

**COMPARATIVE SWOT ANALYSIS OF NEPALESE JOINT
VENTURE COMMERCIAL BANKS**
**(With Reference to NABIL Bank Ltd., Everest Bank Ltd. NSBL Bank Ltd. and
Himalayan Bank Ltd.)**

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CHAPTER I

INTRODUCTION

1.1 General Background

A bank is a financial institution, which deals with the monetary activities by accepting various types of deposits, lending to the various parties against securities and performing agency service to its clients/customers. The term 'Bank' is said to be derived from the Latin word 'bancus' which refers to the bench on which the banker would keep the money and his records. Some persons trace its origin to the French word 'Banque' and the Italian word 'Banca' which means a bench for keeping, lending and exchanging of money or coins in the market place by money lenders and money changers. The concept of banking has been developed from the ancient history with the effort of ancient goldsmith who developed the practice of storing people's gold and valuables. The history reveals that it was the merchant banker who first evolved the system of banking by trading in commodities than money. Then they issued different documents as the near substitutes of money, called drafts or hands in modern days. Finance is the life blood of trade, commerce and industry. Nowadays, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system.

As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the bank of Venice, founded in 1157 A. D. Broadly speaking, a bank draws surplus idle money in the hand of public in the form of deposits and supplies that money in the form of loans to those who are in a position to utilize the same for some productive uses. Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deal in the process of channeling the available resources in the needed sectors. It is the intermediary between the deficit and surplus of financial resources. All the economic activities are directly or indirectly channeled through these banks. People keep their surplus money as deposits in the banks and hence banks can provide such funds to finance the industrial activities in the form of loans and advances.

In our country, the development of banking is relatively recent. However, some crude banking operations were in practice even in the ancient times. In Nepalese chronicle, it was

recorded that the new era known as Nepal Sambat was introduced by Sankhadhar, a Sudra merchant of Kantipur in 879 A. D or 880 A.D. after having paid all the outstanding debts in the country. The establishment of the 'Tejarath Adda' during the year 1877 A.D. was fully subscribed by the government of Kathmandu Valley, which played a vital role in the banking system. Hence, the establishment of 'Tejarath Adda' was running smoothly for the following decades.

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

A Joint Venture is an association of two or more persons or parties, having mutual advantages in a specific operation, and is undertaken to make the operation highly remunerative with their collective efforts. Joint Venture Banks are partnering having alliance Banks with more than one nation. Joint Venture Banks (JVBs) are financial intermediaries, financing deficit units with money deposited to them by surplus units. The financial system of a banking industry in precise is a complex network embracing payments mechanisms and the borrowing and lending of funds. Though they have other important functions, the key role played by these banks in the system is to act as financial intermediaries channeling funds from those with income in excess of their needs to those wishing to borrow. To the greater extent, economic growth rate is based on the Banks and other financial institutions' performance in an economy. Many researchers have revealed that Banks and economic condition are two wheels of the same chariot. Now-a-days, Banking activities are spreading all over the world.

Following are the list of commercial licensed banks in Nepal .

Table No. 1.1
List of Licensed Commercial Banks

S.No.	Commercial Banks	Date (A.D.)	Head Office
1	Nepal Bank Ltd.	1937/11/15	Kathmandu
2	Rastriya Banijya Bank Ltd.	1966/01/23	"
3	Nabil Bank Ltd.	1984/07/12	"
4	Nepal Investment Bank Ltd.	1986/03/09	"
5	Standard Chartered Bank Nepal Ltd.	1987/02/28	"
6	Himalayan Bank Ltd.	1993/01/18	"
7	Nepal Bangladesh Bank Ltd.	1994/06/06	"
8	Nepal SBI Bank Ltd.	1993/07/07	"
9	Everest Bank Ltd.	1994/10/18	"
10	Bank of Kathmandu Ltd.	1995/03/12	"
11	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddhartha Nagar
12	Lumbini Bank Ltd.	1998/07/17	Narayangarh
13	NICASIA Bank Ltd.	1998/07/21	Biratnagar
14	Kumari Bank Ltd.	2001/04/03	Kathmandu
15	Machhapuchchhre Bank Ltd.	2000/10/03	Pokhara
16	Laxmi Bank Ltd.	2002/04/03	Birgunj
17	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
18	Agriculture Dev. Bank Ltd.	1968/01/21	Kathmandu
19	Global IME Bank Ltd.	2007/01/02	Birgunj
20	Citizens Bank International Ltd.	2007/04/20	Kathmandu
21	Prime Commercial Bank Ltd.	2007/09/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Grand Bank Nepal Ltd.	2008/05/25	Kathmandu
24	NMB Bank Ltd.	2008/06/02	Kathmandu
25	KIST Bank Ltd.	2009/05/07	Kathmandu
26	JANATA Bank Nepal Ltd.	2010/04/05	Kathmandu
27	Mega Bank Nepal Ltd.	2010/07/23	Kathmandu
28	Commerz & Trust Bank Ltd.	2010/09/20	Kathmandu
29	Civil Bank Ltd.	2010/11/26	Kathmandu

S.No.	Commercial Banks	Date (A.D.)	Head Office
30	Century commercial Bank Ltd.	2011/03/10	Kathmandu
31	Sanima Bank Ltd.	2012/02/15	Kathmandu

1.1.1 Joint Venture Banks

Joint Venture Banks are partnering having alliance Banks with more than one nation. Joint Venture Bank (JVBs) is financial intermediaries, financing deficit units with money deposited with them by surplus units. The financial system of a banking industry in precise is a complex network embracing payments mechanisms and the borrowing and lending of funds. Though they have other important functions, the key role played by these banks in the system is to act of their needs to those wishing to borrow. One of the pre-requisite for the economic development process is the existing of a sound and healthy financial system, with high level of operating efficiency. The operating efficiency is mainly tested by their ability to mobilize savings and its deployment for production purposes. After the onset of economic liberalization process, there has been visible expansion in the financial system of Nepal. In this connection, Nepalese economy has witnessed several changes in the financial systems as a result of which several JVBs evolved in the last decade.

The overall market is relatively small and existing financial institutions are competing among themselves for their share in it. Few years back, Nepalese owned banks dominated the entire financial market of the country. However, JVBs have been making inroads, starting with Nepal Arab Bank Limited in 1985, Nepal Indosuez Bank in early 1986, Nepal Grindlays Bank in 1987 and Himalayan Bank Limited in 1992. In recent years, several new banks, viz. Nepal Bangladesh Bank, Nepal SBI Bank and Everest Bank Limited have entered the market, and there are six foreign joint venture banks operating in Nepal. Joint Venture Banks were established to invite foreign investment and modern technologies to provide financial services to the target market in the kingdom of Nepal.

Government's policy of economic liberalization has opened its doors to private foreign investments in conjunction with Nepalese investors. This has intensified the competition, which has ultimately affected the profitability of the banks. Hence to become successful in the competition environment, all banks are moving ahead with to become the most preferred supplier of financial services to the target market and to become noted for their

professionalism of its management and staff; to gain their position as the leading bank in the provision of their financial performance and to be able to provide stable and consistent return to their shareholders. Therefore to meet the objectives of the JVBs, they are concentrating in their thrust areas, viz., Corporate Banking, Retail and Private Banking, Investment Banking, Credit Cards and Technology and at the same time they must maintain their asset quality by keeping intact the lending standards. The role and importance of Joint Venture Banking system is extremely enhanced in the prevailing Nepalese economy due to the indispensable functions played by them, as a result of which, they have managed to perform in a significant way by gaining their position as the leading banks. The management of these JVBs is mainly held by foreign banks, due to which they enjoy some of the competitive advantageous factors like electronic banking services, scientific credit evaluation, worldwide fund transfer systems, credit cards, tele-banking, automatic teller machines and fully computerized banking networks with highly skilled personnel, advanced management skills and international chain of branches. Hence they have been able to perform satisfactory through service excellence and customer satisfaction, thereby earning a stable and consistent return to their shareholders.

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

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

1.1.2 Swot Analysis

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

Simple rules for successful SWOT analysis are,

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

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

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

1.2 Statement of the Problem

The study analyzes not only the financial information of JVBs but also the cause of their **Strength** and **Weakness**. The **Opportunities** and **Threats** facing the Banking sector would be dealt and analyzed as well. This study will be of great importance to the parties concerned and hence the topic has been identified as the problem of the study. This study will cover all the financial aspects of the JVBs and will be highly instrumental in recognizing the potential areas of investment. Among Various problems liquidity Crunch, Capital requirement & Open Financial Market seem to be major in Nepalese Financial Sectors.

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

1.3 Objectives of the Study

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

- To analyze the financial strengths, weakness, opportunities & threats of these selected JVBs.
- To provide necessary suggestions and guidelines for improving the operations of financial sectors based on research findings.

1.4 Introduction of Sampled Organizations under Study

From the list of commercial banks mentioned on Table 1.1, we have chosen the four joint ventures banks Everest Bank Ltd., Nabil Bank Ltd., Nepal SBI Bank Ltd. and Himalayan Bank Ltd. for our study.

1.4.1 Everest Bank Limited (EBL)

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. It is a joint venture partner with Punjab National Bank (PNB), India. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U.K.

Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services. The bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London.

The bank was bestowed with the “NICCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector.

1.4.2 Nabil Bank Limited (NABIL)

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

1.4.3 Nepal SBI Bank Limited (NSBL)

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal through a Memorandum of Understanding signed on 17th July 1992. Nepal SBI Bank Ltd. is a subsidiary of State Bank of India which has 55 percent of ownership and rest is held by a local partner viz. Employee Provident Fund (15%) and general public (30%) . The Bank was established in July 1993 & is now having 538 Nepalese employees working in 56 branches, 6 extension counters, 3 Regional Offices & the Corporate Office. State Bank of India (SBI), with a 200 year history, is the largest commercial bank in India in terms of assets, deposits, profits, branches, customers and employees. The Government of India is the single largest shareholder of this Fortune 500 entity with 61.58% ownership. SBI is ranked 60th in the list of Top 1000 Banks in the world by “The Banker” in July 2012.

1.4.4 Himalayan Bank Limited (HBL)

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Habib Bank Limited, one of the largest commercial banks of Pakistan. Banks operations were commenced form January 1993. It is the first commercial bank of Nepal with maximum shareholding by Nepalese Private Sector. Besides commercial

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

1.5 Significance of the Study

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

An analytical comparative financial analysis of four JVBs namely NABIL (Nepal Arab Bank Limited), Himalayan Bank Limited, Everest Bank Limited and Nepal SBI Bank Limited will be of great importance for policy makers, academicians, professional bankers, shareholders, management, stock brokers, depositors, prospective customers, investors and the general public. I believe that this study will be valuable primarily to the students of Finance, because they can relate their theoretical knowledge of finance to the practical results derived from this study.

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

1.6 Limitation of the Study

Followings are the limitations of this study:

- ❖ Among the various JVBs, the study is focused only on four JVBs namely, NABIL, HBL, NSBL & EBL.
- ❖ This study covers the period of Last seven years only.
- ❖ The study is based on secondary data and the findings will be based on the information provided by the banks.

1.7 Organization of the Study

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

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

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

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

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

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

CHAPTER II

REVIEW OF LITERATURE

A literature review is an essential part of all studies. It is a process of reading, analyzing, evaluating, and summarizing scholarly materials about a specific topic. It is a way to discover what other researchers have covered and left in the area. A critical review of the literature helps the researcher to develop a thorough understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigation problems that have already been definitely answered. Thus a literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest¹. The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know.

- What research has been done in the subject?
- What is the specific thesis, problem, or research question that literature review helps to define?
- What are the approaches taken by the other researchers?
- What are the areas of agreement or disagreement?
- Whether there are gaps that can be filled through the proposed research?

The results of a literature review may be compiled in a report or they may serve as part of a research article, thesis, or grant proposal.

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

- i. Conceptual/Theoretical Review
- ii. Review of related studies
- iii. Research Gaps

¹ Wolff Howard K. and P.R. Pant (2005), '*Social Science Research and Thesis writing*', Buddha Academic publishing and distributors, Kathmandu, Nepal, p. 29

2.1 Conceptual / Theoretical Review

2.1.1 Review of Journals/Articles

Certain useful journals on domestic market, banking, financial statement analysis and monetary credit situation of Nepal are studied.

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

There has been substantial growth in the number of Joint Venture banks in Nepal since 1990s. The basic reason behind this is the government's deliberate policy of allowing foreign joint venture banks to operate in Nepal. Government's liberalization policy of allowing also encourages the traditionally run commercial banks to enhance their efficiency and competitiveness through modernization, mechanization, and computerization and prompt customer services by setting them to the exposure of the joint venture banks.²

An article written by Radha Krishna Poudel on 'Banking: Challenges Ahead' focuses in the potential areas where banks should invest to fight the prevailing economic recession. Currently, growth in the profitability of JVBs has been mainly due to external factors such as foreign exchange rate but not to the growth in the real sector of the economy. Therefore, to sustain the current financial position in the long run, banks should enter new areas by marketing their credit in important sub-sectors such as Hydro-electricity, tourism, irrigation etc.

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

² Shrestha Dr. Manohar K. (1990), '**Commercial Banks, Comparative Performance Evaluation**', (Karmachari Sanchaya Kosh Publication), Kosh Year 16, p. 22

For our purpose, another useful article ‘Financial Statement Analysis’ published in Nepal Rastra Bank Samachar on 2053 by Narayan Pd. Poudel³ is reviewed.

According to Mr. Poudel, Balance sheet, profit & loss a/c and the accompanying notes are the most useful aspects of the Bank. We need to understand the major characteristics of bank’s balance sheet and profit & loss account. The bank’s balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans/advances and investment and paid on deposit liabilities are the major components of profit & loss a/c. The other sources of income are fee, commission, discount and service charges.

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

Table No. -2.1
Characteristics of Balance Sheet

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

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

³ Paudel Narayan Pd. (2053), ‘*Financial Statement Analysis: An approach to Evaluate Bank’s Performance*’, NRB Samachar (An annual Publication-2053), p. 13

Table No. -2.2
Profit & Loss Account

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

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

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

-) Financial adaptability (liquidity);
-) Financial performance (profitability); and
-) Financial position of the bank (solvency).

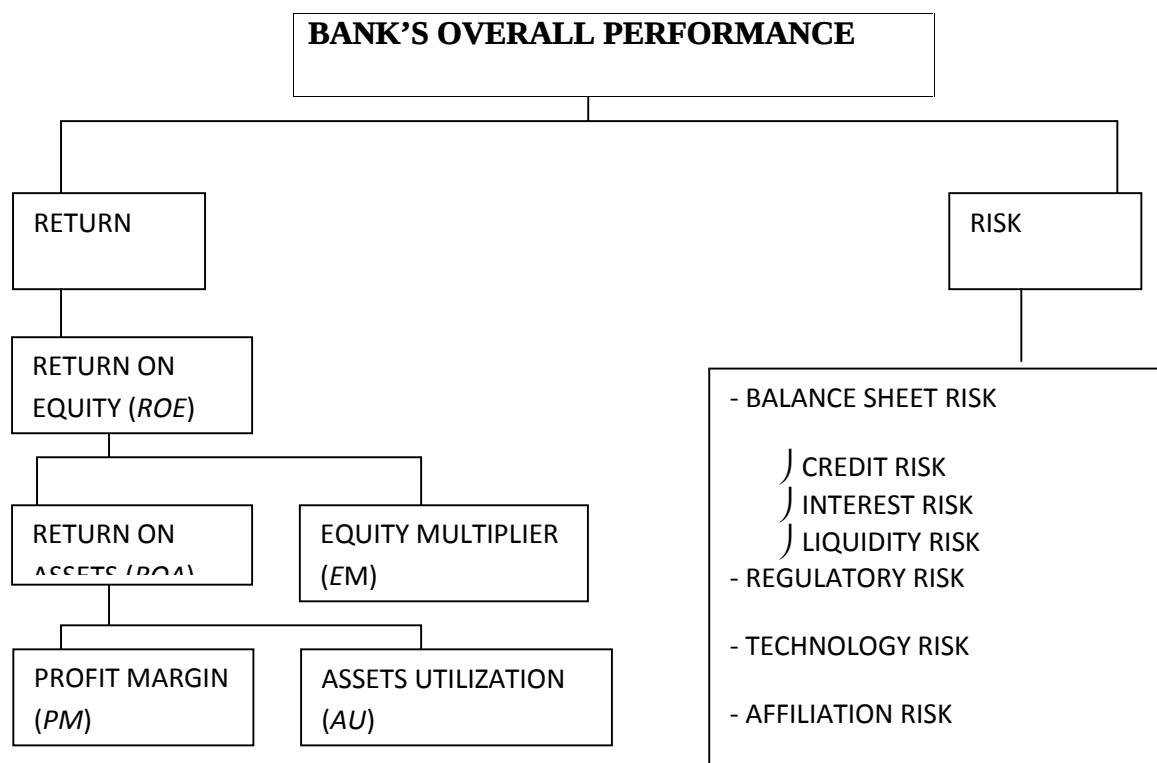
Most of the users of financial statements are interested in assessing the banks overall performance, i.e. profitability which is affected by the following factors:

1. The structure of balance sheet and profit & loss a/c.
2. Operating efficiency and internal management system.
3. Managerial decisions taken by the top management regarding interest rate, exchange rate, lending policies etc.
4. Environmental changes (technology, government, competition, economy)

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

Table No. -2.3

Bank's Overall Performance



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

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

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

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

$$AU = \text{TOTAL INCOME} / \text{AVERAGE ASSETS}$$

Dr. Manohar K. Shrestha, in his work ‘Commercial Banks’ Comparative Performance Evaluation’⁴ stresses on a proper risk management. He believes in the appropriate classification of loans under performing and non-performing category. In this context, he writes, “Adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear-out criterion is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income.” Regarding the risk management of the bank, Dr. Shrestha’s other suggestions include:

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

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

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

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

2.1.2 Concept of Financial Analysis

Financial Analysis involves the use of various financial statements. The first is the balance sheet, which represents a snapshot of the firms’ financial position at the movement in time and next is the income statement that depicts a summary of the firms’ profitability over time.⁵

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

In the words of Myers, “Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statement and a study of trends of these factors as shown in series of statement.”⁶

⁴ Shrestha Dr. Manohar K. (1990), ‘*Commercial Banks, Comparative Performance Evaluation*’, (Karmachari Sanchaya Kosh Publication), Kosh Year 16, p. 38

⁵ Van Horne J.C. & Wachowicz H.N. (1997), ‘*Fundamentals of Financial Management*’, Prentice Hall of India P. Ltd., p. 126

Financial Statement Analysis involves a comparison of a firm's performance with that of other firms in the same line of business, which is often, identified by the firm's industry classification.⁷

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

Objectives of Financial Analysis:

From the concept of financial performance analysis, it has been proved that one can explore various facts related to the past performance of business and predict out the future potentials for achieving expected results. Various parties are involved in the business directly or indirectly. Therefore, objective of analysis also differs from one party to other. However, major objectives of the analysis, in broad sense, can be stated as follows.⁸

Assessment of past performance & current position

Assessment of potential & related risks.

Assessment of past performance & current position

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

- Earning capacity or the profitability of the concern.

⁶ Myers J.C. (1961), '*Financial Statement Analysis*', Anglewood Cliffs, Prentice Hall of India Pvt. Ltd., p. 4

⁷ Weston J.F., Besley S. & Brigham E.F. (1996), '*Essentials of Managerial Finance*', Dryden Press, Hart court Brace College Publishers, p. 7-8

⁸ Needles B.E. (1989), '*Financial Accounting*', Houghton Mifflin Company, Boston, p. 78

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

Assessment of potential and related risk

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

- Possibility of development in near future through forecast & budget allocation.
- Financial stability of the business concern.
- Reforms needed in the present policies and procedures that will help reduce weaknesses and strengthen performance.

Major Steps in Financial Analysis:

The basis for financial analysis is financial information obtained from balance sheet and profit & loss a/c. The analysis of financial statements is completed in three major steps.⁹

- a) The first steps involve the reorganization and rearrangement of the entire financial data as contained in the financial statements. This calls for regrouping them into few principle elements according to their resemblance and affinities. Thus, the balance sheet and income statement are completely recast and presented in the condensed form entirely different from their original shape.

- b) The next step is the establishment of the significant relationship between the individual components of balance sheet and profit & loss a/c. This is done through the application of tools of financial analysis.
- c) Ultimately, significance of result obtained by means of financial tools is evaluated. This requires establishment of standard against which actual be compared.

Techniques of Financial Analysis:

To evaluate the financial condition and performance of a company, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio or index relating two pieces of financial data to each other. Analysis and interpretation of various financial data would give experienced and skilled analyst a better understanding of the financial condition and performance of the firm, than they will obtain from analysis of the financial data alone.¹⁰

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

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

a) Funds Flow Analysis

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

This statement is prepared to summarize the change in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due

¹⁰ Van Horne J.C. (1998), '*Financial Management and Policy*', Prentice Hall of India Pvt. Ltd, New Delhi, p. 691-692

to change in owners' equity. It is also aimed to depict the way in which the firm used its financial resources during the period.

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

However, the concept of fund as working capital has gained wide acceptance as source of fund while conducting funds flow analysis. Transaction that decreases working capital is treated as application. But any transaction that affects current liabilities or current assets without making any change in working capital is not taken as source or use.

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

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

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

b) Cash Flow Analysis

This statement is prepared to clearly know the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital. It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit dates are recognized as the source of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose is regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

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

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

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

c) Trend Analysis

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

Trend analysis reveals whether the current financial position of the company has improved over the past years or not. It shows which of the items have moved in a favorable direction

and which of them in unfavorable direction. Though it is the important tool of analysis, it too is bound by limitations. They are:

- Trend for a single balance sheet or income statement is seldom very informative.
- It does not give accurate result if accounting principles followed by the accountants is not consistent over the period of study.
- Price level change adversely affects the comparison.
- Selected base year for some of the items in the statements may not be typical.

d) Ratio Analysis

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

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

Comparison of present ratio with past or expected future ratios.

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

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

Liquidity ratio measures the ability of the firm to meet its current obligations. Leverage ratio evaluates the long-term financial position of the firm. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. Finally, profitability ratios are calculated to measure the operating efficiency of the company. Though

ratio analysis is powerful technique of financial analysis, it should be used with extreme care and considered judgment because it suffers from certain drawbacks. The drawbacks of the ratio analysis are listed below:

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

2.2 Review of Related Studies

2.2.1 Review of policy documents

Central Bank is an important financial institution in every sovereign independent state in modern times. It is the apex body of Banking System. Of the various banks, most or the supreme bank is the central Bank. The central bank plays an important role in the economic development of a country. This bank is established to develop banking through strategy on its own to issue the notes, to control the credit, to act as the bank of banks, in each country. Central Bank is the lender of the last resort. Having felt the need of development of banking sector and to help the government formulate monetary policies, Nepal Rastra Bank (NRB)-central Bank, was set up in 2013/1/14. Since then, it has been functioning as the government's bank and has contributed to the growth of financial sector. Commercial banks, including JVBs, established under the company Act 2021 may perform various functions aimed at ensuring the economic interests and convenience of the public, facilitating the supply of credit to agriculture, industry and commerce by making available the banking and financial services to the people as mentioned in the preamble of the 2031 Commercial Bank Act, and subject to Nepal Rastra Bank Act 2012, Foreign Exchange Regulation Act 2019 along with the current Nepalese law.

NRB regulatory issues for operation of JVBs

1. Banks are required to open two 'rural' branch for every 'urban' branch opened. The definition of 'rural' includes some very small communities. Essentially, this forces banks to operate in areas with limited profit potential.
2. Banks are required to lend certain percentage of their loan to 'Priority Sector' and 'Deprived Sector'. This is supposed to encourage the development of small business and rural industries. The investment in the rural branches can be counted towards the deprived sector target. Significant penalties are charged for failure to meet these targets.
3. The Nepal Rastra Bank is committed to reduce the number of expatriates in joint venture banks in order to create opportunities for local staffs.
4. The Nepalese Rupee is not freely convertible and the central bank must approve the repatriation of hard currency including dividends and the Technical service fees to be reimbursed to foreign holding companies.
5. While the JVBs are free to set their own interest rates on loans/deposits, they are required to publish a schedule of rates for various types of loan/deposits. There is no prime rate or base rate in Nepal at any bank.
6. The government has been actively encouraging the development of the banks. At present, there are 31 Commercial Banks. The increased number in these banks will lead to increased pressure on interest margins and deteriorating loan quality. Ultimately, there will have to be some attrition in the financial services industry.

Company Act 2021- (Amended to Company Act, 2053)

Commercial Banks including JVBs in Nepal can be established only as a company with limited liability under the 2021 Company Act on the recommendation of Nepal Rastra Bank. The provisions mentioned in the Act strictly regulate the commercial banks in all the aspects, starting from the incorporation to the winding up of the bank.

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

▪ Establishment of Bank

1. A Bank shall be established under the Company Act with the recommendation of the NRB. For obtaining such recommendation, an application shall be filed, along with the

particulars prescribed by the NRB. Only in case the Rastra Bank so recommends shall such bank be registered according to the Company Act for working under this Act.

2. The NRB may prescribe necessary conditions while recommending the establishment of a bank under sub-section (1), and it shall be the duty of the concerned bank to fulfill the conditions so prescribed.
3. The bank may determine the location of its head office with the approval of the NRB.
4. The banks shall be an autonomous corporate body with the perpetual succession. It may sue or be sued in its own name.
5. Subject to this Act and other current Nepal Law, the bank may acquire, use, and sell movable and immovable properties.
6. Any bank may open or shift the location of, or close branches depots or other offices with the approval of the NRB.

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

1. In case any foreign commercial bank desires to open a branch, representative office or liaison office in the Kingdom of Nepal, it may register such branch under the Company Act with the approval of NRB, and provisions of this Act shall apply to such foreign bank.
2. The NRB shall obtain the consent of Nepal Government before granting such approval under sub section 1.
3. While granting approval under sub section (1), the NRB may prescribe conditions according to the need, and the foreign bank shall comply with the conditions thus prescribed by the NRB.

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

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

2.2.2 Review of Thesis

In the process of reviewing the important and relevant materials for this study, some of the financial studies of JVBs conducted by the students of MBA/ MBS are reviewed. References of these studies have been very useful to complete this dissertation and it is believed that these studies have contributed significantly towards identifying the **Strength** and **Weakness** of the concerned JVBs.

The study conducted by Mr. Vikram Chandra Gurung entitled “A financial Study of Joint venture bank in Nepal- with reference to Nepal Grindlays Bank limited and Nepal Indosuez Bank Ltd.” concludes that the liquidity position of NGBL is unsatisfactory which is below the standard and that can not meet the liabilities obligation. According To Mr. Gurung, Activity ratios of both the banks show that they are efficient in utilization of their total assets. Profitability trend is increasing but yet to be satisfactory. The bank has been maintaining sound capital adequacy ratio as directed by the central bank (NRB)¹¹

Mr. K.R. Joshi in his thesis “A study on financial performance of commercial banks” has concluded that the liquidity position of local commercial banks have been found relatively highly leveraged as compared to other joint venture banks. Loans and Advances have been the main form of the investment. Two thirds of the assets have been used for earning purpose. Profitability position of NABIL is stronger than that of other commercial banks.¹²

Another study entitled “A comparative financial statement analysis of HBL & NGBL” by Mr. Rajendra Lamshal has concluded that liquidity ratios of both the banks are fluctuating and are unsatisfactory. So the banks are suggested to keep the reasonable amount of liquidity in order to maintain their short-term solvency position. The capital adequacy position of HBL is not satisfactory. HBL is suggested to involve in social activities. Both the banks are advised to open their branches in the remote areas and offer cheaper banking services affordable to the general public.¹³

The study conducted by P. Dhungana entitled “A study of the Joint Venture Banks’ Profitability” has revealed that interest income of NIBL was highest. NABIL’s other

¹¹ Gurung Vikram Chandra (1995), ‘*A Financial Study of Joint Venture Banks in Nepal-A comparative study of Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd.*’, An unpublished Masters Degree Dissertation, T.U., p. 115

¹² Joshi K.R. (1998), ‘*A study on Financial Pattern of Nepalese Commercial Banks-An unpublished Masters Degree Thesis*’, T.U., p. 98

¹³ Lamshal Rajendra (1999), ‘*A comparative financial statement analysis of Himalayan Bank Ltd. and Nepal Grindlays Bank Ltd.*’ –An unpublished Masters Degree Dissertation, T.U., p. 118

operating income appeared higher than that compared to other commercial banks. NGBL has the highest EPS.¹⁴

Mr. Bohora¹⁵ has conducted a research on “Comparative study of the financial performance of NABIL & NIBL”. The basic objectives of his study were to highlight the financial performance and role of JVBs in the liberalized Nepalese economy. His attempts of analyzing financial performance were concentrated in ‘Ratio Analysis’ and he derived the strength and weakness of two major JVBs by calculating important ratios. He had come out with some valuable suggestions to the JVBs which are outlined below:

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

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

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

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

Mr. Shakya¹⁶, in his study has introduced the hypothesis test in the process of evaluating the financial performance of the JVBs. He had set the null hypothesis as ‘There is no significant difference in the mean values of each selected ratio of NABIL and NGBL’. By establishing the relationships between various Balance Sheet and Profit & Loss a/c figures, and calculating the correlation between them, he was successful in deriving a true financial position of the two JVBs. After analyzing various ratios, Mr. Shakya’s main finding was that ‘There is a significant difference between mean values of the selected ratios of NABIL and NGBL except in the cases of Fixed Deposits to Total Deposits Ratio, Loans & Advances to Total Deposits Ratio and Loans & Advances to Total Assets Ratio.”

After testing the correlation between mean values and analyzing the various ratios, Mr. Shakya has come out with various recommendations which are summarized below:

¹⁴ Dhungana P. (1992), ‘A Study of Joint Venture Banks Profitability’, Unpublished Masters Degree Dissertation, T.U., p. 125

¹⁵ Bohora Bhoj Raj (1992), ‘A comparative study of the financial performance of NABIL and NIBL’, Unpublished Masters Degree Thesis, T.U., Kirtipur, p. 116

¹⁶ Shakya Dinesh Raj (1998), ‘Financial Analysis of JVBs in Nepal; with the Reference to NABIL and NGBL’ - Unpublished Masters Degree Thesis, T.U., Kirtipur, p. 109-110

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

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

2.3 Research Gaps

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

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

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is a systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps (along with a rationale of each step) to be adopted by a researcher in studying a problem with certain objectives in view.¹⁷ Thus the overall approach to the research is presented in this chapter. This chapter consists of research design, sample size and selection process, data collection procedure and data processing techniques and tools.

3.1 Research Design

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

¹⁷ Kothari, C.R., (1994), "*Research Methodology, Methods and Techniques*", Vikash Publication House Pvt. Ltd, New Delhi, p. 9

3.2 Population and Sample

The term “population” or universe for research means the universe of research study in which the research is based.¹⁸ Since the research topic is about Comparative SWOT Analysis of Nepalese Commercial JVBs, all the Commercial Banks in Nepal are the member of population study. The population for the study basically comprises 31 commercial banks. Out of these, four JVBs, namely NABIL, EBL, HBL and NSBL are selected as sample for the purpose of this study. The coherent reason for selecting these JVBs is that they account for the significant market share of the Banking Sector. The recommendations and suggestions derived from this study will be equally useful to the other JVBs operating in Nepal.

3.3 Sources of Data

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

- Annual Reports of Nepal Arab Bank Limited (NABIL)
- Annual Reports of Himalayan Bank Limited (HBL)
- Annual Reports of Everest Bank Limited (EBL)
- Annual Reports of Nepal SBI Bank Limited (NSBL)
- Previous related research .
- Books, Magazines, Newspapers and Journals.
- Internet and Other sources.

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

¹⁸ Wolf, Howard K. & Pant, P.R. (2000), “*Social Science Research & Thesis Writing*” second edition, Buddha Academic Enterprises Pvt. Ltd, Kathmandu, p. 75

3.4 Data Collection Techniques

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

3.5 Data Analysis Tools

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

➤ **Financial Tools:**

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

➤ **Statistical Tools:**

In order to analyze the future trends of financial results of JVBs, Trend Analysis can be used as a part of statistical tools .

3.5.1 Financial Tools

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

A ratio is a number expressed in terms of other number and it expresses quantitative relation between any two variable.¹⁹

¹⁹ C.R. Kothari, "*Quantitative Techniques*", Vikash Publishing House Pvt. Ltd. New Delhi, p-187

Moreover, it is used as a technique to quantify the relationship between two sets of financial data taken from either profit & loss a/c or balance sheet. It provides information relating to Strengths & Weaknesses of financial data in relation to others.²⁰

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

3.5.1.1 Profitability Ratios

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

a) Return on Total Assets

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

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

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

The higher 'Return on Assets' ratio reflects the efficiency of the bank in utilizing its overall resources. A higher ratio also indicates the lower volume of non-performing assets employed by the bank. Non performing assets are very harmful for the bank, so they should try to reduce their proportion in the assets structure.

b) Return on Total Deposits

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

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

²⁰ Lawrence, J. Uithan, "*Principal of Managerial Finance*," San Diego University, Harper anoing Publishers, 1988, p-275

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

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

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

c) Return on Net Worth

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

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

One of the many objectives of any firm is its shareholders' wealth maximization. Shareholders wealth can be maximized by earning an adequate return on the shareholder's fund. Return on Net worth ratio expresses the capacity of the banks to utilize its owner's fund. This ratio is important as it judges whether the firm has earned a satisfactory return for its equity-holders or not. It reveals how well the firm has deployed the resources of the owners to earn profit. So, higher the ratio, the more favorable it is for the stockholders which represents the sound management and efficient mobilization of the owners' equity.

d) Interest Earned on Total Assets

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

$$\text{Interest earned on Total Assets} = \frac{\text{Interest Income}}{\text{Total Assets}} \times 100$$

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

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

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

e) Return on Risk Assets

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

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

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

3.5.1.2 Liquidity Ratios

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

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

should be fully backed by its current assets to build good credit image and gain creditor's confidence.

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

a) Current Ratio

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

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100$$

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

The current ratio is a measure of the bank's short term solvency. It indicates the availability of current assets (in percentage) to the current liabilities. A ratio greater than 100% means that the bank has more current assets than its current claims. As a conventional rule, a current ratio of 200% or more is considered satisfactory. The rule is based on the worst case scenario, even if the value of current assets becomes half, the bank will be able to meet its obligations. However, an arbitrary Current Ratio standard of 2:1 should not be blindly followed, because it only measures the quantity but not the quality of assets.

b) Cash & Bank Balance to Deposits Ratio

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

$$\text{Cash \& Bank Balance to Deposits Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposits (excl. FDs)}} \times 100$$

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

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

3.5.1.3 Activity (Utilization) Ratios

The funds of creditors and owners of the bank, which are reflected under Liabilities side of the Balance Sheet, form the sources of Fund, whereas the loans and advances and investments, reflected under the Assets side of Balance Sheet are the Uses of Funds. These funds are invested by the banks in various assets to generate profit margins. The better the management of assets, the larger the amount of utilization of the available funds. Activity ratios are employed to evaluate the efficiency with which the bank manages and utilizes the funds.

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

a) Loans & Advances to Total Deposit (C/D) Ratio

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

$$\text{Loans \& Adv. to Total Deposit Ratio} = \frac{\text{Total Loans \& Advances}}{\text{Total Deposits}} \times 100$$

The core banking function is to mobilize the funds from the depositors to the borrowers. Banks make profit by lending or utilizing the deposited funds by charging a higher rate of interest to the borrowers than they pay to the depositors. Hence they are known to be efficient in utilizing the funds if they can advance a greater proportion of the deposited funds into Risk Assets. Loans & Advances to Total Deposit or Total Credit to Total Deposit ratio measures the extent to which the banks are successful to mobilize the outsider's fund, i.e., total deposits in loans and advances for the purpose of profit generation.

b) Performing Assets to Total Assets Ratio

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

$$\text{Performing Assets to Total Assets Ratio} = \frac{\text{Performing Assets}}{\text{Total Assets}} \times 100$$

Performing Assets include those assets which have been invested in loans & advances, bills purchased and discounted investments and money at call. Higher ratio indicates the higher utilization of resources in relation to the total assets and yields a higher return for the banks. Non-performing Assets are very harmful for the banks, so they should try to reduce their proportion in the asset structure.

c) Performing Assets to Total Debt Ratio

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

$$\text{Performing Assets to Total Debt Ratio} = \frac{\text{Performing Assets}}{\text{Total Debts}} \times 100$$

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

d) Investments to Total Deposits Ratio

The ratio is calculated by dividing Investments by total deposits.

$$\text{Investments to Total Deposits Ratio} = \frac{\text{Investments}}{\text{Total Deposits}} \times 100$$

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

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

3.5.1.4 Leverage Ratios

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

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

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

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

a) Total Debts to Total Assets Ratio

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

$$\text{Total Debts to Total Assets Ratio} = \frac{\text{Total Outsider's Fund}}{\text{Total Assets}} \times 100$$

The ratio signifies the extent of debt financing on total assets and measures the financial security to the outsiders. Despite of higher risk, owners of the bank prefer a high debt ratio because it magnifies their earnings on the one hand and enables them to maintain their

concentrated control over the bank on the other. The creditors, however, prefer a low debt ratio as it provides a sufficient cushion against losses in the event of liquidation.

b) Long Term Debts to Total Assets Ratio

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

$$\text{Long Term Debts to Total Assets Ratio} = \frac{\text{Total Fixed Deposits}}{\text{Total Assets}} \times 100$$

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

c) Total Debts to Net Worth (Shareholder's Fund) Ratio

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

$$\text{Total Debts to Net worth Ratio} = \frac{\text{Total Debts}}{\text{Total Shareholder's Fund}} \times 100$$

Bank's total fund, which is invested in various income generating assets, consist of debts as well as shareholder's fund. Debts for the banks usually include deposits and borrowings from the customers whereas shareholder's fund includes equity capital and reserves. Debtors and owners of the bank expect return for investing their funds. Debts to net worth ratio measures the relative claims of outsiders and owners over the bank's assets, indicating the extent of debt financing in the bank compared to net worth financing. In other words, the debt to equity ratio indicates the relative contribution of debt and equity fund to the total investment.

A very low debt to net worth ratio is disadvantageous from the owner's point of view, especially in the situation where the bank is earning a higher return on capital employed. Since with the increase in debt, bank can enhance its return on total fund, 'trading on equity' policy is very much favored in this kind of situation. However, a very high debt to net worth ratio is also unfavorable, because debts are considered to be more risky than equity funds in the sense that the bank has a compulsory obligation to pay interest to the debt holders,

irrespective of the profit made or losses incurred. Therefore, an appropriate mix of debt and owner's fund is desired by the banks.

d) Long Term Debts to Net Worth (Shareholder's Fund) Ratio

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

$$\text{Long Term Debts to Net worth Ratio} = \frac{\text{Total Fixed Deposits}}{\text{Total Shareholder's Fund}} \times 100$$

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

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

e) Net Fixed Assets to Net Worth (Shareholder's Fund) Ratio

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

$$\text{Net Fixed Assets to Net worth Ratio} = \frac{\text{Total Fixed Assets - Depreciation}}{\text{Total Shareholder's Fund}} \times 100$$

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

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

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

f) Capital Adequacy Ratio

(Capital Fund to Total Deposits)

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

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital Fund (Shareholder's Fund)}}{\text{Total Deposits}} \times 100$$

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

3.5.2 Statistical Tools

Quantitative or numerical information may be found almost everywhere in business, economics and many other areas. It is probably more common to refer to data in quantitative form as 'statistical data'. But not all numerical data is statistical. The large volume of numerical information gives rise to the need for systematic methods which can be used to organize, present, analyze and interpret the information effectively. Following are the statistical tools used for the analysis:

3.5.2.1 Arithmetic Mean (X)

An average is a single value selected from a group of values to represent them in the same way, which is supposed to stand for a whole group of which it is a part, as typical of all the values in the group (Waugh A.E.). Out of the various measures of the central tendency, arithmetic

mean is one of the useful tools applicable here. It is easy to calculate, understand and is based on all observations. Arithmetic mean of a given set of observations is their sum divided by the number of observations. In general, $X_1, X_2, X_3, \dots, X_n$ are the given n observations, then their arithmetic mean, usually denoted by $\bar{X}$, and is given by:

$$(X_1 + X_2 + X_3 + \dots + X_n)$$

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

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

Where,

$$\bar{X} = \text{Mean}$$

$$X = \text{Sum of all the Variable } X$$

$$n = \text{Variables involved}$$

3.5.2.2 Standard Deviation (σ)

Karl Pearson introduced the standard deviation concept in 1823. It is by far the most important & widely used measure of studying dispersion. Standard deviation is also known as root mean of the squared deviation for the reason that it is the square root of the mean of the squared deviation from the arithmetic mean. Standard deviation is denoted by the small Greek letter “ σ ” (read as sigma) or S.D. The standard deviation measures the absolute dispersion for variability of distribution; the greater the amount of dispersion or variability; the greater the standard deviation, for the greater will be the magnitude of the deviations of the value from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite.

$$S.D \text{ } \sigma = \sqrt{\frac{1}{n} \sum (X - \bar{X})^2}$$

Where,

$$S.D. = \sigma = \text{Standard Deviation}$$

$$\bar{X} = \text{Mean} = \frac{X}{n}$$

X = Variable X

n = Variables involved

3.5.2.3 Coefficient of Variance (C.V.)

It is the measurement of the relative dispersion developed by Karl Pearson. It is used to such problems where we want to compare the variability of two or more than two series. That series (or group) for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, the series for which coefficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous. Coefficient of Variance usually denoted by (C.V.) and the formula is:

$$\text{C.V.} = \frac{\delta}{\bar{X}}$$

Where,

C.V. = Coefficient of Variance

δ = Standard Deviation

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

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Comparative Analysis of Financial Statements:

As per table no. 4.1, 4.2, 4.3 and 4.4(AppendixB), the comparative financial results for FY 2006/07,showed that the profit before tax of NABIL was highest at NRS 9,57,588,000 due to lower interest expenses and higher investment.Similarly after NABIL,HBL has higher profit before tax of 717,404,000due to high investment .Return on net worth decreased for all four joint ventures,NABIL standing at 30.65%compared to22.91% ,22.25% and 22.10%HBL,EBL

and SBI respectively . The book value per share of NABIL is highest at Nrs 418 NRS 357, Nrs.296 and Nrs 178 of EBL, HBL AND SBI respectively.

At the end of FY 2007/2008, NABIL again dominated the banking business by generating highest profit before tax and after tax. This year, the profit before tax of NABIL was highest at NRS 1,186,769,000. The profit before tax of HBL,EBL and SBI were NRS 948,839,000 and NRS 818,174,358 and 410,789,221 respectively. And return on the net worth for JVBs stood at 28.72%,25.30%,22.50% and 17.64% for NABIL, HBL ,EBL and SBI respectively. The book value per share of NABIL continued to be highest at NRS 354 compared to NRS 248,Nrs 311 and NRS 161 of HBL,EBL and SBI respectively.

At the end of FY 2008/2009 , NABIL again dominated the banking business by generating highest profit before tax and after tax .This year the profit before tax of NABIL was Nrs 1,615,927,000 .The profit before tax of HBL, EBL and SBI were Nrs 1,066,606,000 and Nrs 1,066,035,206 and Nrs 482,711,719 respectively .Return on the net worth for JVBs stood at 32.35%, 27.94% ,24.13 % and 18.58 % for NABIL, EBL,HBL and SBI respectively . The book value per share of NABIL again is highest at Nrs 324 compared to Nrs 290, Nrs 257 and Nrs 195 of EBL ,HBL and SBI respectively.

At the end of FY 2009/2010 , NABIL has the highest profit before tax and after tax . This year the profit before tax of NABIL was Nrs 2,062,962,000 . The profit before tax of EBL , HBL and SBI were Nrs 1,349,100,814 and Nrs. 755,727,000 and 632,640,974 respectively . Return on net worth for JVBs stood at 34.97 % ,32.20% ,16.05% and 14.79% for NABIL,EBL,SBI and HBL respectively .The book value per share of EBL stood highest at Nrs 301 compared to Nrs. 265,Nrs.227 and Nrs. 148 of NABIL,HBL and SBI respectively .

At the end of FY 2010/2011 , NABIL has the highest profit before tax and after tax . This year the profit before tax of NABIL was Nrs 2,190,661,000 . The profit before tax of EBL , HBL and SBI were Nrs 1,516,697,382 and Nrs. 1,237,734,000 and 720,560,563 respectively . Return on net worth for JVBs stood at 30.66 % ,26.43% ,22.35% and 17.54% for EBL,NABIL,HBL and SBI respectively .The book value per share of EBL stood highest at Nrs 360 compared to Nrs. 225,Nrs.200 and Nrs. 154 of NABIL,HBL and SBI respectively .

At the end of FY 2011/2012 , NABIL has the highest profit before tax and after tax . This year the profit before tax of NABIL was Nrs 3,054,285,000 . The profit before tax of EBL , HBL and SBI were Nrs 1,790,392,288 and Nrs. 1,389,092,000 and Nrs. 751,656,565

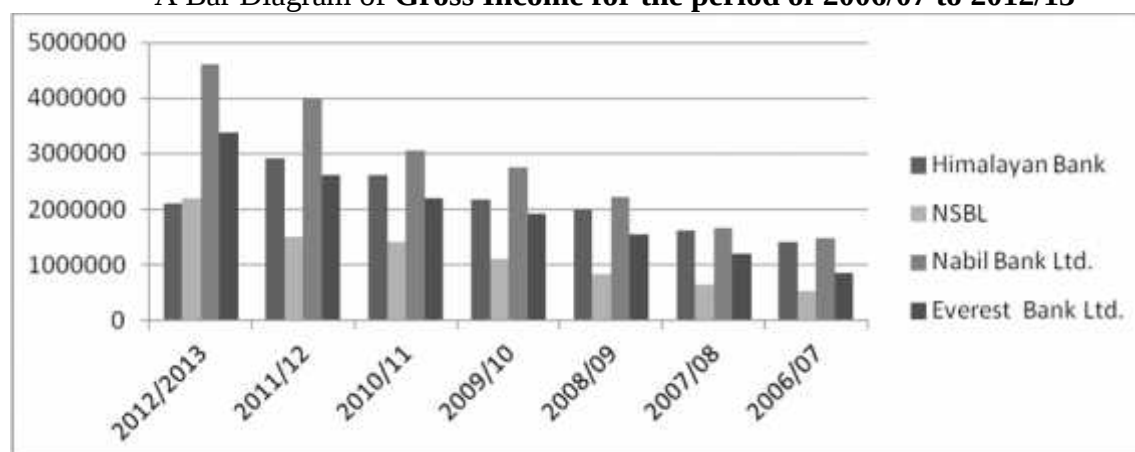
respectively . Return on net worth for JVBs stood at 30.14 % ,25.69 % ,20.69 % and 16.34 % for NABIL,EBL,HBL and SBI respectively .The book value per share of EBL stood highest at Nrs 307 compared to Nrs. 269,Nrs.193 and Nrs. 153 of NABIL,HBL and SBI respectively .At the end of FY 2012/2013 , NABIL again dominating the banking business by generating highest profit before tax and after tax . This year the profit before tax of NABIL was Nrs 3,492,404,000 . The profit before tax of EBL and SBI were Nrs. 2,401,556,106 and Nrs. 1,303,095,211 respectively . Return on net worth for JVBs stood at 32.70 % ,28.14 % and 21.98 % for NABIL,EBL and SBI respectively .The book value per share of EBL again stood highest at Nrs 343 compared to Nrs. 275 and Nrs. 162 of NABIL and SBI respectively .

The components of gross income, total cost and profit before tax for the review period 2006/07 to 2012/13 are shown comparatively in the following graph.

Table No. 4.5
Gross Income for the period of 2006/07 to 2012/13

	Rs. In '000						
Gross Income	2012/2013	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07
Himalayan Bank	2114678	2919218	2602600	2170341	1991858	1607196	1396855
NSBL	2196903	1496936	1405734	1106828	828666	638059	533511
Nabil Bank Ltd.	4607945	3985907	3046128	2764088	2220983	1670427	1485436
Everest Bank Ltd.	3372853	2609735	2192940	1927976	1544966	1209898	841332

Figure No.: 4.1
A Bar Diagram of Gross Income for the period of 2006/07 to 2012/13



Source: Respective Bank website

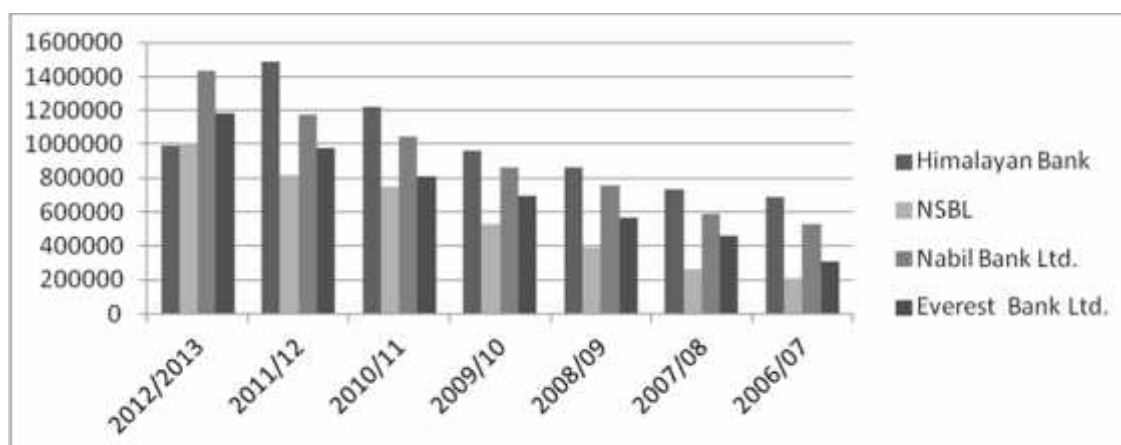
Studying the above bar diagram, we found that during the year 2006/07 and upto 2012/13 NABIL has got the highest gross income even at somewhat decreasing rate and remaining

three JVBs are not able to break this trend in any of the year . It shows that NABIL has got the strong strength .But SBI was getting lowest gross income. It shows the SBI's weakness.

Table No. 4.6
Total Cost for the period of 2006/07 to 2012/13

	Rs. In '000						
Total Cost	2012/2013	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07
Himalayan Bank	992619	1487574	1223575	961660	865959	731418	685526
NSBL	1004803	813945	750520	528023	390258	262073	207803
Nabil Bank Ltd.	1431797	1173261	1046410	863644	752923	592558	527848
Everest Bank Ltd.	1181396	975147	809344	697674	568062	457592	309135

Figure No.: 4.2
A Bar Diagram of Total Cost for the period of 2006/07 to 2012/13

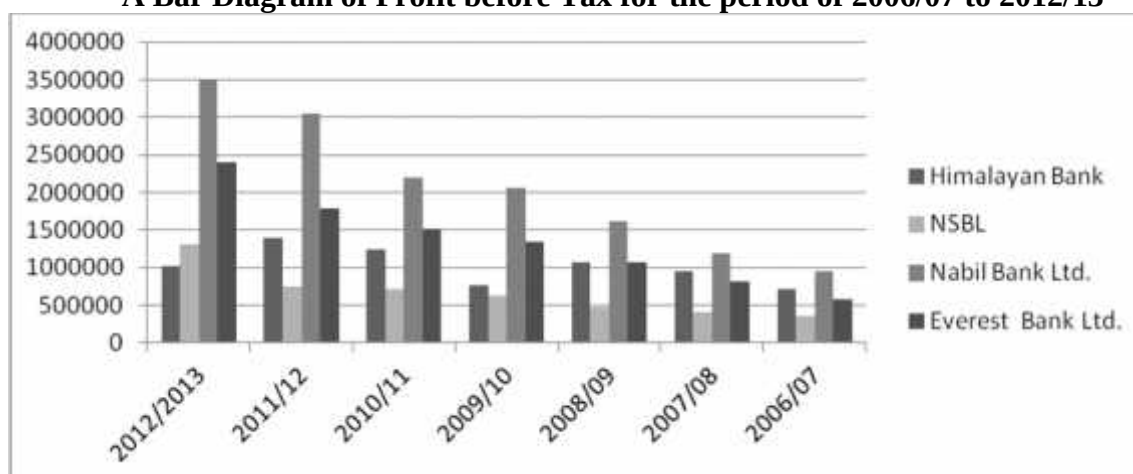


From the above bar diagram, we found that during all the year HBL has the highest total cost. Then total cost of HBL is highest and is in increasing trend. Due to highest cost its income is getting lower than other three banks. After HBL , NABIL has the highest total cost . Comparatively total cost of SBI seems to be lower than other three banks. Hence, in this case also HBL shows its weakness.

Table No. 4.7
Profit before Tax for the period of 2006/07 to 2012/13

	Rs. In '000						
Profit Before Tax	2012/2013	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07
Himalayan Bank	1019234	1389092	1237734	755727	1066606	948839	717404
NSBL	1303095	751657	720561	632641	482712	410789	360167
Nabil Bank Ltd.	3492404	3054285	2190661	2062962	1615927	1186769	957588
Everest Bank Ltd.	2401556	1790392	1516697	1349101	1066035	818174	577668

Figure No.: 4.3
A Bar Diagram of Profit before Tax for the period of 2006/07 to 2012/13



Studying above diagram, we found that the NABIL has the highest Profit before tax in all seven years and rest of the banks are not able to break up that trend and got the highest Profit before tax. It shows that NABIL has strong strength .Then EBL too has the strong strength in comparison to HBL & SBI .SBI bank was getting lowest income, because above graphs we can see that, its total cost was highest and increasing trend. And this year SBI got lowest Profit before tax with compare to NABIL,HBL & EBL. It shows SBI weakness.

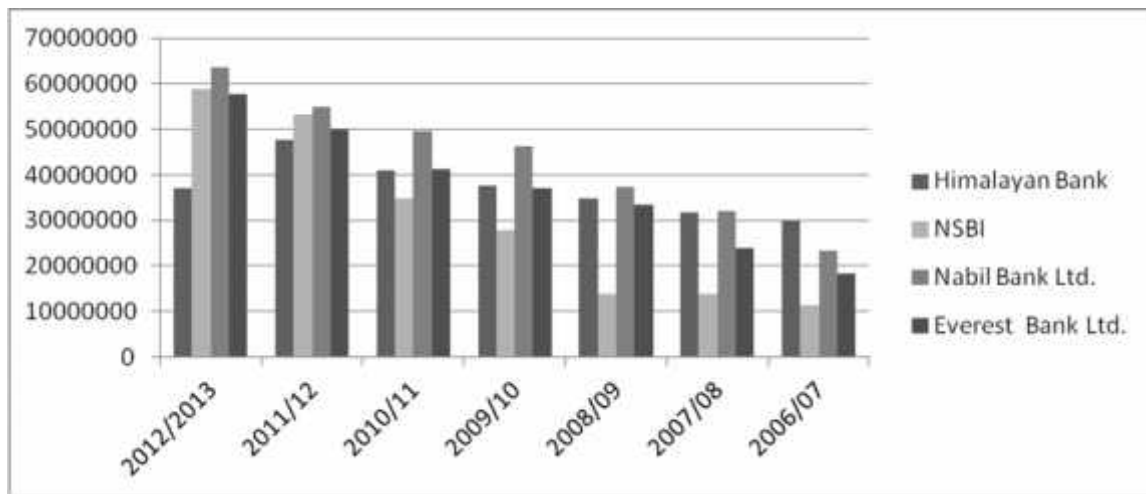
The comparative graphical presentation of total deposits, investments and loans and advances for the review period 2006/07 to 2012/13 has been shown below:

Table No. 4.8
Total Deposits for the period of 2006/07 to 2012/13

	Rs. In '000						
Deposit	2012/13	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07
Himalayan Bank	37139229	47730994	40920627	37611202	34681345	31842789	30048418
NSBL	58920456	53337264	34896424	27957221	13715395	13715395	11445286
Nabil Bank Ltd.	63609808	55023695	49696113	46410701	37348256	31915047	23342285
Everest Bank Ltd.	57720465	50006100	41127914	36932310	33322946	23976299	18186254

Figure No.: 4.4

A Bar Diagram of Total Deposits for the period of 2006/07 to 2012/13



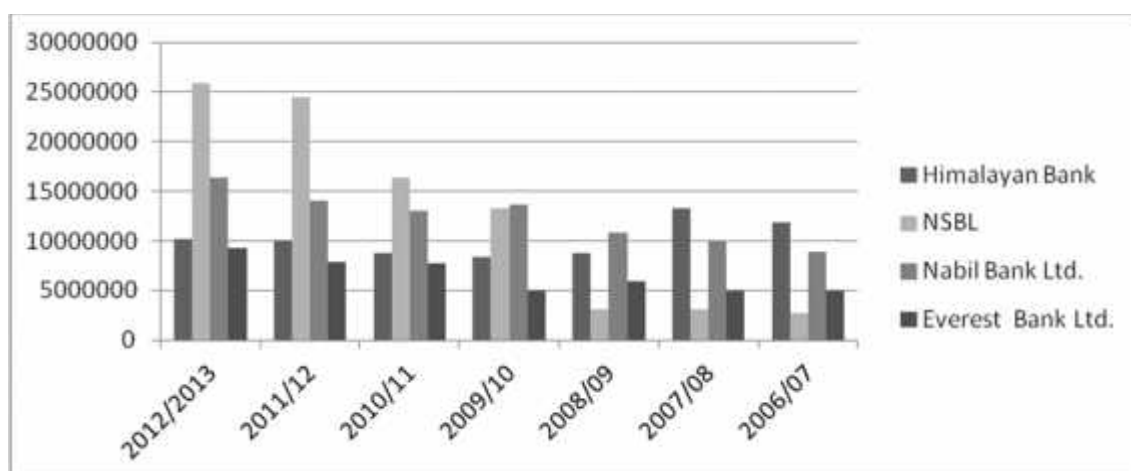
By studying the above figure, we found that HBL has the highest total deposit in the first year 2006/07 .But in next year NABIL broke up the trend and continued to increase during all the next six years . NABIL was able to increase its loans and advances volume also due to mobilization of highest deposit. In comparison to NABIL, EBL and HBL ,SBI have lower deposit. In the year 2007/08 to 2009/10 total customer deposit of HBL is higher than that of EBL & SBI ,but on 2010//11 EBL got slightly high deposit. Then SBI break up the trend after 2011/12 by having highest deposit in comparison to EBL & HBL . However, NABIL is able to collect highest deposit and mobilize that deposit by lending higher loans and advances to customers

Table No. 4.9
Investments for the period of 2006/07 to 2012/13

	Rs. In '000						
Investment	2012/2013	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07
Himalayan Bank	10186714	10031580	8769939	8444910	8710691	13340177	11822985
NSBL	25906120	24463452	16305633	13286182	3088887	3088887	2659453
Nabil Bank Ltd.	16332043	14048966	13081206	13703024	10826379	9939771	8945311

Everest Bank Ltd.	9263858	7863627	7743928	5008308	5948480	5059558	4984315
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Figure No.: 4.5
A Bar Diagram of Investments for the period of 2006/07 to 2012/13

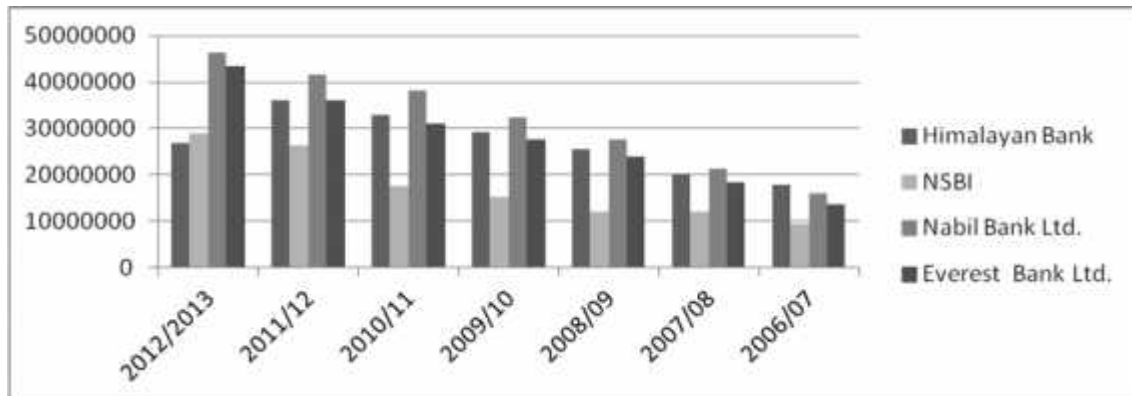


Studying above bar diagram, we found that HBL has the highest investment during the year 2006/07 to 2007/08. But in the year 2008/09 NABIL broke up the trend getting the highest investment upto the year 2009/10 .. Then from the year 2010/11 SBI became the bank in doing highest investment. EBL has been doing lowest investment during all the years. It seems that HBL,NABIL & SBI has been utilizing its fund fully and able to earn adequate profit.

Table No. 4.10
Loan and Advances for the period of 2006/07 to 2012/13

							Rs. In '000
Loan & Adv	2012/13	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07
HBL	26925559	35968473	32968270	29123755	25519519	20179613	17793724
NSBL	28788147	26142094	17480548	15131748	12113698	12113698	9460451
Nabil	46369835	41605683	38034098	32268873	27589933	21365053	15903034
EBL	43393187	35910975	31057691	27556356	23884674	18339086	13664082

Figure No.: 4.6
A Bar Diagram of Loan and Advances for the period of 2006/07 to 2012/13



4.2 Analysis of Financial Ratios

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

4.2.1 Profitability Ratios

a) Return on Total Assets (ROA)

(Net Profit to Total Assets)

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

Table No. 4.11
Calculation of Mean, St. Deviation, and C.V. of Return on Total Assets:-

Year	NABIL	HBL	EBL	SBI
2006/07	2.28	1.43	1.40	1.83

2007/08	2.32	1.72	1.67	1.44
2008/09	2.55	1.87	1.73	1.84
2009/10	2.38	1.16	2.00	1.30
2010/11	2.43	1.85	2.02	1.22
2011/12	2.80	1.73	1.96	0.83
2012/13	3.25	-	2.24	1.19
Total	18.01	9.76	13.02	9.65
Mean ($\bar{X}$)	2.57	1.39	1.86	1.37
Standard Deviation (σ)	0.35	0.66	0.28	0.36
C.V.	0.13	0.48	0.15	0.26

(Appendix table 1)

The comparative ratios & Mean depicted above shows that NABIL's return on assets is highest during the span of seven years. This means that NABIL is relatively efficient in utilizing its overall resources. But its S.D. was also lowest in comparison to HBL, EBL & SBI which means that its disperse rate of mean data are not excess than them and its return was lower risky than HBL, EBL & SBI as well.

Return on assets of HBL, EBL and SBI are fluctuating. ROA of EBL stood at 1.40 % in the first year, i.e. 2007 and it increased to 1.67 % in the next year and again increased to 1.73 % on 2009 and 2.00 % and 2.02 % on 2010 and 2011 respectively. However, it has been decreased on 2012 at 1.96% but next year on 2013 again increased on 2.24 %. During the seven years, its mean ROA is 1.86, which was greater than HBL 1.39 and SBI 1.37 but lower than NABIL 2.57 but its S.D. was only 0.28. It means that the EBL fluctuation was not higher than NABIL. Its disperse rate of mean data are not excess than NABIL and its return was lower risky than NABIL as well as HBL & SBI also.

HBL with its ROA at 1.43 % in the year 2007 maintained the increasing trend till the year 2009 but decreased in the year 2010 and again increased in year 2011. But its S.D. was also highest which means that its ROA was too much disperse from mean data, which was risky. Its risk was also 48% for every unit of return.

ROA of SBI stood at 1.83% in the first year and decreased in the next year with ROA 1.44% and again increased to 1.84% in the year 2009 and kept on decreasing in the next years. While comparing these four JVBs, ROA for SBI is at lowest over the whole period of analysis.

b) Return on Total Deposit
(Net Profit to Total Deposits)

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

Table No. 4.12
Calculation of Mean, St. Deviation and C.V. of Return on Total deposit:-

Year	NABIL	HBL	EBL	SBI
2006/07	2.70	1.63	1.63	2.22
2007/08	2.33	1.99	1.88	1.80
2008/09	2.76	2.17	1.92	2.30
2009/10	2.45	1.35	2.25	1.40
2010/11	2.69	2.18	2.27	1.33
2011/12	2.67	2.00	2.18	1.00
2012/13	3.49	-	2.55	1.30
Total	19.09	11.32	14.68	11.35
Mean ($\bar{X}$)	2.72	1.62	2.10	1.62
Standard Deviation (σ)	0.37	0.77	0.31	0.50
C.V.	0.13	0.48	0.15	0.31

(Appendix table 2)

The mean return of NABIL is highest than other three banks. It's been good syndrome since its dispersed rate from mean data was only 37 % with compare to mean return ,it has lower risk . And its CV (13%) is much lower than HBL 48% and EBL 15% and SBI 31% . So, it's per unit risk been also lower than other three banks.

Despite the high deposit trend of HBL, return on deposit of HBL was found low ,which shows it was weak in mobilizing its deposits in purpose of making profit out of it. Its means return (1.62) was also lower on 77% of S.D. and 48% of C.V.

Return on deposit ratio is very much affected by volume of interest free deposits employed by the banks. The higher volumes of free-costs deposits tend to lower interest cost and contributes to increase the profits, which leads to higher return on Deposit

c) Return on Net Worth

(Net Profit to Total Shareholder's Fund)

Net Profit

Return on Total Assets = ----- x 100

Total Shareholder's Fund

Table No. 4.13
Calculation of Mean, St. Deviation and C.V. of Return on net worth: -

Year	NABIL	HBL	EBL	SBI
2006/07	30.65	22.91	22.25	22.10
2007/08	28.72	25.30	22.50	17.64
2008/09	32.35	24.13	27.94	18.58
2009/10	34.97	14.79	32.20	16.05
2010/11	26.43	22.35	30.66	17.54
2011/12	30.14	20.69	25.69	16.34
2012/13	32.70	-	28.14	21.98
Total	215.96	130.17	189.38	130.23
Mean ($\bar{X}$)	30.85	18.60	27.05	18.60
Standard Deviation (σ)	2.81	8.88	3.81	2.49
C.V.	0.09	0.48	0.14	0.13

(Appendix table 3)

Mean, C.V. & standard deviation of four JVBs have been calculated above. NABIL's mean (30.85) over the comparison period high and its S.D. was lower than HBL and EBL but higher than SBI. Its Risk per unit is also lower than rest of the three JVB's .

HBL's return on net worth has increased from 22.91% in 2006/2007 to 25.30 % in 2007/2008. Then after it was decreased to 24.13% & 14.79% in year 2008/2009 & 2009/2010 respectively. But it's S.D. is too much higher than other three banks (i.e. 8.88>3.81>2.81>2.49) due to which it has risky mean return .It's risk per unit is also higher than other three banks.

EBL's return on net worth has increased from 22.25% in 2006/2007 to 22.50 % in 2007/2008 and kept on increasing with 27.94% and 32.20 % in 2008/09 and 2009/10 respectively. Then after it was decreased to 30.66% & 25.69% in year 2010/2011 & 2011/2012 respectively. Due to that, its mean return and standard deviation was staying on 27.05 & 3.81 respectively. This clarifies that HBL was not able to earn the proportionate increase in its net profits to increase the shareholders' fund.

SBI was able to earn return of 22.10 % in the year 2006/2007, which later on decreased to 17.64 % in 2007/2008. Then again it increased to 18.58 % and again decreased to 16.05 %. With compare to NABIL & EBL, it has lowest mean return and also it's S.D. is lower than rest of the JVB's.

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

d) Interest income/ loans & adv

Table No. 4.14
Calculation of Mean, St. Deviation and C.V. of interest income /loans & advance

Year	NABIL	HBL	EBL	SBI
2006/07	7.50	9.98	6.90	6.75
2007/08	8.04	9.73	7.06	7.01
2008/09	8.82	9.18	7.57	7.56
2009/10	10.41	10.81	9.95	9.80
2010/11	12.50	13.12	12.22	11.24
2011/12	12.85	13.14	12.30	11.27
2012/13	11.64	-	10.49	11.20
Total	71.76	65.96	66.49	64.83
Mean ($\bar{X}$)	10.25	9.42	9.50	9.26
Standard Deviation (σ)	2.17	4.45	2.34	2.09
C.V.	0.21	0.47	0.25	0.23

(Appendix table 4)

All the four JB's ratio seems to be in increasing trend . However NABIL has been seen to maintain the consistency as it has higher mean i.e. 10.25 ,But it's S.D. is lower in comparison to HBL & EBL but higher than SBI . NABIL's per unit risk (C.V.) is lowest in comparison to other JVBs (i.e. $0.21 < 0.23 < 0.25 < 0.47$) .

e) Return on Risk Assets

(Net Profit to Loans / Advances)

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

Table No. 4.15
Calculation of Mean, St. Deviation and C.V. of Return on Risk Assets:-

Year	NABIL	HBL	EBL	SBI
2006/07	3.96	2.76	2.17	2.69
2007/08	3.49	3.15	2.46	2.04
2008/09	3.74	2.95	2.68	2.61
2009/10	3.53	1.74	3.02	2.59
2010/11	3.52	2.70	3.00	2.66
2011/12	4.06	2.67	3.04	1.84
2012/13	4.78	-	3.39	2.68
Total	27.08	15.97	19.76	17.11
Mean ($\bar{X}$)	3.91	2.28	2.82	2.44
Standard Deviation (σ)	0.57	1.10	0.41	0.35
C.V.	0.15	0.48	0.15	0.14

(Appendix table 5)

NABIL's return on risk assets ratio was highest at 3.96 %, 3.49 %, 3.74 %, 3.53 %, 3.52%, 4.06% and 4.78 % during the year ends –2007, 2008, 2009, 2010, 2011, 2012 and 2013 respectively as compared to other JVBs. It means ratio at 3.91 and S.D. at 0.57 was also highest than other JVBs but lower than HBL. Mean Return on Risk Assets of HBL, EBL and SBI seem lower than NABIL.

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

4.2.2 Liquidity Ratios

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

a) Cash & Bank Balance to Deposits Ratio

Cash & Bank Balance

$$\text{Cash \& Bank Balance to Deposits Ratio} = \frac{\text{-----}}{\text{Total Deposits}} \times 100$$

Table No. 4.16
Calculation of Mean, St. Deviation and C.V. of Cash & Bank Balance to Total Deposit Ratio: -

Year	NABIL	HBL	EBL	SBI
2006/07	6.00	5.85	13.14	9.80
2007/08	8.37	4.55	11.12	9.79
2008/09	9.03	8.79	18.50	9.79
2009/10	3.02	10.28	21.17	4.20
2010/11	4.90	7.24	14.88	9.86
2011/12	9.43	13.32	20.72	10.32
2012/13	9.40	-	19.43	13.09
Total	50.15	50.03	118.96	66.85
Mean ($\bar{X}$)	7.16	7.15	16.99	9.55
Standard Deviation (σ)	2.54	4.28	3.94	2.65
C.V.	0.35	0.60	0.23	0.28

(Appendix table 6)

The mean ratio of EBL was 16.99, which was highest than NABIL 7.16 & HBL 7.15 & SBI 9.55 And its S.D. at 3.94 is lower than HBL but higher than NABIL & SBI & C.V. at 0.23 is lowest than other JVBs. So, with compare to other banks, EBL maintain its cash & bank balance. NABIL mean ratio, S.D. & C.V. are 7.16, 2.54 & 0.35 respectively. Similarly, SBI has highest mean return i.e. 9.55 after EBL and it's S.D & CV are 2.65 & 0.28 respectively .But HBL has lower mean ratio at 7.15 on higher S.D. at 4.28 & C.V. at 0.60, with compare of other three JVBs.

But all JVBs have maintained adequate funds against the deposits, which stood at 6.00%, 5.85%, 13.14 % and 9.80 % respectively for NABIL, HBL, EBL and SBI in the year-end 2007. The ratio showed the fluctuation at same level during the review period of all JVBs, which implies that JVBs have properly monitored their liquidity knowing that a very high ratio indicates the unwise investment decision.

4.2.3 Activity (Utilization) Ratios

a) Loans & Advances to Total Deposit (C/D) Ratio

$$\text{Loans \& Adv. to Total Deposit Ratio} = \frac{\text{Total Loans \& Advances}}{\text{Total Deposits}} \times 100$$

Table No. 4.17
Calculation of Mean, St. Deviation and C.V. of Credit Deposit Ratio:-

Year	NABIL	HBL	EBL	SBI
2006/07	68.13	59.21	75.13	82.65
2007/08	66.94	63.37	76.48	88.32
2008/09	73.87	73.58	71.67	88.32
2009/10	69.53	77.43	74.61	54.12
2010/11	76.53	80.56	75.51	50.09
2011/12	75.61	75.35	71.81	49.01
2012/13	68.18	-	75.17	48.86
Total	498.79	429.5	520.38	461.37
Mean ($\bar{X}$)	71.26	61.36	74.34	65.91
Standard Deviation (σ)	3.97	28.12	1.86	19.37
C.V.	0.06	0.46	0.03	0.29

(Appendix table 7)

Credit deposit ratio of EBL has been highest among four JVBs over the review period. The mean ratio stood at 74.34 and the ratios stood at 75.13%, 76.48 %, 71.67 %, 74.61 %, 75.51%, 71.81% & 75.17% respectively during 2006/07, 2007/08, 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13. The credit deposit ratio of NABIL has been the second highest for the review period with getting 71.26 mean ratio, which indicates that it too was successful in maintaining the favorable portion of its deposits towards loan and advances.

EBL and NABIL both had moderate credit deposit ratio during the study period. EBL has been maintaining the credit deposit ratio ranging from 75.13 % to 75.17 % during the study period. Its ratio disperse from mean data was lower than NABIL and also than HBL & SBI . It's S.D. stood at 1.86 & CV at 0.03.

However, HBL has the lowest credit deposit ratios standing at 59.21 %, 63.37 %, 73.58 %, 77.43%, 80.56 % & 75.35% respectively during 2006/07, 2007/08, 2008/09, 2009/10, 2010/11

and 2011/12 with mean data of 61.36 .Its S.D was 28.12 and its per unit risk was higher than other JVBs because its C.V. stood at 0.46 was highest than other three JVBs.

After HBL , SBI has the lowest credit deposit ratios standing at 82.65 %, 88.32 %, 88.32 %, 54.12%,50.09 %,49.01 % & 48.86% respectively during 2006/07, 2007/08, 2008/09, 2009/10,2010/11 and 2011/12 and 2012/13 with mean data of 65.91 .Its S.D was 19.37 and its per unit risk was 0.29 .

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

b) Performing Assets to Total Assets Ratio

Performing Assets

$$\text{Performing Assets to Total Assets Ratio} = \frac{\text{Performing Assets}}{\text{Total Assets}} \times 100$$

Table No. 4.18
Calculation of Mean ,St. Deviation and C.V. of Performing Assets to Total Assets Ratio: -

Year	NABIL	HBL	EBL	SBI
2006/07	95.04	91.42	98.16	95.28
2007/08	91.49	94.87	96.01	96.26
2008/09	95.26	93.08	86.98	96.26
2009/10	90.83	94.51	97.58	98.10
2010/11	92.10	92.86	97.16	97.84
2011/12	94.83	94.57	96.99	96.64
2012/13	93.64	-	97.15	96.31
Total	653.19	561.31	670.03	676.69
Mean ($\bar{X}$)	93.31	80.19	95.72	96.67
Standard Deviation (σ)	1.83	35.38	3.91	0.98
C.V.	0.02	0.44	0.04	0.01

(Appendix table 8)

Performing assets to total assets ratio has been highest of SBI than that of EBL, NABIL & HBL. However, all the four JVBs under study are found to have maintained consistency in

this ratio, more or less. The mean ratio of SBI stood at 96.67, was higher than EBL at 95.72, NABIL at 93.31 & HBL at 80.19. Similarly the ratios of SBI in the following years were also favourable as compared to other JVBs. This can be regarded as one of the major factors for SBI's highest profit in the later years of the review period. And its S.D. & C.V. was also favourable because with compare of its mean ratio, both are on lower level.

c) Performing Assets to Total Debt Ratio

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

$$\text{Performing Assets to Total Debt Ratio} = \frac{\text{Performing Assets}}{\text{Total Debts}} \times 100$$

Table No. 4.19
Calculation of Mean , St. Deviation and C.V. of Performing Assets to Total Debt Ratio: -

Year	NABIL	HBL	EBL	SBI
2006/07	10.27	100.00	103.99	103.99
2007/08	97.91	103.87	103.32	104.89
2008/09	102.58	102.97	103.69	104.89
2009/10	98.04	105.49	104.55	104.00
2010/11	99.95	104.59	104.17	104.85
2011/12	103.77	105.28	104.84	102.28
2012/13	103.05	-	104.85	102.31
Total	707.57	622.20	729.41	730.81
Mean ($\bar{X}$)	101.08	88.89	104.20	104.40
Standard Deviation (σ)	2.43	0.14	0.58	2.08
C.V.	0.02	0.44	0.01	0.02

(Appendix table 9)

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

The S.D. of NABIL, HBL, EBL & SBI is 2.43, 0.14, 0.58 & 2.08 respectively, which indicate that the NABIL debt ratio was more disperse from mean data.

d) Investments to Total Deposits Ratio

$$\text{Investments to Total Deposits Ratio} = \frac{\text{Investments}}{\text{Total Deposits}} \times 100$$

Table No. 4.20
Calculation of Mean, St. Deviation and C.V. of Investments to Total Deposit Ratio: -

Year	NABIL	HBL	EBL	SBI
2006/07	38.32	39.35	27.40	23.23
2007/08	31.14	41.90	21.10	22.52
2008/09	28.98	25.12	17.85	22.52
2009/10	29.52	22.45	13.56	38.07
2010/11	26.32	21.43	18.83	46.72
2011/12	25.53	21.02	15.73	45.86
2012/13	25.67	0	16.04	43.96
Total	205.48	171.27	130.51	242.88
Mean ($\bar{X}$)	29.35	24.47	18.64	34.70
Standard Deviation (σ)	4.49	13.84	4.55	11.51
C.V.	0.15	0.57	0.24	0.33

(Appendix table 10)

The average Investment to total deposit ratios of SBI has been highest during the review period, which stood at 34.70. The Ratios of NABIL was 29.35 during the review period. Also HBL and EBL mean ratios during the whole review period stood at 24.47 & 18.64. The S.D. of NABIL, HBL, EBL & SBI are 4.49, 13.84, 4.55 & 11.51 respectively. It shows that HBL bank ratio was more fluctuated and too much disperse from its mean ratio.

The C.V. of NABIL, HBL, EBL & SBI are 0.15, 0.57, 0.24 & 0.33 respectively. Among these, HBL bank per unit ratio was more risky.

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

4.2.4 Leverage Ratios

a) Total Debts to Total Assets Ratio

$$\text{Total Debts to Total Assets Ratio} = \frac{\text{Total Outsider's Fund}}{\text{Total Assets}} \times 100$$

Table No. 4.21
Calculation of Mean , St. Deviation and C.V. of Total Debt to Total Assets Ratio: -

Year	NABIL	HBL	EBL	SBI
2006/07	92.93	91.42	94.39	91.63
2007/08	93.44	91.33	92.92	91.76
2008/09	92.86	90.39	94.03	91.76
2009/10	92.64	89.55	93.33	94.32
2010/11	92.14	88.78	93.26	90.21
2011/12	91.38	89.82	92.51	94.49
2012/13	90.86	0.00	92.65	94.13
Total	646.25	541.29	653.09	648.30
Mean ($\bar{X}$)	92.32	77.33	93.30	92.61
Standard Deviation (σ)	0.92	12.91	0.70	1.68
C.V.	0.01	0.16	0.01	0.02

(Appendix table 11)

The mean ratio of NABIL, HBL, EBL & SBI is, 92.32%, 77.33%, 93.30% & 92.61% respectively. In case of all four JVBs, the average debt financing had almost exceeded than 90 % of the total assets over the review period, which indicates the excessively geared capital structure of these banks, which signifies the excessive use of debt to finance total assets.

The S.D. of HBL was higher than other three JVBs at 12.91. It shows that HBL total debt to total assets ratio over study period are more fluctuate and risky.

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

b) Long Term Debts to Total Assets Ratio

$$\text{Long Term Debts to Total Assets Ratio} = \frac{\text{Total Fixed Deposits}}{\text{Total Assets}} \times 100$$

Table No. 4.22

Calculation of Mean , St. Deviation and C.V. of Long Term Debt to Total Assets Ratio:

Year	NABIL	HBL	EBL	SBI
2006/07	21.00	12.43	21.36	26.00
2007/08	21.05	13.60	19.07	28.44
2008/09	22.12	13.39	15.92	28.44
2009/10	17.25	14.24	16.99	14.77
2010/11	23.22	14.99	17.61	15.24
2011/12	21.79	13.79	18.01	13.19
2012/13	22.40	0	20.15	14.48
Total	148.83	82.44	129.11	140.56
Mean ($\bar{X}$)	21.26	11.78	18.44	20.08
Standard Deviation (σ)	1.93	5.25	1.88	7.13
C.V.	0.09	0.45	0.10	0.36

(Appendix table 12)

c) Total Debts to Net Worth (Shareholder's Fund) Ratio

$$\text{Total Debts to Net worth Ratio} = \frac{\text{Total Debts}}{\text{Total Shareholder's Fund}} \times 100$$

Table No. 4.23

Calculation of Mean , St. Deviation and C.V. of Total Debt to Net Worth Ratio: -

Year	NABIL	HBL	EBL	SBI
2006/07	12.42	14.62	15.18	10.94
2007/08	13.34	13.39	12.58	11.13

2008/09	12.78	11.60	15.18	9.18
2009/10	14.83	11.42	14.95	12.66
2010/11	10.58	10.69	14.19	12.96
2011/12	10.30	10.74	12.16	18.67
2012/13	9.80	0	11.65	17.38
Total	84.05	72.46	95.89	92.92
Mean ($\bar{X}$)	12.01	10.35	13.70	13.27
Standard Deviation (σ)	1.84	4.79	1.53	3.49
C.V.	0.15	0.46	0.11	0.26

(Appendix table 13)

EBL has 13.70 % mean ratio, so that it has highest debt to net worth ratio holder among these four JVBs during the review period with SBI having second highest debt to net worth ratio of 13.27% .

Ratios of the other two banks have been in decreasing trend over the 3rd years, then after that NABIL's ratio again increased on year 2009/10 and afterwards kept on decreasing .Similarly HBL's ratio was on decreasing trend. Between these two banks, NABIL has highest mean ratio at 12.01%.

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

Hence, it can be said that the highly geared capital structure has been good mix for selected JVBs as they have been able to give higher return to shareholders' funds.

Nevertheless, extensive use of debts, coupled with failure in extending good loans can endanger the solvency of these banks. Therefore, they are required to assess the risk asset portfolios, before accepting the interest bearing deposits in order to maintain an optimum Debt to net worth ratio, thereby avoiding the financial risk.

d) Long Term Debts to Net Worth (Shareholder's Fund) Ratio

$$\text{Long Term Debts to Net worth Ratio} = \frac{\text{Total Fixed Deposits}}{\text{Total Shareholder's Fund}} \times 100$$

Table No. 4.24
Calculation of Mean, St. Deviation and C.V. of Total Long Term Debt to Net Worth Ratio: -

Year	NABIL	HBL	EBL	SBI
2006/07	2.82	1.98	3.43	3.10
2007/08	3.00	1.99	2.58	3.45
2008/09	3.04	1.71	1.00	2.85
2009/10	2.76	1.81	2.72	1.98
2010/11	2.67	1.80	2.68	2.18
2011/12	2.45	1.64	2.36	2.60
2012/13	2.42	0.00	2.53	2.67
Total	19.16	10.93	17.30	18.83
Mean ($\bar{X}$)	2.74	1.56	2.47	2.69
Standard Deviation (σ)	0.24	0.70	0.73	0.51
C.V.	0.09	0.45	0.30	0.19

(Appendix table 14)

e) Net Fixed Assets to Net Worth (Shareholder's Fund) Ratio

$$\text{Net Fixed Assets to Net worth Ratio} = \frac{\text{Total Fixed Assets - Depreciation}}{\text{Total Shareholder's Fund}} \times 100$$

Table No. 4.25
Calculation of Mean, St. Deviation and C.V. of Net Fixed Assets to Net Worth Ratio: -

Year	NABIL	HBL	EBL	SBI
2006/07	13.95	26.74	12.77	8.35

2007/08	23.00	31.65	17.98	8.49
2008/09	20.73	30.53	18.68	7.00
2009/10	23.92	30.87	17.94	11.28
2010/11	18.48	29.72	15.15	15.79
2011/12	15.84	28.18	12.90	24.36
2012/13	12.86	0	12.07	18.85
Total	128.78	177.69	107.49	94.12
Mean ($\bar{X}$)	18.40	25.38	15.36	13.45
Standard Deviation (σ)	4.36	11.32	2.83	6.46
C.V.	0.24	0.45	0.18	0.48

(Appendix table 15)

A net fixed asset to net worth ratio of HBL has been highest during all the years , its average ratio of review period is also high. So that, it's mean ratio at 25.38 is higher than other three banks. SBI has lowest ratios during the entire review period & its mean ratio at 13.45 is also too much lower than other JVB's but its C.V. was higher than other banks.

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

f) Capital Adequacy Ratio (Capital Fund to Total Deposits)

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital Fund (Shareholder's Fund)}}{\text{Total Deposits}} \times 100$$

Table No. 4.26
Calculation of Mean, St. Deviation and C.V. of Total Shareholders'
Fund to Total Deposit: -

Year	NABIL	HBL	EBL	SBI
2006/07	8.81	7.14	7.32	10.16
2007/08	8.15	7.89	8.36	10.32
2008/09	8.53	8.99	6.86	12.51
2009/10	7.01	9.14	6.99	8.03
2010/11	10.18	9.76	7.38	7.59
2011/12	10.18	9.70	8.48	5.50
2012/13	10.66	0.00	9.05	5.95
Total	63.52	52.62	54.44	60.06
Mean ($\bar{X}$)	9.07	7.52	7.78	8.58
Standard Deviation (σ)	1.32	3.45	0.84	2.54
C.V.	0.15	0.46	0.11	0.30

(Appendix table 16)

NABIL was maintained capital adequacy ratio at 9.07% mean ratio & ranging from 4.15% to 10.66%, so that its S.D. was on 1.32. As well as, SBI also maintained capital adequacy ratio at 8.58% mean ratio with S.D. at 2.54 & ranging between 5.95% to 10.32 % during the review period. Then EBL too has maintained it's capital adequacy ratio at 7.78% mean ratio ranging between 8.36% to 9.05% during the review period .But HBL's ratios were lower ranging from 7.14 % to 9.70 %.

According to the unified directives of NRB-061/62, Commercial Banks are required to maintain core capital of 6% and capital fund of 12% on the basis of their risk weighted assets. Hence it is advisable to all JVBs to increase their capital fund to total deposits ratio further as prescribed by NRB.

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

4.3 Opportunities for Nepalese Bank:

- Adoption of open and liberal economic and financial sector policy by government.
- Complete deregulation of interest rate of banking and financial institution by NRB.
- Many potential areas for lending.
- Higher demand for loan to small hydro power generation and other big project.
- Higher demand of consumer loans specially hire purchase, housing, educational and foreign employment.

- Excess liquidity in financial markets due to inflow of remittance.

Threats in Nepalese Bank:

- Highly competitive market.
- Frequently changes in laws and regulation like licensing tax, labour etc.
- Changes and variations in industrial and trade policies of the government. Similarly, changes in trade and transit treaty with India and other country.
- Some restrictions made in NRB regulation to control excessive lending like, single obligor limit, sectoral limit etc.
- Absence of deposit insurance scheme.
- Weak legal infrastructure for recovery.

4.4 Environmental Scanning & Analysis

Scanning is acquiring information. Environmental scanning involves acquiring information from the environment to detect emerging trends and create scenarios. It monitors and interprets changes already underway and forecasts future developments that have potential impact on organization. It is done to identify opportunities and threats for the organization to formulate strategy.

Environmental scanning should be done objectively. While doing environmental scanning we should identify the forces in the banking environment that may be external environmental forces or internal. We should be able to determine the various sources for observation like newspaper, journal, report, book, meeting etc. It can be done by selecting different scanning methods and SWOT analysis should be done at the last step.

Environmental Analysis involves breaking whole into parts to find its nature function and relationship. Environmental analysis is managerial decision making process of assessing and interpreting the information gathered through scanning. The information is evaluated for accuracy, to resolve inconsistencies, and to assign significance. The current environmental changes are defined and future changes are predicted. Opportunities and threats are determined. Marketing strategies are developed.

Analyzing the banking environment we found that with compare to other commercial banks the four JVBs NABIL, HBL, EBL and NSBL are the banks having strong power in the banking market. They are well known banks and are competing in the market and are able to adapt with the changing banking environment. They have provided better quality services to

the customers and have established more branches in remote areas. They come from internal banking environment and provide strategic advantage. Besides strength they have some weakness also. These banks are facing credit risk, market risk, fraudulent activities and liquidity risk. They also come from internal banking environment which provide strategic disadvantage.

In the same way they have got various opportunities like adoption of open and liberal economic and financial sector policy by government, many potential areas for lending, new and latest technology adoption in banking sector and high demand of consumer loans specially hire purchase, housing, educational and foreign employment. They come from external banking environment. They are favourable condition in the banking environment. Besides opportunities these banks are facing certain threats like highly competitive market, rising new and various banks in banking sector, frequent changes in laws & regulation, uncertain political & economic condition and security problem in banking sector. They also come from external banking environment which are unfavourable condition in the banking environment.

Among these JV banks NABIL is at the top level. There have been changes in the Bank's reserve position, income and liquidity. Reserve have increased through retention of profits, income stream maintained its momentum and the liquidity position remained comfortable. The bank has been following a prudent and conservative approach in its business plans and will continue to do so in order to fully protect all the stake holders' interests and ensure growth. There were no incidents which have had impact on reserve, profit or cash flow position of the Bank during the quarter under review. Though NABIL seems to be the top bank ,rest of the JVB are also trying their best and their performance too seems satisfactory .

4.5 Comparative Summary and SWOT Analysis of NABIL, HBL, EBL & NSBL

Table No.: 4.27

Comparative Summary of NABIL, HBL, EBL & NSBL

NABIL	HBL	EBL	NSBL
Return on assets of NABIL is highest during seven years. It means NABIL is relatively efficient in utilizing it's overall resources.	Return on assets of HBL is fluctuating. It maintained its increasing trend till the year 2009 but again decreased on year 2010.	Return on assets of EBL is also fluctuating.	Return on assets of NSBL is lowest over the whole period of analysis. Thus NSBL must increase its performing assets for having remarkable return on assets.
Return on total deposits of NABIL is higher than other JVBs. Thus, it's profitability position seems much better than that of other JVB's.	Despite the high deposit trend of HBL, it's return on deposit is low .Thus, it is weak in mobilizing its deposits in purpose of making profit .	Return on total deposit of EBL is lower than NABIL but higher than HBL & NSBL .It's profitability position seems better.	Return on total deposit of NSBL is less than that of NABIL & EBL but nearly equal to that of HBL despite its low deposit trend. So NSBL is good in mobilizing it's deposits for making profit.
Return on net worth of NABIL is higher. Thus NABIL has the sound management and efficient mobilization of the owner's equity.	Return on net worth of HBL is not satisfactory as compared to NABIL & EBL .So HBL is not fully able to utilize its owner's fund.	Return on net worth of EBL is higher. Thus EBL too has the sound management and efficient mobilization of the owner's equity.	Return on net worth of NSBL is also not satisfactory as compared to NABIL & EBL .So just like HBL; NSBL is also not able to earn a satisfactory return for its equity holders.
Return on risk assets of NABIL is higher. It signifies that the bank is able to disburse good loans in a higher proportion	Return on risk assets of HBL is less satisfactory as compared to NABIL & EBL.	Return on risk assets of EBL seems satisfactory.	Return on risk assets of NSBL is lower as compared to NABIL & EBL.
Liquidity ratio of NABIL is good.	Liquidity ratio of HBL is good	Liquidity ratio of EBL is higher than NABIL, HBL & NSBL .It has maintain adequate balances.	Liquidity ratio of NSBL too seems better.
Credit deposit ratio of NABIL is higher than HBL & NSBL. It is also successful in	HBL has low credit deposit in comparison to NABIL & EBL	Credit deposit ratio of EBL is higher than NABIL; HBL & NSBL .EBL is able	NSBL has low credit deposit ratio in comparison to NABIL & EBL.

mobilizing the outsider's fund .		to mobilize the outsider's fund.	
Performing assets to total assets ratio of NABIL is less than NSBL & EBL but more than HBL.	Performing assets to total assets ratio of HBL is less than NSBL, NABIL & EBL .	Performing assets to total assets ratio of EBL is less than NSBL & HBL but more than HBL.	Performing assets to total assets ratio of NSBL has been highest in comparison to other three JVB's .so it was able to earn higher profit.
Investment to total deposit ratio of NABIL is in 2 nd highest position.	HBL is also relying significantly on the investment to mobilize the surplus deposit volume.	EBL'S investment seems satisfactory.	Investment to total deposits ratio of NSBL is highest.
Overall performance of NABIL seems much better than rest of the JVB's .	Overall performance of HBL is satisfactory.	Overall performance of EBL too seems better after NABIL.	Overall performance of NSBL is satisfactory.

Table No.: 4.28

Comparative SWOT Analysis of NABIL, HBL, EBL & NSBL

STRENGTH			
NABIL	HBL	EBL	NSBL
Profitability position of NABIL seems much better than other JVBs.	Providing remittance services through Himal Remit.	EBL has good profitability position .	First Indo-Nepal joint venture sponsored by three well known promoters i.e. SBI, ADB of Nepal & Employees provident fund.
With compare to HBL,EBL & NSBL, NABIL has the highest rate of return on total assets & total deposits.	Launching of first time visa credit card in Nepal .	EBL has highest credit deposit ratio in comparison to other JVBs.	Investment to total deposit of NSBL is highest.
Liquidity position of NABIL is good .	Liquidity position of HBL is good.	EBL has maintain adequate balance and it's liquidity position is good.	NSBL too is in good liquidity position .
Emphasis all level of	Recently	Higher number of	Strong reputation &

customer (middle classes, lower & upper classes).	constructed its own building in the prime location of Kamaladi.	a/c holders & maximum customer deposit .	image in market.
WEAKNESS			
Performing assets to total assets ratio of NABIL is less than other JVBs	Return on net worth of HBL is not satisfactory .	Lack of proper management since it's head office is in India.	Rate of return on total assets and total deposit is less than other JVBs.
Higher staff cost & other operating cost.	Lower return on total assets and deposits .	Inefficient management of PNB cards.	Return on net worth of NSBL is unsatisfactory in comparison to other JVBs .
Less remote branches	Lack of staff motivation strategic	Higher operating cost.	Lack of proper management since it's head office is in India .
	Higher operating cost.		
.Opportunities			
NABIL	HBL	EBL	NSBL
Large networking provides opportunity to serve various people	Short term loan & merchant business available on banking business. (Like home loan, car loan etc).	Flexible government rule & strategic. Rising in banking activities & utilities.	Flexible government rule & strategic. Increasing trend of a/c holders.
Short-term loan & merchant business available on banking business. (Like home loan, car loan etc).	Flexible government rule & strategy.	Strong image in international market.	Strategy for hydro power investment.
Technological development on banking sector.	Latest & updated technology available in banking sector.	New and latest technology adoption in banking sector.	Latest & updated technology available in banking sector.
Rising in banking activities & utilities.	Upgrowing trend line of banking business.	Strategy for hydro power investment.	
THREATS			
NABIL	HBL	EBL	NSBL
Rising new and various banks on banking sector.	Rising new and various banks on banking sector.	Rising new and various banks on banking sector.	Rising new and various banks on banking sector
Uncertain political	Increasing the	Central banks	Central banks

& economic condition.	number of financial company & co-operative institution.	uncertain & changing rule & regulation.	uncertain & changing rule & regulation.
Improper valuation of loans like land & housing loans .	Uncertain political & economic condition.	Improper valuation of loans like land & housing loans .	Lack of strong security services for cash counter.
Central banks uncertain & changing rule & regulation.	Higher Inflation rate.	Uncertain political & economic condition.	Deteriorating risk environment.
Higher Inflation rate.	Unfair competition on banking sector. (Like staff competition, promotional competition etc).	Lack of strong security services for cash counter.	Lack of familiarize on local market.
Security problem in banking sector.	Central banks uncertain & changing rule & regulation.	Copying each other promotional activities.	Security problem in banking sector.
Increasing the number of financial company & co-operative institution.	Lack of strong security services for cash counter.		.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

This is the final and the most vital chapter . It carries the history of all the previously discussed chapters or we can say this chapter is the most important and summary of all the previous chapters . It consists of summary , conclusion and recommendation . In summary, revision of all the four chapters is made .As conclusion is the end part or result ,it is the summing up of what we have written in the previous chapters .Recommendation is the act of saying what is good and very useful for next research.

5.1 Summary

In general terms, the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn a profit can be called a bank. Banking sector plays an important role in the economic development of the country.

To the greater extent, economic growth rate is based on the Banks and other financial institutions' performance in an economy. All the economic activities are directly or indirectly channeled through banks .Banking business is growing day by day. Till now no of commercial banks in Nepal has reached to 31. There are already 89 development banks in Nepal and 50 finance companies .Besides, some other development banks are in the process of their conversion into commercial banks and in current situation we can find many banks already merged or in the process of merging. Example – Machhapuchchhre bank, Global IME, NICASIA are some of the recently merged banks. Banking business is growing intensely these days. This has led to the intense competition in the banking business. Only those banks providing better services and having a greater profit margin would survive in the long run. Joint venture Banks in Nepal were established with some specific objectives. Some of them are:

5.2 Conclusion

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

- a) Banks are primarily profit making organizations that provide a range of financial services to their customers. On the basis of the profitability, the selected JVBs are among the top commercial banks operating in the country. The profitability position of NABIL seems much better than that of other JVB's in terms of Return on total assets and total deposits .
- b) Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector , which deal in the process of channeling the available resources in the needed sectors
- c) Interest is the major portion of the total income in all these selected JVBs during this study period. Likewise, interest expenses cover the major portion of total expenses in these banks.
- d) During the study period, NABIL is found to have the highest Deposit. In other words, Total deposits of NABIL exceeded the other three banks under study, HBL, EBL & NSBL, in all of the years taken for this analysis
- e) NABIL has been seen to adopt the aggressive lending policy during the period of this analysis. It has been mobilizing a large portion of its Total deposits on Loans & Advances. The Loans & Advances of NABIL has always been greater as compared to HBL, EBL & NSBL during this whole period under analysis.
- f) In case of all four JVBs, debt financing has always almost exceeded 90 % of the Total Assets over the review period, which indicates the excessively geared capital structure of these banks, which signifies the excessive use of debt to finance Total Assets. The high 'Total Outsiders' Fund to Total Assets' ratio implies bank's success in exploiting debts to the more profitable assets. Since all the JVBs had been extensively using debt financing to the total assets, it can be concluded that these banks are highly levered.

- g) The analysis reveals that all the JVBs have limited their Net Fixed Assets to Net worth Ratio at adequate level. Banks being the non-manufacturing enterprises have the minimal investment of owners' equity in the fixed assets in order to maximize the return on shareholders' fund.
- h) The investments of all these JVBs are found to be more or less volatile. In some years, they are in the increasing trend whereas in other years, they are in the decreasing trend. This might be due to the instability in the political & economic situation of the country, which created an environment of chaos in the overall economy including the banking industry.
- i) The comparative **strength** of NABIL is better as compared to HBL , EBL & NSBL as per data and as per the analysis done in the various sections. One of the primary objectives of the commercial bank is to maximize the profit. NABIL has dominated in this regard during almost the whole period of study. However, the profit before tax of all four banks is in the increasing trend.
- j) All the four Banks selected for study are among the top banks operating in Nepal, their relative financial strength is better in the economy as compared to the other banks. Opportunities & Threats are present in the external environment. It is very probable that the bank with higher strength can grasp excellent opportunities and avoid redundant threats present in the economy.

5.3 Recommendations

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

- a. Higher costs to income ratio in case of HBL and NSBL are the primary cause for the lower PBT (Profit before Tax). Analyzing the data of four JVBs, from year 2006/07 to

2012/13, NABIL and EBL has higher PBT than HBL and NSBL . So in order to achieve operational efficiency these banks should reduce operating costs.

- b. As Loans & Advances of NABIL and EBL are in the higher volume as compared to HBL & NSBL, both HBL & NSBL should try to increase its credit portfolio by exploring the productive sectors. This will not only increase the weight of interest income from risk assets but will also facilitate in promoting the industries to develop the overall economic situation of the nation.
- c. In case of all four JVBs, debt financing has always almost exceeded 90 % of the Total Assets over the review period, which indicates the excessively geared capital structure of these banks. This shows the excessive use of debt to finance Total Assets. Nevertheless, extensive use of debts coupled with the failure in advancing good loans can jeopardize the solvency position of these banks. Therefore, it is suggested to the JVBs to assess the risk assets portfolio cautiously before accepting higher volumes of deposits.
- d. Financial figures should show a consistency in their respective growths. The financial records observed in all these chosen JVBs are rather erratic. Therefore all these banks are suggested to predict a more accurate data in order to remain in the same position and to advance ahead.
- e. In order to generate more capital for the development of the economy, more deposit needs to be collected by the financial institutions. For this the selected JVBs are suggested to quote higher deposit interest rate as far as possible. Though this situation reduces their profit prospects in the short run, it will enhance the economic condition of the country in the long run.
- f. These JVBs should try to increase their gross spread so that they can afford to reduce the interest spread and the help the economy to achieve upper trends from the present recessionary situation. Gross spread can be increased mainly by:
 -) Decreasing the volumes of nonperforming assets;
 -) Decreasing the volumes of down-graded loans, which results in lower volumes of loan loss provisions; and

-) Increasing the non-interest bearing external sources to compensate the interest bearing deposits, such as- current and margin deposits.
- g. The S.D. of HBL was higher than other three JVBs at 12.91. It shows that HBL total debt to total assets ratio over study period are more fluctuate and risky. The high 'total outsider's fund to total assets' ratio implies bank's success in exploiting debts to the more profitable assets. Since all the JVBs had been extensively using debt financing to the total assets, it can be concluded that these banks are highly levered.
- h. The higher ratio means the lower return for the shareholders. Banks being the non-manufacturing enterprises have the minimal investment of owners' equity in the fixed assets, hence it is advisable for banks to decrease their Fixed Assets to reduce their non-performing assets in order to maximize the return on shareholders' fund.
- i. The total deposit of NABIL is increasing each year with compare to EBL, HBL and NSBL.
- j. It is seen that NABIL has been mobilizing a large portion of its Total deposits on Loans & Advances. The Loans & advances of NABIL are increasing every year as compared to EBL, HBL & NSBL respectively.
- k. Sample JVBs are also suggested to include their interest rate structure in their annual report. Further they are requested for the co-operation and sincere support to the research students