered. But in comparison, NSBIBL appeared more levered than EBL. Debt servicing capacity of EBL remained poor in the beginning years. However, the difference in the position of two banks did not appear significant.

4.1.3 Capital Adequacy ratio

Capital adequacy ratios of the banks have been tested to find whether they are successful to reassure the depositors and creditors about their soundness; and also to maintain general confidence in the banking system. These include net worth to total deposit ratio, net worth to total asset ratio and net worth to total credit ratio.

- **Net worth to total deposit ratio**

$$= \frac{\text{Net Profit}}{\text{Total Deposit}}$$

Table: 4.11
Net Worth to Total Deposit Ratio

Net worth to total deposit ratio

Thousand			Amount in Rs.			
Bank	NSBIBL		EBL			
Year	Net Worth	Total Deposits	Ratio(%)	Net Worth	Total Deposits	Ratio(%)
2006/07	139309.1	715844.35	19.46	26057.58	147212.38	17.7
2007/08	157088.54	1624595.93	9.67	35617.43	170522.63	20.89
2008/09	196527.33	2358908.4	8.33	38320.17	471661.67	8.12
2009/010	262270.85	3744506.86	7	127435.67	1124903.12	11.33
2010/011	321059.82	4380018.84	7.33	145157.02	1948946.58	7.45
MEAN	10.36			13.1		
S.D	4.65			5.32		
C.V	44.84			40.64		

Annex 11 reveals that the ratios of NSBIBL were 19.46%, 9.67%, 8.33%, 7.00% and 7.33% in the respective years of study period. Mean of the ratios appeared 10.36% and CV appeared 44.84%. Accordingly, the ratios for EBL remained 17.70%, 20.89%, 8.12%, 11.33% and 7.45% in the corresponding years. Mean CV of the ratio were 13.1% and 5.32% in that order.

The ratio of NSBIBL showed sharp decline in the second year and then gradual decline up to the fourth year and fifth year, it slightly grew from the level of proceeding year. But the ratio of EBL showed fluctuation over the period, it ranged from 20.89% in the year 2005/06 to 7.45% in 2008/2009. Average ratio of EBL appeared higher than that of NSBIBL, which means the former is better with respect to the capital adequacy position. Higher CV of the ratios in NSBIBL shows less consistency in maintaining net worth with respect to deposits.

The calculated value of t (0.8673) was less than the tabulated value at 5% level of significance (2.306). Therefore, null hypothesis has been accepted that is average ratio of two banks does not differ significantly.

4.1.4 Turnover ratios

Turnover ratios have been used to evaluate the efficiency with have managed and utilized their assets. These, include loans and advances to total deposit ratio, loans and advances to fixed deposit ratio, loans and advances saving deposit ratio, investment total deposit ratio, performing assets to total ratio and performing assets to total debt ratio.

Loans and advances to total deposit ratio

$$= \frac{\text{Loan \& Advances}}{\text{Total Deposit}}$$

Table: 4.12

Loans and Advances to Total Deposit Ratio

Amount in Rs. Thousand						
Bank	NSBIBL			EBL		
Year	Loan And Advances	Total Deposits	Ratio(%)	Loan And Advances	Total Deposits	Ratio(%)
2006/07	69194.07	715844.35	85.1	20161.18	147212.38	13.7
2007/08	117531483	1624595.93	72.35	49127.93	170522.63	28.81

2008/09	1718791	2358908.4	72.86	302183.18	471661.67	64.07
2009/010	2363559.29	3744506.86	63.12	871677.98	1124903.12	77.49
2010/011	2963032.29	4380018.84	67.65	1364884.23	1948946.58	70.03
MEAN	72.22			50.82		
S.D	7.35			24.97		
C.V	307710.18			49.14		

Annex14 exhibits that the ratio of NSBIBL remained 85.10%, 72.35%, 72.86%, 63.12% and 67.65% in the respective years of study period. Mean and CV of the ratios appeared 72.22% and 307710.18 % in that order. The ratios of EBL were 13.70%, 28.81%, 64.07%, 77.49% and 70.30% in the corresponding years. Mean of the ratios came 50.82% and CV came 49.14%.

The ratio in NSBIBL fluctuated throughout the study period. It descended to 67.55% in the last year from 85.01% in the base year. It depicted increasing trend in EBL up to the fourth year of review period and marginally declined in the last year. Mean ratio of NSBIBL appeared considerably higher which signifies that NSBIBL is more successful in utilizing the resources in profitable sectors than EBI “The trend of the ratio in EBI showed that in spite of decrease in the final year, there remained higher utilization capacity in each succeeding year. In last year, fall in the ratio could be noticed due to the increase in the amount of deposit by large volume than the volume of loans and advances. CV of the ratios depicted that the ratio remained more consistent in NSBIBL as compared to EBL.

The calculated value of t i.e. 1.6438 remained less than the tabulated value at 5% level of significance i.e. 2.306. So that null hypothesis has been accepted i.e. two banks do not differ to the significantly with respect to this ratio.

4.1.5 Asset quality ratios

Asset quality ratios intend to measure the quality of assets owned by the banks. These include loan loss coverage ratio, loan loss provision to total income ratio, loan provision to total deposit ratio and accrued interest to total interest income ratio.

- **Loan loss coverage ratio**

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

Table: 4.13
Loan loss coverage ratio

Amount in Rs. Thousand						
Bank	NSBIBL			EBL		
Year	Loan Loss Provision	Total Risk Assets	Ratio(%)	Loan Loss Provision	Total Risk Assets	Ratio(%)
2006/07	8907.46	609194.07	1.46	201.53	20161.18	1
2007/08	7161.65	1175314.83	0.61	779.95	49127.93	1.59
2008/09	18830.23	1718791	1.1	1750.38	302183.18	0.58
2009/010	31659.24	2363559.15	1.34	5720.38	871677.98	0.66
2010/011	35521.05	2911023.29	1.22	8333.78	1364884.23	0.61
MEAN	1.15			0.89		
S.D	0.29			0.38		
C.V	25.62			43.01		

Annex 10 exhibits that the ratios for the different year of the review period remained 1.46%, 0.61%, 1.10%, 1.34% and 1.22% respectively in NSBIBL. Mean of the ratios came 1.15% whereas CV came 25.62%. Accordingly, the ratios of EBL remained 1.00%, 1.59%, 0.58%, 0.66% and 0.61%, in the corresponding year. Mean of the ratios appeared 0.89% and CV 43.01%.

The ratio in both of the banks showed fluctuation over the period of study. It reached maximum in the first year and reduced in the second in NSBIBL. But with respect to EBL, it reached highest in the second year and fell the lowest in third. Mean ratio of NSBIBL exceeded that of EBL. It indicates that EBL has been more successful to foresee the quality of loans lent. Conversely, the asset possessed by NSBIBL has higher degree of risk as compared to that of EBL. That's why, the former bank has maintained comparatively higher ratio to prevent itself from possible default in payment by borrowers. CV of the ratio seemed less in NSBIBL, which reveals to lat the consistency in ratios greater in NSBIBL.

The calculate value of t i.e. 1.071 came less than the tabulated value i.e. 2.306% at 5% level of significance therefore, null hypothesis has been accepted, that is , the mean ratio of the sampled banks does not differ significantly.

4.1.6 Profitability ratios

Profitability ratios have been employed to measure the operating efficiency of the sampled banks. For the purpose return on asset, return on net worth return on total deposit total interest expenses to total interest income ratio interest earned to total asset ratio, staff expenses to total income ratio and office operation expenses to total income ratio have been analyzed and interpreted.

- **Return on asset**

$$\text{Return on Net Worth} = \frac{\text{Return on Net Worth}}{\text{Total Income}}$$

Table: 4.14

Return on Asset

Amount in Rs. Thousand						
Bank	NSBIBL			EBL		
Year	Net Profit After Tax	Total Assets	Ratio(%)	Net Profit After Tax	Total Assets	Ratio(%)
2006/07	7370.83	833590.85	0.83	(3947.91)	189441.23	-2.08
2007/08	37886.58	1869814.49	2.03	(9606.47)	225171.2	-4.27
2008/09	44920.94	2688734.31	1.67	(11050.9)	594306.31	-1.86
2009/010	58976.52	4122575.7	1.43	25033.9	1419981.95	1.76
2010/011	16760.39	4812000.97	0.35	25230.3	2293136.58	1.1
MEAN	1.26			-1.07		
S.D	0.6			2.22		
C.V	47.66			-207.31		

Annex 14 demonstrates that the ratio in NSBIBL remained 0.83%, 2.03% and 1.67%, 1.43% and 0.35% in the respective years of review period. Mean and CV of the ratios appeared 1.26% and 47.66% respectively. Accordingly, the ratios of EBL in the corresponding years were -2.08%, -4.27%, -1.86%, 1.76% and 1.10%. Mean of the ratios came -1.07% and CV came -207.31%.

In NSBIBL, the ratio showed fluctuating trend. It rose astonishingly in the second year but declined gradually and reached least i.e. 0.35% in the final year of the review

period. It means profitability position of NSBIBL remained quite poor in the last year. In EBL it remained negative up to the third year and then tended to positive later on. The reason of the loss in first three years may be insufficient operation or poor utilization of the resources. Anyway, the banks made improvement in its position in the fourth year but there appeared little slackness in the fifth year. Mean ratio was considerably higher in NSBIBL, which signifies that the profitability position of the bank in relation to this ratio is far better than that of EBL. CV of the ratios in EBL exceeded the same in NSBIBL by a large amount, which indicates that the variability of the ratios in EBL was much higher.

The calculated value of t i.e. 2.0295 was found less than tabulated value at 5% level of significance. Hence, null hypothesis has been accepted i.e. observed difference in the 4 mean ratio of the sampled banks is not significant.

4.1.7 Others Indicators

Besides the above- analyzed ratios, some indicators have been tested to have the broader knowledge of financial performance of the banks. For this, EPS, DPS, TPS, DPR, P/E ratio and MVPS to BVPS have been analyzed.

4.1.7.1 Earning per share (EPS)

$$= \frac{\text{Earning Available to Common Shareholder (EAC)}}{\text{No.of Equity shares Outstanding}}$$

Table: 4.15

Earning Per Share (EPS)

Earnings Per Share-EPS						
Amount in Rs. Thousand						
Bank	NSBIBL			EBL		
Year	EAC	No. of Ordinary Shares	Ratio(%)	EAC	No. of Ordinary Shares	Ratio(%)
2006/07	7370.83	1199.71	6.15	3947.91	600	-6.58
2007/08	37886.58	1199.77	31.58	9606.47	960	-10.01
2008/09	44920.94	1199.46	37.45	11050.9	1200	-9.21
2009/010	58976.52	1199.46	49.17	25033.9	1175.65	21.29
2010/011	16760.39	1199.46	13.97	25230.3	1184.27	21.3
MEAN	27.66			3.36		
S.D	15.65			14.69		
C.V	56.56			437.45		

Annex 21 depicts that the ratios in NSBIBL were 6.15, 31.58, 37.45, 49.17 and 13.97 in the respective years of review period. Mean of the ratios was 27.66 and CV was 56.56% similarly the ratios in EBL remained -6.58, -10.01, -9.21, 21.29 and 21.30 in the same period. Mean of the ratios appeared 3.36 and CV appeared 437.45%.

EPS in NSBIBL depicted rising trend up to the fourth year of review period but it dropped in the final year. The ratio remained negative in EBL for the first three years and then remained almost same in ending years. The negative ratio in EBL is the result of loss suffered by the bank for the period. Mean ratio was much higher in NSBIBL is contrast to EBL, which indicates that the profitability position of the formed is far better than that of the latter. In this sense, NSBIBL seems more successful to attract the investors. CV of the ratio in EBL exceeded the same in NSBIBI by a large amount, which shows lack of consistency in EBL in the different years.

The calculated value of t remained less than the tabulated value 2.2651<2.306 at 5% level of significance. Hence null hypothesis has been accepted i.e. noticed difference in average EPS of the sampled banks is not significant.

4.1.7.2 Dividend per share (DPS)

$$= \frac{\text{Earning paid to Shareholder}}{\text{No.of Equity shares Outstanding}}$$

Table: 4.16

Dividend Per Share DPS

Dividend Per Share-EPS						
Amount in Rs. Thousand						
Bank	NSBIBL			EBL		
Year	Earning Paid to Share holder	No. of Ordinary Shares	Ratio(%)	Earning Paid to Share holder	No. of Ordinary Shares	Ratio(%)
2006/07	0	1199.71	0.00	0	600	0
2007/08	24000	1199.77	20.00	0	960	0
2008/09	24000	1199.46	20.01	0	1200	0
2009/010	24000	1199.46	20.01	0	1175.65	0
2010/011	12000	1199.46	10	17764.05	1184.27	15
MEAN	14			3		
S.D	8			6		
C.V	57.15			200		

Annex 22 highlights that the ratio of NSBIBL remained 0.00, 20.00, 20.01, 20.01 and 10.00 in the respective years of the study period. Mean and CV of DPS came 14.00 and 57.15% respectively. Accordingly, the ratios in EBL were nil for first four years and 15.00 in the final year. Mean of the ratios 2.00 and CV appeared 200%.

NSBIBL paid no dividend in the first year. Dividend per share in following three years remained constant and in the final year it declined to almost half of in preceding year. But EBL did not pay dividend for first four years and in the last year it paid RS 15 per share. Mean DPS of NSBIBL came remarkably higher in NSBIBL which signifies that NSBIBL is more successful to win the confidence of the investors. As dividend is the direct return received by the shareholders, they evaluate the organization paying high dividend as the better one. This means NSBIBL can sell its shares more easily than EBL. Higher CV of the ratios in EBL depicts that income not pay dividend in the consistent manner.

The calculated value of i.e. 2.2003 appeared less than the tabulated value i.e. 2.306 at 5% level of significance. That's why, null hypothesis has been accepted i.e. average DPS does not differ significantly between the sampled banks.

4.1.7.3 Tax per share (TPS)

$$= \frac{\text{Tax Paid to The Government}}{\text{No. of Equity Shares Outstanding}}$$

Table: 4.17**Tax per share TPS**

Tax Per Share-EPS						
Amount in Rs. Thousand						
Bank	NSBIBL			EBL		
Year	Tax Paid	No. of Ordinary Shares	Ratio(%)	Tax Paid	No. of Ordinary Shares	Ratio(%)
2006/07	4041.73	1199.71	3.37	0	600	0
2007/08	15439.36	1199.77	12.87	0	960	0
2008/09	19830.41	1199.46	16.53	0	1200	0
2009/010	8744.58	1199.46	21.36	183.63	1175.65	0.16
2010/011	12000	1199.46	7.29	13462.78	1184.27	11.37
MEAN	12.28			2.31		
S.D	6.41			4.53		
C.V	52.14			196.55		

Annex 23 depicts that the IPS of NSBIBL in the respective years of the analysis period remained 3.37, 12.87, 16.53, 21.36 and 7.29. Mean and CV of the ratios came 12.28 and 52.14% respectively. In the similar way, the ratios in EBL were nil for first three years and then 0.16 and 11.37. Mean of the ratios appeared 2.31 and CV appeared 196.55%.

The ratios in NSBIBI followed increasing trend for first four years and then it declined in the final year. In EBL, it remained nil up to the third year and it considerably ascended in the final year. Mean ratio in NSBIBL was much higher which indicates that it might have realized sufficiently good return from investment in contrast to EBL. As a result, shareholders of NSBIBI have contributed more in the revenue of the country as compared to those of EBI; CV analysis signifies that investors of NSBIBL have contributed for the welfare of the nation more ultimately throughout the study period.

The calculated value of t was greater than the tabulated value i.e. $2.5432 > 2.5132$ at 5% level of significance. Hence null hypothesis has been rejected i.e. mean ratio of the sampled banks with respect to this indicator significantly differs. The reason behind the significant difference might be the loss suffered by EBL for first three years of the study period. As tax per share is the consequence of the profit, shareholders of NSBIBL seemed to contribute more than the shareholders of EBL.

4.1.7.4 Dividend payout ratio (DPR)

$$= \frac{\text{DPS}}{\text{EPS}}$$

Annex 34 highlight that the ratios in NSBIBL remained 0.00%, 62.33%, 52.43% and 71.58% in respective years of the study period. Mean DPR and CV appeared 45.81% and 54.83% respectively. Same indicator in EBL remained nil for first four years and in the last year, it was 10.42%. Mean and CV of the indicators came 14.08% and 20.0% in respective order.

The indicator in NSBIBL remained nil in the beginning year and showed decreasing trend from second to the fourth year. In the last year, it reached highest. In EBL, the

indicator was nil for first four years and 70.42% in the final year Mean DPR appeared greater in NSBIBL, which signifies that it distributed comparatively more proportion of dividend out of its earning. In other words, it remained more successful of attract the investors. CV of the indicators came much higher in FBI, which indicates that dividend payout for different years of the period was more variable.

The calculated value of t remained less than the tabulated value at 5% level of significance i.e. 1.6813<2.306. Therefore, null hypothesis has been accepted i.e. mean DPR of two banks does not differ significantly.

4.1.7.5 Price-earnings ratio

$$\frac{MVPS}{EPS}$$

Table: 4.18

Price-Earnings Ratio

Price Earnings Ratio-P/E Ratio						
Thousand				Amount in Rs.		
Bank	NSBIBL		EBL			
Year	MPVS	EPS	Ratio(%)	MPVS	EPS	Ratio(%)
2006/07	512	6.15	83.25	0.00	-6.58	0
2007/08	412	31.58	13.05	122	-10.01	-12.19
2008/09	412	37.45	11	127	-9.21	-13.79

2009/010	440	49.17	8.95	184	21.29	8.64
2010/011	562	13.97	40.23	407	21.3	19.11
MEAN	31.3			0.35		
S.D	28.37			12.47		
C.V	90.64			3526.64		
COMBINED S.D				24.498		
CALCULATED VALUE OF t				1.997		

Annex 25 depicts that P/E ratios of NSBIBL for the respective year of the study period were 83.25, 13.05, 11.00, 8.95 and 40.23 Mean of the ratio: came 31.30 and CV came 90.64%. Similarly, the ratios of EBL were 0.00, -12.19, -13.79, 8.64 and 19.11 in the corresponding years of the period Mean of the ratios appeared 0.35 and CV appeared 3526.64%.

The ratios in NSBIBL did not reveal particular direction of change. The ratios in the first year remained very high as compared to the rest of the years. In EBL, it remained negative up to the third year of the study period. Then it went positive and increased gradually later on. Mean ratio of NSBIBL appeared significantly higher which mean the investors are well satisfied with the performance of the bank. In other words, market has positively judged the performance of NSBIBI higher CV of the ratios in EBI indicates that the ratio varied widely in the bank.

The calculated value of t was, less than the tabulated value at 5% level of significance i.e. $1.997 < 2.306$. So, null hypothesis has been accepted i.e. mean P/E ratio of the sampled banks does not differ significantly.

4.2 Income and Expenditure Analysis

Income and expenditure analysis evaluates major sources of income and expenses. Tines help the analyst to conclude the areas to be focused for investment and tin possibilities for affective control over expenses. The analysis cover is the followings.

- Income analysis
- Expenditure analysis

4.2.1 Income Analysis

Commercial banks generate income from the investment made in various sectors. The banks, being service-oriented organizations, do not produce physical goods they produce loans and advances and innovations and sell the same. In the courses of carrying out their functions, they receive income from various sources which been split up into the following major headings.

- Interest
- Commission and discount
- Foreign exchange fluctuation income
- Other income
- **Interest income**

Interest is the main and major source of income in the commercial banks. These banks charge interest on loan and advances provided by thorn they also receive interest form investment made in government securities, debentures and inter- bank lending.

Annex 37 shows that interest income in NSBIBL remained 77.03%, 86.41%, 89.18%, 87.76% and 89.18% in the respective years of study period. Interest income ranged from 77.03% in the first year to 89.18% in the last. In each year, more than three-fourth of the income was occupied by the interest.

Annex 38 depicts that the interest income in EBL registers 96.21%, 82.55%, 85.72%, 74.83% and 8.17% over the study period from the fiscal year 2006/07 to 2007/2008 respectively. Interest income ranged from 74.38% in the fourth year of the study period to 96.21% in the beginning year. It showed slightly fluctuating trend. In each year, interest income seemed to cover almost four-fifth of the total income. Hence, interest income remained dominant in the total income.

Average of the income appeared 85.91% and 82.98% in NSBIBL and EBL respectively. It indicates that the average interest covered slightly greater proportion in NSBIBL. In other words, NSBIBL might have focused more of its activities towards the lending and the investment in government securities. Due of interest income came 5.31% in NSBIBL and 8.64% in EBL. It signifies that interest income remained more uniform in NSBIBL.

- **Commission and discount**

Commercial banks render various types of services to their customers. They provide remittance facility, guarantees, standing instructions, open letter of credit, purchase and discount bill of exchange along with other agency functions for making such facilities available, they receive certain charges in form of commission and discount. It also covers significant portion of total income.

Annex 37 depicts that commission and discount earned by NSBIBL in the respective years of the study period remained 9.98%, 5.48%, 6.64%, 5.31%, 6.01%. In the first year it stood slightly more as compare to the references ranged between 5% and 10% in all the year of the period.

Annex38 deposit that the commission and discount be 2.45%, 4.35%, 5.36%, 10.58% and 10.74% respectively form 2003/04 to 2007/2008. It ranged form 2.45% in the first year to 10.74% in the final year. It revealed increasing trend throughout the study period.

Average of the income in NSBIBL and EBL remained 6.68% and 6.70% respectively. It signifies that commission and discount covered almost same proportion in the total income of both of the banks. CV of the incomes in NSBIBL came 25.61% whereas it came 50.37% in EBL. This shows that the proportion commission and discount in total income remained less uniform in EBL.

- **Foreign Exchange Fluctuation Income**

One of the major functions of the commercial bank is transaction of foreign currency. Joint venture banks are allowed to purchase and sell foreign currencies under the directives of NRB and rules, regulations and laws in effect. Income under this heading encompasses them trading gain derived form the exchange of foreign currencies due to the fluctuations in the exchange rate.

Annex 37 depicts that the foreign exchange fluctuation income shared 0.34%, 0.02%, 5.05% and 4.41% of total income of NSBIBL in the respective year of the study period. Proportion of this income remained least in the year 2006/2007 and most in

2007/2008. In the latter years, this income seemed to contribute more as compared to the previous years.

From the annex 38, the income of EBL appeared 0.66%, 4.91%, 1.80%, 1.70% and 1.01 from the year 2004/05 to 2008/2009 respectively. The percentage of income showed fluctuation over the years. Minimum percentage of income was noticed in the year 2006/07, whereas the maximum percentage in 2005/2006.

On the average, income remained 2.40% in NSBIBL and 2.11% in EBL. From this result, it can be concluded that foreign exchange fluctuation income occupied comparatively greater portion in NSBIBL. The income in various years remained more uniform in EBL as depicted by lower CV i.e. 69.27 % < 85.35%.

4.3 Correlation Analysis

It is a useful statistical for measuring the intensity of the magnitude of linear relationship between two series. Karl Pearson's coefficient of correlation is most common and useful tool to measure the relationship between two variables in the bank. The correlation coefficient (r) between two variables X and Y can be obtained by using following formula.

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2} \sqrt{\sum Y^2 - (\sum Y)^2}}$$

Where,

n = Number of observations in series X and Y

$\sum X$ = Sum of observations in series X

$\sum Y$ = Sum of squared observations in series Y

$\sum X^2$ = Sum of squared observations in series X

$\sum Y^2$ = Sum of squared observations in series Y

$\sum XY$ = Sum of the product of observations in series in X and Y

Here, $r = 1$ implies that two variable are positively and perfectly correlated.

$r = -1$ implies that two variable are negatively and perfectly correlated

$r = 0$ does not necessarily mean that the variable are independent. They may, however, be related in some other form such as quadratic, logarithm or exponential.

Correlation analysis between deposit and net profit

Annex 42 shows that the coefficient of correlation and probability distribution of correlation coefficient between total deposit and net profit in NSBIBL 0.3195 and 0.2689 in the review period respectively correlation coefficient less than six times the probable error⁴ i.e. $0.32.95 < 6 \times 0.2689$. It deposit and net profit of the bank are positively correlated but the correlation is not highly significant.

Annex 43 depicts that the coefficient of correlation and probable error of the coefficient between the same variables in EBI were 0.8849 and 0.0655 respectively. Correlation coefficient came greater than six times the probable error i.e. $0.8849 > 6 \times 0.0655$, 11 implies that the total deposit and net profit in the bank are highly and positively correlated in other word, net profit of the bank increases almost to the same degree with increase in the amount of deposit.

Between two banks, EBL seems more efficient regarding the utilization of the deposit for income generating purpose as revealed by greater coefficient of correlation in EBL. In the review period, net profit of EBL seemed to increase in line with increase in deposit that's why; it retains potentiality of increasing net profit by accumulating more despite.

- **Correlation between performing assets and net profit**

Annex44 highlights that the coefficient of correlation and probable error of the coefficient between performing assets and net profit in NSBIBL remained 0.4754 and 0.2004 respectively correlation coefficient came less than six times the probable error i.e $0.4753 > 0.2004$. It signifies that the net profit and performing assets of the bank are positively related, however, the correlation is not much significant. Bank can raise its net profit by investing the fund in performing assets but the increase in the profit will not be proportionate to the increase in the performing assets.

Annex 45 depicts that the coefficient of correlation and probable error of the coefficient between performing assets and net profit in EBL were 0.98081 and 0.0529 respectively. Correlation coefficient appeared greater than six times the probable error i.e. $0.9081 < 0.0529$. It indicates that the net profit and performing assets of the bank are highly and positive related. Furthermore, the bank can raise its net profit by increasing the performing assets.

From the above analysis, there seems a significant correlation between the performing assets and net profit in EBL whereas a low degree of correlation in NSBIBL. It means EBL can gear its profitability in greater speed by raising the volume of performing assets.

- **Correlation Between Net Worth And Net Profit**

Annex 46 shows that the correlation coefficient and probable error of correlation coefficient between net worth and net profit in NSBIBL remained 0.1501 and 0.2948 respectively. Correlation coefficient appeared less than probable error. Hence it implies that the relation between net worth and net profit the bank is very poor i.e. there does not seem specific relationship.

From the Annex47 the correlation coefficient and probable error of correlation coefficient between net worth and net profit in EBL, seems 0.9695 and 0.0189 respectively. Coefficient of correlation appeared greater than six times the probable error i.e. $0.9645 > 6 \times 0.0181$ it implies that the correlation between the stated components is positive at significant level. Net profit in the bank seems to rise almost to the same degree as rise in the net worth.

On comparing two banks, net profit in EBL seemed to rise continuously with increase in the amount of net worth. In other words, EBL is successful to utilize the investors fund more prudently and effectively to realize the return. Therefore EBL retains the capacity of uplifting the net profit by increasing the net worth contrast, poor relation is observed between net worth and net profit in NSBIBL.

- **Correlation Between Total Deposit And Investment**

Annex 48 depicts that the coefficient of correlation and probable error of correlation coefficient between total deposit and investment in NSBIBL remained 0.4667 and 0.2359 in the study period. Correlation coefficient came less than six times the probable error i.e. $0.4667 < 6 \times 0.2359$. It signifies that a positive relation occurs between the two components but the degree of relation is not much significant.

From the Annex 49, the coefficient of correlation and probable error of coefficients between the variable in EBL are seen 0.993 and 0.0042 respectively. Coefficient of

correlation came greater than six times the probable error i.e. $0.9081 > 6 \times 0.0529$. It indicates that the correlation between total deposit and investment of the bank are correlated at significant level. With the increase in the amount of deposit, investment of the bank seems to increase between the tow banks, it seems that EBL allocated greater portion of the fund collected form depositors in investment. In contrast, it seems that investment of NSBIBL increased or decreased in slow pace with respect to the increase or decrease in the deposit.

- **Correlation Between Total Deposit And Loans And Advances**

Annex 50 depicts that the coefficient of correlation between the total deposits and loans and advances in NSBIBL remained 0.9968 whereas the probable error of coefficient remained 0.0019. Correlation coefficient appeared greater than six times the probable error i.e. $0.9968 > 6 \times 0.0019$. It implies that the correlation between deposit and loans and advances of the bank is highly positively. Loans and advance seem to rise with the rise with the rise in the volume of total deposit.

Annex 51 shows that coefficient of correlation between the total deposits and loans and advances in EBI remained 0.9964, whereas the probable error of coefficients remained 0.0022 correlation coefficient came greater than six times; the probable error i.e. $0.9961 > 6 \times 0.0022$. It signifies that the deposit and loans and advance of the bank are positively correlation at significant. The bank may raise the volume of loans advances with rise in the volume of total deposit.

From the above analysis, high degree of correlation seems to occur between loans and advance and total deposit in both of the banks. Both other seems increase or decreases the investment. In loan and advances portfolio with increase and decrease in the deposit.

- **Correlation Between EPS And MVPS**

Annex 52 highlight that correlation coefficient and probable error of coefficient between EPS and MVPS were -0.7701 and 0.1228 respectively throughout the study period. Correlation coefficient appeared greater than six times the probable error i.e. $0.7701 > 6 \times 0.1228$. It means MVPS and EPS of the bank are negatively correlated at significant level. In other words, market price of share seems to fall with increase in the earning per share.

Annex 53 depicts that the correlation coefficient and probable error of the correlation coefficient between EPS and MVPS in EBL were 0.71 and 0.1312 in the respective order. It signifies that EPS and MVPS of the bank are positively correlated moreover; market price of the share seems to increase with the increase in earnings per share through the degree.

The result of correlation seems contradictors between the two banks, the correlation between EPS and MVPS seemed negative in NSBIBL, which is quite illogical and absurd. This is purely mechanical interpretation and does not consider other influencing factors. But various other factors are affecting in the real market. Besides, market price of the share changes because of signaling factors. ON the other hand, market price of this share in EBL seems to increase with increase in EPS.

- **Correlation between DPS and MVPS**

Annex 54 shows that coefficient of correlation and probable error of the coefficient between DPS and MVPS in NSBIBL were -0.7682 and 0.1236 respectively. Coefficient of correlation came greater than six times the probable error i.e. $0.7682 > 6 \times 0.1236$. From the result, it can be concluded that correlation between DPS and MVPS is highly negative with the decrease in DPS, MVPS seems to increase.

Annex55 shows that correlation coefficient and probable error coefficient between the stated variable remained respectively 0.8938 and 0.0607 in EBL. Correlation coefficient came greater than six times the probable error i.e. $0.7682 > 0.0607$. It implies that correlations between DPS and MVPS are highly positive in the bank. Moreover, market price per share seems to increase with respect to the increase in dividend per share.

From the above analysis, the relation between DPS and MVPS seems completely conflicting between two banks. In EBL, MVPS appears to use along with increase in DPS. Present and potentials investors of the bank are responding positively for the dividend per share. But MVPs seems to fall with rise in DPS of NSBIBL, which is generally illogical. The result observed in NSBIBL may simply be confidential or the result of signaling factors.

h) Correlation between DPR and MVPS

Annex 56 depicts that the coefficient of correlation between DPR and MVPS in NSBIBL remained -0.1175 whereas probable error of the correlation coefficient remained 0.2975. Correlation coefficient came to less than the probable error i.e. $0.1175 < 0.2075$, which indicates that the calculated value of coefficient is not significant. Hence market value of the share seems to change independently with DPR.

Annex 57 depicts that the coefficient of correlation and probable error of coefficient between DPR and MVPS in EBL remained 0.5629 and 0.2061 respectively. The result indicates that DPR and MVPS are positively correlated but the degree of correlation is not highly significant.

Above analysis signifies that DPR seems to render no effect on the market price of the share in NSBIBL whereas it seems to affect the MVPS of EBL to some extent. In other words, potential shareholders of NSBIBL seem to invest in the shares of NSBIBL without considering dividend payout ratio but the investor of the EBL seem to consider DPR to some extent at the time of investment.

4.4 Major Findings

The following findings have been derived from the analysis and interpretation of data.

- Current ratio of both of the banks showed slightly fluctuating trend. Both of the banks could not maintain the conventional standard of 2.1. However, the average of the ratios appeared higher in NSBIBL, which signifies that NSBIBL is more capable of meeting immediate liabilities in contrast to EBL. The ratio was found more consistent in NSBIBL. Hypothesis test showed that the mean ratio of two banks did not differ significantly.
- Average cash and bank balance to current and saving deposits ratios of EBL appeared greater than that NSBIBL. It indicates that of EBL is better than that of NSBIBL. Conversely, EBL seems less successful to utilize the fund raised from the current and saving deposits that may ultimately affect the profitability adversely. The ratio appeared less uniform in EBL. Hypothesis test showed that the sampled bank does not differ significantly with respect to this ratio.
- Mean cash and bank balance to total deposit ratio remained higher in EBL which reveals that the greater portion of the deposit was held for immediate payment in EBL. The ratio remained more consistent in EBL. Hypothesis test showed that the mean ratio of the sampled bank does not differ significantly.
- MRB balance to current and saving deposit ratio remained sufficiently review above the standard set by NRB i.e. 8% in each year of the review period in both of the bank average of ratios appeared higher in NSBIBL which indicates

that NSBIBL has thicker cushion of liquidity against the possible deposit withdrawal. The ratio remained more consistent in NBL. Hypothesis test showed that the bank do not differ significantly with respect to this ratio.

- Both of the bank maintained NRB balance to fixed deposits ratios above the standards prescribed by NRB i.e. 6% in each year of the study that EBI has maintained greater portion of fixed deposit as liquid asset. The ratio showed less consistency in EBL. Hypothesis test showed that the mean ratio of two banks does not differ significantly.
- Mean fixed deposit to the total deposit ratio came higher in NSBIBL. It means that NSBIBL can grasp the opportunity of investing the fund in more profitable sectors like long-term loans. On the other hand, EBL can utilize less cost bearing fund in current assets and hence to strengthen the liquidity position.
- Debt-equity ratio in both of the banks depicted the employment of debt to tie greater extent in their capital comparatively, capital financial market and nature of competitions.
- The banks have employed considerably greater portions of debt in their capital. Therefore, they should be aware of the possible risk that may arise due to slackness in the business activities. In this regard, NSBIBL should adopt more precaution so as to check the risk factors.
- Debt servicing capacity of EBL appears poor. So, it is better to search for the profitable sectors for investment and utilization of the deposits collected.
- Turnover of the fund raised form the outsider's appears less satisfactory in EBL. So, EBL has a challenge to allocate the deposit in income generation sectors. It will be better for both of the banks, especially for EBL to open the branches in other cities and rural areas in order to find the profitable opportunities.
- The quality of assets owned by NSBIBL seems poorer in comparison to EBL. Therefore, NSBIBL is suggested to advance the loans only after the proper analysis of customers.

- Greater portion of the income has been spent for staff and office operation in EBL. Through the use of capacity building programs, seminars, conferences, training etc. staff's can be made more efficient. It is also suggested to minimize the office operation expenses by searching the loopholes.
- Both of the banks are suggested to review their investment portfolio to see if there is any better mix than the present one.
- Although, Profit needs to be earned for survival and growth of any institution, it should not be the one and only one goal. The country has expected service form the financial sectors in such a way that it encompasses the balanced development. Economic level of the country can be raised only when the level of the people depending upon the agriculture increases. So the banks are suggested to diversify their loans in priority and deprived sectors as per the directive of NRB. Structure of NSBIBL seemed more leveled i.e. more risky. The ratio remained more consistent in NSBIBL. Hypothesis test showed that the sampled banks do not differ significantly respect to this ratio.
- Interest coverage ratio in EBL remained embarrassing in first three years of study period. In later years, it remained satisfactory. The ratio in NSBIBL appeared satisfactory in ill the years of study period. The ratio widely fluctuated in EBL throughout the study period and showed rising trend. Hypothesis test showed that the sampled banks do not differ significantly with respect to this ratio.
- Net worth to total credit ratio appeared much higher in EBL, which signifies that EBL, has used significantly larger extent of net worth for credit creation but ratio widely dispersed in EBL as compared to that in NSBIBL.
- Loans and advances to fixed deposit ratio were higher in NSBIBL. Which indicates that turnover of fixed deposit in form of loan and advances is better in NSBIBL. The ratio varied less in the same bank.
- Loans and advances to saving deposit ratio appeared significantly higher in NSBIBL. It indicates the better utilization of saving deposits NSBIBL than in

EBL. The ratio remained more uniform in NSBIBL. As depicted by higher investment to total deposit in EBL. EBL seems more successful to utilize the deposits fund in investment. The slightly to greater extent in NSBIBL

- NSBIBL utilize the resources more efficiently and prudently for income generation as shown by higher performing assets to total assets ratio of the bank. The ratio seemed to vary less in the same bank.
- Performing assets to total debt ratio of NSBIBL exceeded the same of EBL on the average. From this, it can be concluded that NSBIBL allocated the cost-bearing fund more successfully than EBL. The ratio of this utilization remained more uniform in NSBIBL.
- Loan loss coverage ratio of EBL over the period remained lesser which indicates that asset financed by the bank are superior in contrast to NSBIBL but the consistency in maintaining the quality of asset appeared better in NSBIBL. With respect to loan loss provision to total income ratio, EBL seems more aware in quality while advancing loans as the ratio is less in the bank. Portion of loan loss provision in total income varied less in the same bank.
- Loan loss provision to total deposit ratio came to be less in EBL and hence it can be concluded that loan and advances granted by the bank are less risky. In consistency of the ratios, NSBIBL came to be better.
- Accrued interest to total interest income ratio was lower in EBL. It implies that EBL granted the loans and advance in more secured sector. But the greater variability in the ratio of the EBL indicates less consistent policy.
- Average return on assets in NSBIBL was much higher than in EBL. It implies that the profitability position of EBL in the study period proved to be weaker in spite of improvement in latter two years. The ratio varied adequately in EBL from 2006/07 to 2010/2011.
- Return as total deposit was considerably higher in NSBIBL, which signifies that NSBIBL is more successful to utilize deposit for making profile. The ratio in the past five years showed almost no consistency in EBL.

- Interest expenses to interest income ratio, on an average was lower in NSBIBL. Which reveals that NSBIBL invested the fund rouse from more successfully to earn the interest rather paying the interest for the debt?
- As revealed by higher interest earned to total asset ratio in NSBIBL, NSBIBL seemed to be in better position for income generation. The ratio fluctuated minimum in NSBIBL as shown by less CV.
- Staff expenses to total income ratio remained significantly lower in NSBIBL. It indicates that NSBIBL carried out its operation more efficiently with lesser expenses on staff. On the other hand EBL spent more for staff so as to motivate them. The ratio varied considerably in EBL.
- NSBIBL was found to perform its day today operation more efficiently as revealed by lower office operation expenses to total income ratio in NSBIBL the EBL. Almost half of the total income was spent for office operation in EBL. The ratio showed greater variation in EBL.
- Greater EPS in NSBIBL shows that earning on per share basis is much higher in NSBIBL than in EBL. EPS greatly varied in the latter.
- NSBIBL seemed more successful to win the confidence of investors as depicted by higher DPS. DPS remained more consistent in NSBIBL than in EBL.
- Tax per share is considerably higher in NSBIBL and hence the shareholders of NSBIBL have contributed more for the welfare of the nation. It has greatly fluctuated in EBL.
- NSBIBL distributed greater portion of its earnings to share holders as depicted by higher DPR. EBL distributed dividend only in the year 2006/07.
- Income analysis shows that interest income remained dominant in both of the banks. More than three-fourth of the income was occupied by interest. Commission and discount occupied second major portion of the income in NSBIBL whereas other income occupied this portion in EBL. In both of the banks, interest expenses remained dominant and then overhead expenses.

- Total deposit and net profit, performing assets and net profit, net worth and net profit, total deposit and investment, total deposit and loans and advances and DPS and EPS seemed positively correlated at significant level in EBL throughout the study period.
- Total deposit and loans and advances were found positively correlated at significant level in NSBIBL but poor degree of correlation existed between following variable in the bank total deposit and net profit. Pert run assets and net profit, total deposits and investment.
- There did not appear significant relation between net worth and net profit and DPR and MVPS in NSBIBL. Correlation between EPS and MVPS was found significantly negative in the bank. But it is illogical and unreliable. Such a relation might have appeared because of merely mechanical interpretation. In practice, these two variables are related positively.
- Total deposit loan and advances, investment, net worth, net profit, EPS and MVPS showed the increasing trend in both of the banks over the study period.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Joint venture banks have played significant role in the economic development of country. They have introduced new technology in the banking system mobilized the saving of community. They have focused their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the bank. Therefore the study has been conducted to evaluate the performance of joint venture banks especially, that of Nepal SBI Bank and Everest Bank in order to find out their strengths and weakness. Null hypothesis for the purpose of study is "there is no significant difference between the financial performance of Nepal SBI and Everest Bank.

- Hence, NSBIBL follows this strategy can yield fair return to shareholders. Debt servicing capacity of EBL appears poor. Capital adequacy position of EBL appears stronger than that of NSBIBL. NSBIBL is found more successful to utilize its deposit in profitable sector.
- Turnover of deposits, debt and assets in performing assets seems better in NSBIBL. On analyzing the assets owned by the banks. EBL is found superior because assets possessed by EBL are less risky than that of NSBIBL.
- In NSBIBL, earning compared to the total deposit accumulated could not grow proportionately. Therefore, NSBIBL is suggested to invest in other current assets rather than in the low yielding Treasury bill on which interest has significantly declined at present. If the liquidity position does not appear weaker, it will be better for the bank to increase the investment in long- term loans after analyzing risk.

5.2 Conclusions

To avoid the chances of duplication in the study and confirm whether the study is in accordance with the principles and doctrines, supportive text and the previous dissertation have been reviewed. For analyzing the financial data of the sampled banks the financial tools- ratio analysis, income and expenditure analysis and the statically tool-mean, CV correlation, least square liner trend analysis have been used. From the analysis and interpretation of the data, the investor arrives at following conclusion. Liquidity position of both of the banks seems satisfactory. Overall liquidity position of EBL appears slightly stronger that of NSBIBL. It shows that EBL can meet its current liabilities more efficiently that NSBIBL. However, looking up more funds in form of current assets in also not wise because it has negative impact on profitability. Both of the banks have used higher proportion of debt in their capital structure. Overall capital structure of NSBIBL appears more levered that of EBL.

- Income and expenses is how rising trend in both of th4e banks. Interest seems to occupy major part of the both income and expenses. Comparatively, interest remained more dominant in the total income and expenses of NSBIBL than that of EBL.
- Correlation analysis reveals that the coefficient of correlation between total deposit and net profit; performing assets and net profit; net worth and net profit, total deposit and investment; total deposits and loans and advances remained highly significant in EBL.
- It signifies that EBL is successful to utilize its resources more efficiently than NSBIBI as strong positive relation did not appeal between above stated components in NSBIBL. DPS and DPR do not seem to render strong effect on MVPS of NSBIBL but they have affected the MVPS of EBL to some extent.
- Therefore, estimated amount of the above variable for coming five years will be higher in NSBIBI. But the growth late of net profit seems faster in EBI,

which made net profit of EBL will exceed than that of NSBIBL after three years if the past trend continues, the higher growth rate of EPS and MVPS will make MVPS of EBL exceed than that of NSBIBL after three years.

5.3 Recommendations

On the basis of major findings some important suggestions have been forwarded so that they will help the sampled banks to strengthen weaker aspects of financial activities. Both of the banks have maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by NRB. The fund tied up in NRB balance cannot yield good return. So, both of the banks are suggested to lower this ratio and invest the surplus fund in other current assets such as loans and advances, bills purchase and discount, money at call and short notice.

- It is suggestive that these banks should hold the fund in form of cash or cash equivalent items only to the extent of requirement. Though it is difficult to know the exactly suitable liquidity ratio, estimation can be done on the basis of past experience, nature of depositors, situation of financial market and nature of competition.
- The banks have employed considerably greater portion of debt in their capital therefore, they should be aware of the possible risk that may arise due to slackness in the business activities. In this regard, NSBIBL should adopt more precaution so as to check the risk factors.
- Debt servicing capacity of EBL appears poor. So, it is better to search for the profitable sectors for investment and utilization of the deposits collected.
- Turnover of the fund raised form the outsiders appears less satisfactory in EBL. So, EBL has a challenge to allocate the deposit in income generating sectors. It will be better for both of the banks, especially for EBL to open the branches in other cities and rural areas in order to find the profitable opportunities.

- The quality of assets owned by NSBIBL seems poorer in comparison to EBL. Therefore, NSBIBL is suggested to advance the loans only after the proper analysis of customers.
- Greater portion of the income has been spent for staff and office operation in EBL. Through the use of capacity building programmers, seminars, conference, training etc. staffs can be made more efficient. It is also suggested to minimize the office operation expenses by searching the loopholes.
- In NSBIBL, earning, compared to the total deposit accumulated could not grow proportionately. Therefore, NSBIBL is suggested to invest in other current assets rather than in the low yielding Treasury bill on which interest has significantly declined at present. If the liquidity position does not appear weaker, it will be better for the bank to increase the investment in long-term loans after analyzing risk.
- Both of the banks are suggested to review their investment ponies to see if there is any better mix than the present one.
- Although, profit needs to be earned for survival and growth of any institution, it should not be the one and only one goal. The country has expected services from the financial sectors in such a way that it encompasses the balanced development. Economic level of the country can be raised only when the level of the people depending upon the agriculture increases. So the banks are suggested to diversify their loans in priority and deprived sectors as per the directive of NRB.

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