FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS

(WITH SPECIAL REFERENCE TO NBL AND EBL)

A THESIS

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RECOMMENDATION

This is to certify that the thesis

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Has been prepared as approved by this campus in the prescribed format of the faculty of management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

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and found the thesis to be the original work of the student and return according to the prescribed format. We recommended the thesis to be accepted partial fulfillment of the requirement for the degree of master of business studies (MBS).

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DECLARATION

I hereby declare that the thesis entitled **FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS (WITH SPECIAL REFERENCE TO NBL AND EBL)** submitted to office of the Dean, Faculty of Management, Tribhuwan University (TU), is entirely my own work in the form of partial fulfillment of the requirement for the Degree of Masters of Business Studies (MBS) under the supervision of my thesis guide **Asso. Prof. Dr. Kapil Khanal** of Shanker Dev Campus Campus.

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ABBREVIATIONS

6*PEr	:	Six times of the probable error
A.D.	:	Anno Domini
a/c	:	Account
ANOVA	:	Analysis of Variance
B.S.	:	Bikram Sambat
C.V.	:	Coefficient of variation
C.V.	:	Co-efficient of Variance
CA	:	Current Assets
CL	:	Current Liabilities
GDP	:	Gross Domestic Product
J/V	:	Joint Venture Bank
JVB	:	Joint Venture Bank
NABIL	:	Nepal Arab Bank Ltd.
NBL	:	Nepal Bank Ltd.
NEPSE	:	Nepal Stock Exchange
NGBL	:	Nepal Grindlays Bank Ltd.
EBL	:	Everest Bank Ltd.

CHAPTER I
INTRODUCTION

1.1 Background of the Study

The banking sector serves as the backbone of economic development in countries like Nepal, aggregating small amounts of capital and channeling them into productive sectors. Nepal faces challenges such as complex geographical terrain, inadequate infrastructure, limited industrialization, political instability, and high unemployment rates, contributing to its classification as a Least Developed Country (LDC). With 31% of its population living below the poverty line and a low Gross National Product (GNP) resulting in an average per capita income of just $1381, Nepal remains predominantly agrarian, with agriculture being crucial for income and employment.

Liquidity in commercial banks refers to the availability of funds to meet obligations promptly. It encompasses both the liquidity stored in the balance sheet and that accessible through purchased funds. High liquidity, while ensuring immediate cash availability for depositors, can also lead to reduced profitability and inefficiencies within the banking sector over time (Pandey, 1999).

Industrialization plays a vital role in achieving economic and social progress by providing essential goods and services, creating employment opportunities, and mobilizing capital and skills that might otherwise go untapped. It fosters innovation and technological advancements, thereby exerting a multiplier effect on the economy.

The banking industry, a critical component of the economy, mobilizes savings from the public into various productive sectors, facilitating economic activities and acting as a catalyst for development, particularly in countries with informal economies. Currently, Nepal hosts twenty-eight commercial banks, with Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) dominating due to their extensive reach across the country. Political instability has hindered the expansion of private banks into remote areas, despite their efforts to innovate with new products such as ATM cards, debit cards, housing loans, education loans, and vehicle financing.

Depositors trust banks to repay their savings promptly, and the Nepal Rastra Bank (NRB) plays a crucial role as regulator, supervisor, and inspector of banking activities to ensure fair competition and safeguard public deposits. As the number of banks increases, NRB must enhance its regulatory oversight to maintain stability.

In order to predict future patterns in variables like sales, costs, net income, cash flow, and return on investment, financial analysis is crucial for evaluating the success of businesses. It does this by using historical financial data. It is analyzing accounting data from financial accounts critically in order to identify operational and financial traits that are advantageous to managers, creditors, shareholders, investors, and depositors.

The contemporary stage of banking evolution

Up to 2040 B.S., the financial system in Nepal has not developed to a suitable level. While existing bank branches grew, no new banks were founded during this time. Nepal was keeping a close eye on and researching the best laws, policies, initiatives, and regulations to put into effect. The nation realized that it needed to acquire cutting-edge technology from outside in order to elevate its standing as it couldn't accomplish it with its own resources alone. As a result, regulations and legislation were passed to promote foreign participation in the banking industry.

As a result, Nepal's financial sector started to expand more quickly. A major turning point was reached when banks began to offer worthwhile services to customers with new technologies as competition increased. The banking industry in Nepal has experienced rapid expansion since democracy was restored. Nowadays, there are many different banking operations operating, which contribute positively to economic activity. Five rural development banks are also in operation in Nepal in addition to commercial banks, demonstrating the nation's advancement and adoption of international banking standards.

1.2 Role of commercial banks in economic development

The best way to efficiently and successfully mobilize a nation's resources to spur economic growth at the national level is through commercial banks. They are frequently referred to as the contemporary era's engines of economic growth due to privatization and deregulation. Commercial

banks are vital to capital production, just like the heart is to the flow of blood in the human body. Commercial banks gather idle resources from many sources with the primary goal of mobilizing them for productive use. In essence, commercial banking is the process of facilitating financial transactions between borrowers and savers. Stated differently, banks serve as a middleman between the economy's surplus and deficit units. A bank, like any other business, exists to make money for its investors. The main way it does this is by charging various interest rates for loans and deposits. With millions of people's deposits held by them, as well as those of governments and corporations, commercial banks play a crucial role in the financial system by providing capital for lending and investment. As a result, commercial banks are essential organizations for the creation of capital and national economic growth. Paul (2000) pointed out that "the undeveloped nations with low incomes are not the only ones that have just realized that growth is possible and now place an extraordinary value on fostering it. The world's wealthiest and most developed nations are likewise devoting extraordinary attention to these goals. Economic development is the process by which an economy's real income rises over an extended length of time.

The following list includes a few of the commercial bank's significant responsibilities.

1. Commercial banks are essential to a nation's continued progress since they offer loans that are backed by a variety of collateral kinds.

2. They make it easier and more dependable for residents to move money both inside and outside the nation.

3. Commercial banks efficiently deploy this capital by gathering underutilized cash from various regions of the nation.

4. Banks provide services like travelers' checks for the convenience of travelers.

5. Banks promote business advertising by offering services such as credit letters.

These services support the quick and efficient running of businesses and other economic endeavors.

These two banks are briefly summarized below:

A brief overview of Sample Bank

Everest Bank Limited (EBL)

India's Punjab National Bank Limited and Everest Bank Limited established a joint venture in 1994. Despite intense competition within the Nepalese banking sector, Everest Bank maintains its leading position in fundamental banking activities, such as loans and deposits. Everest Bank's legacy is demonstrated by its renown for innovative marketing and customer care techniques across Nepal. Products and services including the premium savings account, EBL proprietary card, millionaire deposit plan, ATM, and telebanking were initially offered by Everest Bank. The bank is a symbol of innovation, working to help clients and bring the banking industry up to date. Everest Bank Limited (EBL), which is celebrating its 29th anniversary, has over a million clients and is a dependable supplier of competent and effective financial services. EBL has been one of the top banks in the nation since its establishment in 1994, serving a wide range of social groups. The bank has helped the business, agricultural, and industrial sectors of the country grow.

Network: Thanks to Everest Bank Limited's (EBL) extensive network connected via the ABBS system, which offers user-friendly services, customers may execute transactions from any branch. The bank is very accessible to its customers at all times and locations, with 128 branches, 164 ATMs, 4 extension counters, and 32 revenue collection counters located around the country.

Bank Nepal Ltd. (NBL)

The first bank in Nepal, Nepal Bank Ltd. (NBL), was founded on November 15, 1937 A.D. (Kartik 30, 1994 B.S.). The idea of a collaborative enterprise between the public and the government guided its formation. With an issued capital of Rs. 2.5 million, of which Rs. 842 thousand was contributed by 10 stockholders, NBL's permitted capital was Rs. 10 million. The bank has been offering financial services through its branch offices, which are dispersed across the nation's regions. Over the next five years, Nepal Bank Limited wants to generate a positive net worth and satisfy the minimal capital requirements while concentrating on raising sustainable profit and optimizing employee productivity.

1.3 Statement of the problem

The nation's socioeconomic growth has not been greatly aided by government initiatives, with 75% of the population dependent on agriculture and 80% of the people living in rural regions. These banks ought to extend their reach into more rural regions. Ten percent of joint venture banks' total investments must go toward rural regions, according to a directive from the central bank of Nepal, the Nepal Rastra Bank (NRB). These banks, however, frequently would rather pay fines than make investments in these less lucrative industries. These banks' primary goal is to get as many deposits from their clients as they can and transfer them to the most desirable and lucrative industries. The financial performance of Nepal Bank Ltd. (NBL) and Everest Bank Ltd. (EBL) is the main emphasis of this study.

Nepal has seen the opening of several banks and other financial institutions in a short period of time. Even while joint venture banks have quickly surpassed other commercial banks, they are still in intense rivalry with one another. As a result, a profitability analysis of NBL and EBL is necessary.

The purpose of this study is to compare these two banks' financial performance and efficiency. In order to maintain the appropriate level of short-term reserve money without impairing the bank's capacity to make a profit or run its operations, liquidity management involves purposefully adding or withdrawing money from the market.

It depends on daily assessments of the liquidity conditions in the banking system to determine its liquidity needs and how much liquidity to distribute or withdraw from the market.

Reserve requirements placed on banks by a monetary authority often outline the liquidity needs of the banking sector.

The two joint venture banks in Nepal have had differing periods of profitability, operational expenditures, and dividend distribution among shareholders. The purpose of this study is to determine the causes of the variations in financial performance. To determine the strengths and shortcomings of these institutions, a comparative study of their financial performance would be quite helpful.

In the banking industry, joint venture banks are thought to be efficient, although it's unclear how efficient they really are. Nepal now has twenty-eight commercial banks. Some signs point to performance that is not very encouraging in terms of service coverage, despite the rapid expansion. In this regard, the research attempts to examine the banks' present performance by responding to the following questions.

1. What is the state of NBL and EBL banks' liquidity?
2. How much leverage do the banks NBL and EBL have?
3. How profitable have the NBL and EBL banks been?
4. How do activity, leverage, and liquidity affect the profitability of NBL and EBL banks?

1.4 Purposes of the study

The principal objective of the research is to evaluate and examine the financial performance of the NBL and EBL banks and provide suggestions for relevant areas of improvement.

1. To evaluate the NBL and EBL banks' liquidity situation.
2. To investigate NBL and EBL banks' circumstances.
3. To evaluate the NBL and EBL banks' profitability results.
4. Investigate how activity, leverage, and liquidity affect the NBL and EBL banks' profitability.

1.5 Significance of the study

Commercial banks play an important role in the contemporary economy, contributing significantly to GDP. The sub-sectors of banking and real estate are becoming more and more powerful, which increases their influence. The banking industry is unavoidably impacted by economic downturns. Opportunities and difficulties are presented by WTO participation, SAFTA and BIMSTEC

membership, and globalization. Foreign company branches will start providing wholesale banking and insurance services on January 1, 2010. Commercial banks must adapt by increasing their competitiveness, fortifying their financial stability, cultivating potential for development, and coordinating their plans appropriately. The purpose of this research is to evaluate their overall financial stability and their capacity to overcome obstacles and take advantage of opportunities.

To guarantee breadth and relevance, the study concentrated on commercial banks that were part of the same strategic group. A case study was carried out on the top five commercial banks in the private sector, as determined by NEPSE using their market capitalization ratio, in recognition of the fact that no one metric can offer all-encompassing information. The objective of this strategy is to provide stakeholders with logical and significant insights, particularly in the current context where commercial banks are progressing via IT integration.

1.6 Limitations of the study

The present study has several limitations:

1. It focuses solely on comparing the financial performance of joint venture and Government banks, specifically NBL and EBL.
2. The study relies exclusively on secondary data sources.
3. Analysis is limited to the most recent five-year period, from 2013/2014 to 2017/2018.
4. The study employs specific tools such as ratio analysis, profitability ratios, and statistical tools for evaluation.
5. It primarily fulfills partial requirements for an MBS degree.

1.7 The current study is organized into five separate chapters:

Chapter I: Synopsis

This chapter includes details on the study's background, focus, identified challenges, objectives, significance, and limitations.

Chapter II: Review of Literature

This chapter reviews the literature that has been written regarding the concept of financial performance analysis. It also includes evaluations of journals and articles, as well as previous theses on the subject.

Chapter III: Methods of Research

The research process's methodology and approach are covered in this chapter. It covers the following topics: equipment, analytic approach, population and sample, data collection and processing methods, and processes.

Chapter IV: Results and Discussion

Data that has been collected and processed using statistical and financial techniques is presented, examined, and interpreted in this chapter.

Chapter V: Overview, Settlement, and Implications

This chapter presents the results, implications, and a synopsis of the whole study.

CHAPTER II
LITERATURE REVIEW

Literature Review

A review of the literature is provided in this chapter, encompassing books, journals, bulletins, and annual reports from banks and organizations that are pertinent. An examination of earlier theses, studies, and relevant papers is also included.

2.1 Conceptual Review

Modern financial evaluation has had a major impact on the function and significance of financial performance. Modern finance is always evolving, bringing in fresh concepts and methods. Reaching business objectives requires effective management. A bank's reliance on expensive debt with fixed expenditures and risk are increased when equity capital is inadequate. As a result, every company's capital structure has to have enough equity capital. A bank's main goals are to maximize consumer deposits and direct them into the most lucrative industries. Revenue creation is hampered when resources are not used effectively. In order to evaluate how well resources are used, bank resource mobilization management includes tasks like resource collection, investment portfolio management, loans and advances, working capital, and fixed asset management. Analyzing financial indicators obtained from financial statements is necessary to assess a bank's performance in several aspects. A bank's strengths and weaknesses are determined by financial analysis, which looks at specific accounting data and evaluates a bank's liquidity, solvency, efficiency, and profitability. The three main decisions that comprise the functions of finance are investment, financing, and dividend policy decisions. The worth of the company will be maximized by an optional mix of the three choices.

2.1.2 Anticipated Income Theory

According to this idea, a bank's liquidity may be efficiently controlled by carefully planning the phasing and structure of loans that are issued to clients. Liquidity planning gains predictability

when planned loan payments are matched with borrowers' projected income in the future. The idea of anticipated income, which was introduced by Herbert V. Prochnow in 1949, stressed the value of good term loans with repayment plans that are adjusted to the predicted cash flow of borrowers. At first, this strategy made it easier to meet company credit requirements and made loan promises more widely used. But as the economy changed, balance sheet management had to adapt as well, posing new financial difficulties for companies. As a result, bank loan commitment rules became more crucial to the lending process. Numerous commercial banks have implemented a staggered strategy in their investment portfolios as a result of this notion.

2.1.3 Suitability Theory

According to this notion, a bank can keep its liquidity by keeping assets that are quickly transferred or sold for cash to investors or other lenders. It highlights that having assets on hand that are always available to be sold, along with the backing of the Central Bank and the discount market to buy such assets when necessary, may help bolster a bank's liquidity. The idea emphasizes how crucial transferability, marketability, and asset appropriateness are to guaranteeing liquidity. It says that highly liquid assets that a bank has are great sources of funding. The notion of expected revenue was added to the shift ability theory, which replaced the commercial loan theory. The appropriateness hypothesis, developed by Harold G. Moulton in 1915, maintained that keeping credit instruments with a strong secondary market would be the best way for banks to guard against significant deposit withdrawals. This liquidity reserve consisted of prime bankers' acceptances, commercial paper, and most crucially, Treasury bills, all of which satisfied the requirements for marketability and near-term certainty.

But a serious problem with the appropriateness theory was discovered, similar to the reason the commercial loan theory was abandoned: in times of crisis, secondary reserve assets become less liquid because of shortages in the market (Casu et al., 2006). Growing significance was given to the central bank's function as lender of last resort, which changed the belief that liquidity ultimately resided outside the banking sector. Additionally, as business circumstances had a direct impact on cash flows and bank borrowers' ability to repay loans, the soundness of the banking system became to be intimately correlated with the health of the whole economy.

The appropriateness hypothesis was amended to acknowledge the Federal Reserve Banks' role in providing ultimate liquidity, so partially resolving banks' worries over the liquidity of their loan portfolios. It became critical to maintain top-notch assets that could pass strict soundness assessments (Allen and Gale, 2004).

2.1.4 Commercial Loan Theory

Critics of the shift ability idea include Dodds (1982) and Nwankwo (1992). Its incompatibility with the requirements of economic development—especially in emerging nations—is a significant criticism, as it leaves out long-term loans that are crucial for expansion. It is also believed that the theory is limited since it concentrates on the maturity structure of bank assets (loans and investments) rather than their marketability or transferability.

The theory was initially presented by Adam Smith in his "Wealth of Nations" (1776). This asset management theory places a strong emphasis on liquidity and suggests that banks should only hold "real" bills of exchange and short-term, self-liquidating advances for business use as earning assets. This strategy was thought to assist individual banks in keeping up enough liquidity to handle demand for deposit withdrawals. This idea, albeit in a modified form, became the commercial loan theory of credit in the United States.

Due to conceptual shortcomings and practical difficulties, the commercial loan theory of credit was rendered obsolete. It was expected that the profits from the business transactions that short-term commercial loans supported would be used to repay the loans. This presumption, however, proved incorrect throughout widespread financial crises when credit became scarcer and even short-term loans supporting actual goods transactions became illiquid. Furthermore, it was unfeasible for banks seeking to promote national economic progress to strictly follow this concept. It also turned out to be unsustainable to keep renewing short-term notes to fund long-term projects. This strategy was rendered obsolete in part by banks' inability to customize loan terms to the unique requirements of longer-term investments.

2.2 Review of Related Studies

An examination of the impact of credit risk management on Kenyan commercial banks' financial performance was done by Fredrick (2012). The CAMEL model was employed in the study as a stand-in to evaluate credit risk management. The author came to the conclusion that the CAMEL model's elements significantly affect commercial banks' financial performance.

Over an 11-year period (2000-2010), Funso et al. (2012) looked into how credit risk affected the performance of commercial banks in Nigeria. After estimating the profit function's drivers using panel model analysis, they discovered that credit risk, as determined by Return on Assets (ROA), had a uniform impact on all Nigerian banks. Nevertheless, the extent of impact on certain banks differed and their analytical approach did not fully reflect it. The report suggests that although regulatory bodies should guarantee adherence to pertinent laws of the Bank and other Financial Institutions Act (1999) and prudential recommendations, Nigerian banks should improve their capacities in credit analysis and loan administration.

Hosseininasab et al. (2012) focused on 15 leading Iranian banks over a six-year period to investigate the impact of credit, operational, liquidity, and market risks on the efficiency of the banking system (2005-2011). They examined the effectiveness of parametric (SFA) and nonparametric (MEA) models for assessing risk and measuring bank efficiency. Banks were evaluated using Deap and Frontier software, and their average performance from both approaches was used to rank them. This revealed disparities in evaluation and a preference for the SFA method. Additionally, they carried out econometric calculations, employing certain indicators to determine the important effects of each risk category on efficiency.

In their 2013 assessment, Kumar & Yadav evaluated the risk management of liquidity in banks, characterizing liquidity as a bank's capacity to fund asset growth and satisfy both anticipated and unforeseen cash and collateral requirements at a fair cost, all without suffering unconscionable losses. In the case of banking, keeping the institution solvent requires sustaining liquidity. Because bank solvency and liquidity are closely related, efficient management of liquidity lowers the danger of bankruptcy and, consequently, lowers the probability of bankruptcies and bank runs. A sound and stable banking industry is facilitated by prudent liquidity management that is included

into financial institutions' overall risk management procedures. The research looked at the best methods for managing liquidity risk in accordance with the Reserve Bank of India's and the Basel Committee's recommendations. It described the steps involved in creating a strong liquidity risk management system and offered insights on the meanings of liquidity, liquidity risk, and liquidity risk management.

Using Rowel Commercial Bank as a case study, Kaitibi et al. (2018) evaluated the effect of effective credit management on the profitability of commercial banks in Sierra Leone. Over a five-year period, they collected pertinent information from the bank's annual reports and financial statements. Both quantitative (ratio analysis) and qualitative (charts) methodologies were used in the analysis. According to their results, the profitability of commercial banks in Sierra Leone is significantly impacted by the effectiveness of loan management.

Using secondary data from four distinct commercial banks, Noor et al. (2018) conducted a descriptive and analytical study to investigate the impact of credit risk management on the financial performance of banks. To evaluate the correlation between the proportion of loans categorized and financial metrics like ROI, ROE, and ROA, they employed basic regression analysis. The study found that these factors had a substantial short-term association.

Ibe O.S. (2013) looked at how Nigerian banks' profitability was affected by liquidity management, as the country's banking sector needed to solve liquidity management issues. As proxies for liquidity management, three banks were chosen at random to represent the industry. The proxies included cash and short-term funds, bank balances, treasury bills, and certificates. Profitability was represented by profit after taxes. Regression analysis was used in the study to test hypotheses and the Elliot Rothenberg Stock (ERS) stationary test model to evaluate variable connections. The study's conclusions emphasized the importance of liquidity management for Nigeria's banking industry and suggested that banks hire qualified staff to maximize profitability while making the best judgments on liquidity.

Liquidity and profitability are two important issues for bank stakeholders that Abdullah & Jahan (2014) looked at. Maximum profitability is usually valued by shareholders as a return on their investment, whereas maximum liquidity is valued by depositors as a means of safety and convenience of money access. Over a five-year period, the study sought to determine how liquidity affected the profitability of private commercial banks in Bangladesh that were part of the CSE-30 index. For the study, five private commercial banks were chosen. Liquidity was evaluated using measures such as Loan Deposit Ratio, Deposit Asset Ratio, and Cash Deposit Ratio, while profitability was determined using Return on Equity (ROE) and Return on Assets (ROA). In order to test its hypotheses, the study used simple regression analysis, and in the end, it accepted the null hypothesis, which contends that there is no meaningful correlation between profitability and liquidity in the context of the chosen institutions.

In today's competitive corporate climate, Smail (2016) emphasized the increasing significance of profitability and liquidity for raising internal capital. From 2006 to 2011, 64 Pakistani non-financial firms listed on the Karachi Stock Exchange (KSE) 100 Index had their performance evaluated for the effect of liquidity management. Techniques like multivariate regression, correlation analysis, and descriptive statistical analysis were used. The results showed that liquidity factors with a substantial and favorable influence on profitability (ROA) include the current ratio and cash conversion cycle. Extended cash conversion cycles and elevated current ratios were linked to enhanced company performance. In order to improve accessibility to a wider client base, the research advised businesses to modify their credit sales rules and streamline inventory and collection turnover processes.

Begum (2016) used data from 1997 to 2014 to examine the link between bank profitability and liquidity, with a particular emphasis on the effect of liquidity on bank profitability. Ordinary least squares (OLS) regression was used in the study to examine the relationship between factors such as call money rates, excess liquidity, non-performing loans (NPLs), and advance deposit ratio and profitability as determined by return on assets (ROA). The results showed that while NPLs and excess liquidity had a negative effect on profitability, the advance deposit ratio had a beneficial influence. Policymakers in Bangladesh's banking sector have been more concerned about the rising non-performing loans (NPLs) since 2011.

Ali et al. (2011) used Return on Equity (ROE) and Return on Assets (ROA) as metrics to analyze profitability indicators of public and private commercial banks in Pakistan from 2006 to 2009. The research utilized SPSS for descriptive, correlation, and regression analyses in order to evaluate the impact of macroeconomic and bank-specific variables on profitability. Profitability was found to positively connect with both economic growth and efficient asset management in both ROA and ROE models. On the other hand, operational efficiency tended to increase profitability (ROE), whereas greater credit risk and capitalization levels were linked to poorer profitability (ROA).

A research was carried out by Olweny and Shipho (2011) to assess the impact of bank-specific factors on the profitability of Kenyan commercial banks, including capital sufficiency, asset quality, liquidity, operational cost efficiency, and revenue diversification. Additionally, they evaluated how market concentration and foreign ownership affected bank profitability. They examined yearly financial statements from the Central Bank of Kenya and the Banking Survey 2009 using an explanatory methodology and panel data from 38 Kenyan commercial banks covering the years 2002 to 2008. All bank-specific characteristics had a substantial impact on profitability, according to multiple linear regression analysis, but market factors had no significant effect. Policies to encourage income diversification, lower operating expenses, lower credit risk, and improve liquidity management were all suggested by the research. In an effort to improve academic literature and profitability, it also recommended doing more study on the variables affecting liquidity in commercial banks.

Driven by the necessity to solve liquidity management issues in the Nigerian banking sector, Ibe (2013) looked at the effect of liquidity management on the profitability of Nigerian banks. The research measured liquidity management using proxies such as cash, short-term funds, bank balances, treasury bills, and certificates. Three banks were chosen as industry examples. Profitability was represented by profit after taxes. Regression analysis was used in the study to test hypotheses and the Elliot Rothenberg Stock (ERS) stationary test model to evaluate variable connections. The results emphasized the importance of liquidity management for Nigeria's banking industry and suggested that banks hire qualified staff to maximize profits while making the best judgments on liquidity.

Abiola and Olausi (2014) used financial reports from seven commercial banks over a seven-year period (2005–2011) to study the effects of credit risk management on the performance of commercial banks in Nigeria. In order to quantify the link, they used a panel regression model, with non-performing loans (NPL) and the capital adequacy ratio (CAR) serving as indicators of credit risk management and return on equity (ROE) and return on assets (ROA) serving as performance indicators. The study's conclusion that there is a substantial correlation between bank profitability and credit risk management highlights how crucial sound credit risk management procedures are to improving bank performance. The study also shown a noteworthy correlation between bank profitability and liquidity among Nigerian deposit money institutions.

A conceptual study of credit risk management and customer satisfaction in Nigerian Deposit Money Banks (DMBs) was carried out by Danjuma (2015). The research looked at risk assessment tools, credit, credit risk management, and credit ideas. It specifically looked at the Credit Appraisal Process from the viewpoints of corporate and portfolio strategy. Additionally, it explored the conceptual underpinnings of consumer behavior, customer satisfaction, and the four components of customer satisfaction—behavioral, affective, cognitive, and desire to repurchase. The study suggested a conceptual framework to assess the relationship between credit risk management and customer happiness in DMBs, speculating that variables like gender, age, and employment could have an impact on how satisfied customers perceive themselves.

Alshatti (2015) looked at how Jordanian commercial banks' financial performance was affected by credit risk management between 2005 and 2013. The study's independent variables were the capital adequacy ratio, leverage ratio, provision for facilities loss/net facilities ratio, credit interest/credit facilities ratio, and non-performing loans/gross loans ratio. Return on Equity (ROE) and Return on Assets (ROA) were the dependent variables used to measure financial performance. The results showed that every credit risk management metric looked at had a major impact on Jordanian commercial banks' financial performance. This emphasizes how crucial good credit risk management techniques are to improving banks' overall financial success.

The effect of credit risk management on the quality of loan portfolios at Kenya's tier one commercial banks was examined by Onuko et al. (2015). Nonperforming assets (NPA) were

utilized in the study to gauge the quality of the loan portfolio, with loan price serving as the independent variable. The research, which examined financial data from five tier-one commercial banks between 2009 and 2013, discovered that loan pricing had a major impact on non-performing asset (NPA) levels and was responsible for 57.4% of the variation in NPA. The study suggested that in order to draw in more creditors and boost interest income, financial institutions should establish interest rates that are reasonable. Other aspects, such as loan exposure restrictions, were suggested to be investigated in future studies.

Using a survey study approach, Ugoani (2015) investigated the connection between subpar credit risk management and bank failures in Nigeria. The study's use of Chi-square statistics showed that, despite credit risk management being a multifaceted and intricate activity in banking, poor corporate governance hastens bank collapses. The author came to the conclusion that a major factor in bank failures is inadequate credit risk management.

In their evaluation of credit risk management in Kenyan commercial banks, Michael et al. (2015) concentrated on the impact of credit appraisal on loan performance. The study made clear that credit management starts with sales and concludes with final payment. It observed that throughout the previous ten years, commercial banks have reported an increase in non-performing loans and a high prevalence of credit risk. Customers, investors, government stakeholders, and bank management were all intended beneficiaries of the research. The study employed a self-administered questionnaire in a descriptive research methodology with 86 respondents, despite difficulties in obtaining confidential credit information. The results emphasized the significance of credit evaluation in impacting bank performance, stressing the necessity of hiring qualified and experienced credit officers and using a comprehensive approach to credit risk assessment.

Shing & Shahid (2016) used a comparison of local and foreign banks to examine how liquidity risk was managed in Oman's banking industry. Over the course of three years (2012–2014), they compared and analyzed liquidity management using liquidity ratios. According to the survey, Oman's two local banks performed worse at managing liquidity than their foreign rivals. It mentioned that the Central Bank of Oman keeps an eye on reports on liquidity, evaluates policies,

and grants them approval by means of bank risk committees. Local Omani banks also do stress tests according to Basel Committee guidelines and market circumstances.

Bassey (2016) investigated bank performance and liquidity management in Nigeria between 2000 and 2010. The study looked at how liquidity management metrics including bank deposits, cash reserve requirements, bank investments, and cash ratios related to bank performance. The statistics bulletin published by the Central Bank of Nigeria served as the main source of data. A straightforward regression model and basic percentage analysis revealed a substantial correlation between reserve requirements and bank deposits as well as between bank investments and cash ratios. The study underlined the need of effective liquidity management for banks to function well and survive, and also suggested diversification strategies beyond deposits to reduce liquidity risks.

The effect of credit risk on corporate liquidity in Kenyan deposit-taking microfinance institutions (DTMs) was examined by Wambui & Wanjim (2016). The study used secondary data gathered between 2011 and 2013 and included all nine DTMs in Kenya. To ascertain the degree of correlation between credit risk and business liquidity, regression analysis was utilized. The results demonstrated that credit risk had a notable and substantial detrimental impact on DTM liquidity in Kenya, underscoring the significance of efficient credit risk management for preserving corporate liquidity in microfinance organizations.

Davronov (2016) investigated Uzbekistan's commercial banks' liquidity management systems. A description and categorization of theoretical methods to bank liquidity management were supplied by the study. It developed the fundamental guidelines for the process of managing liquidity and suggested a mathematical model for analyzing and projecting bank cash flows that was based on the ARIMA (AutoRegressive Integrated Moving Average) approach. The objective of the model was to maximize bank operations and reduce risks related to liquidity management; yet, it recognized that projections of future cash flows are by nature uncertain. When expanding the time series, this could have an impact on how reliable the results are.

Coleman et al. (2017) used a special dataset from Brazilian banks at the branch level to investigate patterns of internal liquidity management and their effect on bank lending. According to the study, internal liquidity management is more intense when the economy is under stress. Individual Banks,

Increase internal funding in particular to keep branch lending going during liquidity shocks while government-owned banks take a more calculated approach. Banks, both public and commercial, provide their branches in populated and high-risk locations greater money. Higher lending levels are correlated with this increased internal financing, suggesting that lending is very sensitive to internal liquidity situations even in times of hardship.

Ejong et al. (2014) studied First Bank of Nigeria Plc in particular to find out how credit risk and liquidity risk management affected the profitability of deposit money banks in Nigeria. A sample size of eighty (80) respondents were given questionnaires as part of the study's descriptive research approach. Simple percentages were used to assess the data that were gathered from the surveys and displayed in tables.

The Pearson product moment correlation was to be used in the study to assess hypotheses that were developed. The degree and direction of the linear association between bank profitability indicators, credit risk management, and liquidity risk management would have been determined using this statistical technique.

2.2.2 Review Article in the National Context

Koirala (2010) assessed the creditworthiness and success history of potential borrowers to determine who would be the greatest loan candidates. On the other hand, among state-owned commercial banks, the bank is an entity that has made a substantial contribution to the high level of non-performing assets (NPA). To address the issue, a more pleasant working structure has to be created, including assistance from politicians and stakeholders who have the authority to influence bank operations in addition to bank employees.

Gautam (2011) examined the financial performance of commercial banks using a descriptive and diagnostic method. The findings arrived at were as follows:

• The structural ratio of commercial banks indicates that, on average, banks allocate 75% of their total deposits to government securities and the share.

• It is recommended that a substantial portion of deposits be reclassified as cash reserves in order to improve the analysis of commercial banks' resource situations.

• Each bank's return ratios show that, on average, foreign banks provide higher returns at the same level of risk as Nepalese establishments.

• The debt-to-equity ratios of commercial banks have been higher than 100% for the bulk of the research period. The conclusion that came out of it was that commercial banks are extremely risky and leveraged.

When it comes to the analysis of management achievement, foreign banks have a comparatively higher total management accomplishment index.

Shrestha (2012) used a descriptive and diagnostic technique in the study of banks to look at the function of deposit mobilization, its difficulties, and its future in Nepal. The investigation found the following issues in Nepal:

Individuals are not well-informed or trained in institutional conduct. Regarding the mechanisms for deposits, withdrawals, and other financial organization, they are utterly clueless.

Why financial organizations are hesitant to provide their services and operate in rural areas.

• He has also made recommendations about how to get financial institutions to take deposits by growing their clientele and providing services in rural areas.

• Financial institutions can mobilize deposit collection by offering a variety of services and operating rural banking programs and units in rural areas.

• In order to enhance the proficiency of its workforce, Nepal Rastra Bank must establish training initiatives.

• By founding several cooperative groups to develop local banking services and improve rural areas' public deposit collecting practices.

Poudel (2012) used financial data from 31 banks covering the eleven-year period (2001–2011) to examine the effect of credit risk management on the financial performance of commercial banks in Nepal. Multiple regression, correlation, and descriptive analysis were used in the study. The main metric for assessing financial success was return on assets (ROA), along with default rate, cost key predictors are capital adequacy ratio and assets per loan. The results show that these variables have the opposite effect on banks' financial performance. In Nepal, the most important predictor of bank performance was found to be the default rate (NPLR), whereas the cost per loan asset did not have any discernible influence.

The study emphasizes how important credit risk management is to bank performance and how closely it relates to financial results. The study used regression models to analyze pooled data from 14 commercial banks between 2010 and 2015, utilizing descriptive and causal-comparative research methodologies. The findings showed that while cost per loan asset has a favorable impact on bank performance, a larger non-performing loan percentage has a negative effect. Furthermore, it was discovered that bank performance was significantly impacted by bank size. Cash reserves and the capital adequacy ratio, however, had little effect on the functioning of the bank. The study concludes that there is a substantial correlation between credit risk indicators and bank performance.

2.2.3 Review of Thesis

Numerous academics have already carried out a variety of studies on the financial performance of commercial banks. Relevant topics are emphasized in this review in the following ways:

Sakya (2010) examined the financial results of Everest Bank Limited (EBL) and Nepal SBI Bank Limited (NSBIBL) throughout a five-year span ending in the 2008 fiscal year. The research looked at a variety of ratios and discovered that NSBIBL often had higher ratios and that EBL occasionally displayed a slightly stronger liquidity position. Both banks were judged to have strong liquidity

situations overall. In comparison to EBL, NSBIBL showed superior resource use in income-generating operations. On the other hand, EBL's trends in return on net worth and interest generated relative to total assets were superior. Consequently, even though both banks were extremely leveraged, EBL seemed to be in a better overall profitability situation than NSBIBL.

In his thesis "A Comparative Study of the Financial Performance of HBL and NBBL," Regmi (2007) proposed that because NBBL's liquidity was insufficient, it should raise its current assets.

Location with relation to HBL. Given their highly leveraged capital structures, both banks were recommended to maintain and enhance their debt and equity balance by raising their equity participation. While NBBL was encouraged to hold onto its existing position in this respect, HBL was urged to increase efficiency in using deposits for loans and advances in order to boost profit production. Analysis of profitability showed that HBL outperformed NBBL. In order to increase profitability and prevent the high expenses linked to idle resources, NBBL was therefore advised to make better use of its resources. It was also suggested that NBBL raise its dividend payment ratio in light of the expectations of its shareholders and the banks' expansion needs. (Page 29 of Regmi, 2001)

The two banks should be more involved in rural communities and help the poor and disadvantaged people in their quest for progress. This may be achieved by banks opening branches in remote areas and providing fairly priced financial services. Because it has fewer branches than NBBL, HBL in especially has to take the lead in this area. Given the competitive environment in the banking industry, both banks are advised to develop and put into action effective non-financial and financial strategies in order to reduce operating costs and achieve the required level of profitability. It is recommended that they incorporate modern banking technologies to enhance their efficiency and visibility in the market.

According to Adhikari's (2008) thesis, which compares the financial performance of NSBIBL with EBL, EBL performs better than NSBIBL in terms of capital adequacy, quality of assets, and liquidity. In contrast, NSBIBL's total capital structure seems more leveraged than EBL's. In contrast to EBL, NSBIBL exhibits more profitability and turnover, and interest income continues to be a significant portion of its overall revenue and costs. Significant variations in the performance

of the sampled banks are shown by hypothesis testing at a 5% significance level for a number of ratios, including loans and advances to savings accounts, loan loss provisions to total deposits, interest earned to total assets, and tax per share. The analysis highlights how well EBL uses its resources in comparison to NSBIBL. (Adhikari, 2001, p.28)

The reading of the aforementioned collection of research articles has undoubtedly improved my ability to conduct in-depth analysis in order to reach a meaningful conclusion in a practical sense. As a result, I have been able to draw certain conclusions and offer some important recommendations that will help commercial banks operate better.

- To assess Nepal SBI Bank's and Nepal Bangladesh Bank's financial performance.
- Should use the proper financial instruments to assess their financial success.
- To look at what factors affect shifts in both banks' cash positions.

2.3 Research Gap

This study addresses a topic that has not received much attention before: the financial performance disclosure of Nepalese commercial banks that operate as joint ventures. This research is special since it looks at joint venture banks, namely Nepal Bank Limited and Everest Bank Limited. There is a knowledge vacuum regarding accounting and financial standards in this industry since joint ventures were not sufficiently covered in earlier studies on the financial performance of commercial banks in Nepal. The purpose of this study is to offer information that will help people who are interested in learning more about the general accounting practices and financial standards of Nepali joint venture banks. The study seeks to identify potential as well as obstacles by concentrating on these two particular banks, which makes it a unique addition to the body of knowledge already available on banking in Nepal.

CHAPTER III
RESEARCH METHODOLOGY

This study's primary goal is to assess a bank's financial performance by looking at the key elements of its balance sheet portfolio. The study has to use an adequate research approach in order to accomplish this goal. Consequently, the approach used in the current investigation is highlighted in this chapter.

3.1 Research design

The purpose of the study is to contrast Nepal Bank Limited's with Everest Bank Limited's financial results. They used a descriptive study approach to assess their financial performance.

3.3 Sources of data

The study's secondary data, which mostly came from Everest Bank Limited and Nepal Bank Limited's annual reports and focused on their balance sheets, profit and loss statements, and other public documents, was gathered. The website of the Nepal Stock Exchange has also provided statistics. Information has also been gathered by reading articles, publications devoted to financial performance studies, and earlier study papers.

3.4 Populations and Sample

Currently, 28 commercial banks in Nepal are managed by Nepal Rastra Bank. The remaining commercial banks make up the population of this study, with Nepal Bank Ltd. and Everest Bank Ltd. chosen as the sample. For analysis, information covering the fiscal years 2014–2015 through 2017–2018 has been gathered. The following commercial banks were chosen for this study:

1. Everest Bank Limited
2. Nepal Bank Limited

The sample banks were chosen using convenience sampling.

3.5 Data collecting procedure

To get pertinent data, a thorough literature study was carried out in addition to the aforementioned data sources. Data and information from the Nepal Rastra Bank Library and the Central Library of Tribhuvan University were incorporated in this. Before being analyzed, all gathered data, facts, and figures were revised, collated, and computed. Results and conclusions drawn from these findings will be presented at the end of the study.

3.6 Method of data analysis

Financial and statistical methods will be used to assess the financial statements of the chosen Joint Venture Banks (JVBs) for this study.

3.6.1 Financial tools

The strength and weakness of the sample banks have been evaluated in this study using the following financial instruments.

3.6.1.1 Ratio

The technique of evaluating a company's financial health by identifying correlations between the items on the balance sheet and profit and loss account is known as financial analysis (Van Horne, 1979). One of the most popular methods for assessing a company's operational efficiency, financial stability, and prospects for expansion is ratio analysis. It entails calculating and analyzing a range of financial ratios obtained from the company's financial statements in order to acquire a deeper understanding of its performance and financial position over time. (Poudel, 2053; 67).

I. Liquidity Ratio

Ratios of liquidity are crucial in determining a company's capacity to fulfill its immediate financial commitments. They make a comparison between current short-term resources and short-term obligations. These ratios assess a company's ability to pay its short-term debts. Joint venture banks (JVBs) need to make sure they have enough liquidity in order to be solvent in the short term. Liquidity ratios should ideally be balanced, neither too high, which would tie up money in current assets needlessly, nor too low, which might result in bad credit ratings and a loss of creditor trust.

Usually, the following ratios are employed to evaluate a bank's short-term solvency:

a. Current ratio

A bank's liquidity and capacity to pay off short-term debt are gauged by its current ratio. By dividing current assets by current liabilities, it computes the connection between current assets and current liabilities. Consequently;

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Assets that can be quickly turned into cash typically little more than a year are referred to as current assets. Cash and bank balances, quick cash, advances, investments in government securities and other interest-bearing assets, debtors, discounted and acquired bills, and other miscellaneous items are a few examples. Current liabilities, on the other hand, are debts that must be paid off quickly. Examples include bills payable, tax provisions, staff bonuses, dividend payables, short-term loans, deposits, and other liabilities.

The current ratio, sometimes called the working capital ratio, gauges how well a business can use its current assets to pay for its short-term liabilities. Divide current assets by current liabilities to get the calculation. A current ratio of 2:1 that is, current assets should ideally equal current liabilities is seen sufficient for many organizations. A ratio of less than 2:1 suggests that the company may have trouble fulfilling its short-term obligations, which might have a detrimental effect on its solvency. On the other hand, a greater current ratio denotes improved liquidity and the capacity to make fast bill payments.

Although the 2:1 ratio is frequently used as a benchmark, other variables, such as the type of business and its seasonal fluctuations in cash flow, might influence the proper ratio. As a result, the appropriate current ratio needs to be understood in light of certain company conditions.

b) Cash and bank balance to total deposits

The so-called "Cash Ratio," which compares cash and bank balances to potentially withdrawal deposits, assesses a bank's ability to satisfy its short-term obligations. It is calculated using this formula:

$$\text{Cash and bank balance to total deposit} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

Here, the terms "cash" and "bank balance" relate to the following: cash on hand, cash in foreign currency, cheques and other financial instruments, and balances held in domestic and foreign banks. The total deposit includes all types of deposits, including short-term, fixed, savings, current, and other deposits as well as money on call. A high ratio denotes a greater ability to meet deposit obligations, and vice versa. An excessively high percentage is likewise unsuitable since it will limit possibilities and tie up capital.

II) Ratio of leverage

Leverage ratios demonstrate how debt and equity are balanced in financing and highlight a bank's long-term stability. Long-term creditors such as financial institutions and holders of debentures are particularly worried about a company's capacity to maintain its financial stability. The main purposes of capital structure ratios are to assess a company's long-term financial health, debt repayment capabilities, and strengths and weaknesses. These ratios are computed using balance sheet items to get the proportion of debt in overall financing. In essence, debt ratios display the proportions of capital contributed by creditors and owners. The following ratios are used by us to assess the long-term financial stability, ability to repay loans, and advantages and disadvantages of joint venture banks (JVBs).

a) Debt-equity ratio

The debt-to-equity ratio looks at how owners' and creditors' respective claims are compared to the assets of the banks. On the other hand, the debt to equity ratio shows how much each capital fund debt and equity contributes to the overall investment. The following formula is used to calculate this ratio:

$$\text{Equity} = \frac{\text{Total debt}}{\text{Equity}}$$

The capital of the shareholders, general reserves, general loan loss provisions, improper profit and loss balance, etc. are all included in the equity funds here. This ratio aids in determining the measured ownership and lending stake in a commercial bank. Overly high debt levels signal possible danger and increased financial leverage, which may be signs of the owners' carelessness in overseeing the bank's financial structure. It functions as a crucial metric for evaluating the risks involved and the ratio of debt to equity in the bank's capital structure.

b) Debt-assets ratio

The percentage of outside money funded by total assets is shown in this ratio. It evaluates the financial leverage or security offered to third parties and indicates the amount of debt financing in relation to total assets. The following formula is used to compute this ratio:

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

Both long-term and short-term debt make up the numerator. The total amount of money owed is referred to as debt. Debentures, bills payable, and creditors are a few instances of debt. Greater financial risk for shareholders and creditors is indicated by a high debt to total assets ratio, and

vice versa. According to this ratio, a commercial bank may have been effective in leveraging debt to boost profits.

II. Activity ratio

Activity ratios are used to gauge how well assets are managed. These ratios are used to assess a bank's efficiency in managing and allocating its assets. Under "activity ratios," the following ratios are computed:

a) Loan and advance to total deposits ratio

The effectiveness of banks in mobilizing outside money is evaluated using this ratio. It calculates the proportion of total deposits used for overdrafts, advances, and loans. This ratio shows how well commercial banks use deposits for lending activity. The formula below is used to compute it:

$$\text{Loan and Advance to Total Deposits Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposits}} \text{ x100}$$

The greater percentage shows how well-equipped financial institutions are to give consumers loans and advances. While a lower percentage can suggest underutilization of deposited money for lending purposes, a high ratio is seen to be an indication of an effective commercial bank and effective mobilization of collected deposits.

c) Loan and Advances to total working fund ratio

The fact that loans and advances make up a sizable amount of total working funds (total assets) indicates how well commercial banks are able to use these money to generate revenue. By dividing the entire amount of loans and advances by the total amount of working cash, this ratio is computed.

$$\text{Loan and Advances to total working fund ratio} = \frac{\text{Loan and Advance}}{\text{Total working fund}} \times 100$$

Here, every asset shown on the balance sheet is included in the denominator. This includes net fixed assets, current assets, loans to development banks, and other investments in stocks, bonds, and comparable securities. Better money mobilization as loans and advances is indicated by a greater ratio, and vice versa.

III. Profitability ratio

The profitability ratio shows how well desired profits were attained. It gauges how well a business uses its resources to turn a profit. Commercial banks depend on this ratio to expand and survive since it shows how well they can compete in the market and provide returns for stakeholders. Maintaining operations, drawing capital for growth, and advancing national economic objectives all depend on profitability. Better financial success for commercial banks is indicated by higher profitability ratios, whereas poorer performance is shown by lower ratios. In order to assess the profitability situation in this study, a number of profitability ratios have been computed.

a) Net profit to total assets ratio

This ratio calculates the profitability relative to the total amount of assets. It shows how well the banks have used all of their resources. Utilizing the following formula, this may be determined:

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

The income that remains after all costs, charges, and expenses are subtracted from the total revenue is represented as the numerator in the Return on Total Assets (ROA) ratio. All assets shown on the asset side of the balance sheet are included in total assets. While a low ROA denotes poorer

profitability and inefficient asset utilization, a high ROA usually implies a large profit margin and efficient turnover of total assets. When evaluating a bank's profitability in relation to its total asset base, this ratio is essential.

a. Net profit to total deposits (Return on total deposits)

This ratio makes it possible to assess the degree to which management has been effective in mobilizing deposits to produce profit. A higher ratio indicates better profit utilization. The formula below is used to compute it.

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

In this context, total deposit refers to the entire amount placed in all accounts, including current, savings, fixed, call, and short deposits, among others, while net profit denotes profit after interest and taxes. Better use of total deposits is often indicated by greater ratios, and vice versa.
General reserve, capital reserve, preference share, common share, premium on common share, and other reserve that might be distributed as dividend to shareholders.
Working capital total and vice versa.

3.6.2 Statistical tools

The following statistical methods were selected for the comparison analysis between Himalayan Bank Ltd. and Nepal Investment Bank:

3.6.2.1 Arithmetic Mean

The usual value that other items in a distribution cluster around is represented by the average, often known as the arithmetic mean. The computation involves dividing the total number of observations by the sum of a particular set of data (Gupta, S.C. 1995:331).

Mathematically, $\bar{X} = \frac{x_1+x_2+\cdots x_n}{n} = \frac{\sum x}{n}$

Where,

$\overline{X}$ = Arithmetic Mean

$x_1 + x_2 + \cdots x_n$ = *Values of Variable*

$\sum x$ = *Sum of the values of variable* x

n = Number of observation.

3.6.2.2 The Coefficient of Variation

We compute the coefficient of variation (C.V.) while comparing the variability of two distributions. A distribution when the C.V. is smaller. Is seen as being less variable, homogenous, or uniform than another, whereas a series with a higher C.V. is thought to be more varied or diverse. A helpful metric for assessing the degree of variance among data groups with varying means is the coefficient of variation.

Mathematically,

$$\text{C. V.} = \frac{\text{S.D.}}{\overline{\text{X}}} \times 100$$

$$\text{S. D.} = \sqrt{\frac{1}{\text{n}} \sum (\text{X} - \overline{\text{X}})}$$

Where,

S.D = Standard Deviation

$\overline{X}$ = Mean

C.V. = Coefficient of variation

3.6.2 Statistical Tools

The following statistical approaches were chosen for the Himalayan Bank Ltd. and Nepal Investment Bank comparison study:

3.6.1.3 Coefficient of Correlation

An important metric for determining how well one variable is explained by another is the coefficient of correlation. It measures the strength of the correlation between two variables that are causally connected. The symbol 'r' represents Karl Pearson's coefficient of correlation, which gives a numerical estimate of the linear relationship between two variables, X and Y.

Where,

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2 n\sum y^2 - (\sum y)^2}}$$

n = No. of observation of X and Y.

$\sum x$ = Sum of the observations in series X.

$\sum y$ = Sum of the observations in Series Y.

$\sum x^2$ = Sum of square observations in series X.

$\sum y^2$ = Sum of square observations in series Y.

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

3.6.2.5 Coefficient of Determination

The main tool for determining how much or how strongly two variables, X and Y, are associated is the coefficient of determination. Squaring the correlation coefficient yields the result.
Where,

R = r^2

r = Coefficient of correlation

R = Coefficient of determination

3.6.2.6 Trend analysis

Trend analysis makes it possible to compare two or more businesses over various time periods and makes it easier to make significant inferences about them. It is essential for corporate forecasting and operational planning.

3.6.2.7 Least Square Linear Trend

A straight-line trend indicates that the trend values rise or decrease by a consistent absolute amount 'b' per unit of time, irrespective of erratic variations and seasonal and cyclical swings. As a result, the linear trend values create an arithmetic progression series, with 'b' denoting the trend line's slope, which indicates the steady rate of change over time.
Mathematically,

The straight line trend is given by the following formula:

$Y = a+bx$

Where,

3.7 Analytical Procedure

Financial and statistical approaches are used in this study's analysis of the joint venture banks' (JVBs) financial statements.
To evaluate the advantages and disadvantages of the two selected joint venture banks, financial instruments are used. These banks are then contrasted and examined in light of different ratio discoveries.

The research is analyzed using statistical techniques, with the aim of identifying the bank that demonstrates greater homogeneity or uniformity in comparison to the other, as shown by the coefficient of variation.

CHAPTER IV

RESULT AND DISCUSSION

In order to assess the performance of the chosen banks for the research, we will examine and evaluate a number of financial factors in this part. Financial and statistical methods will be used in the presentation and analysis of secondary source data. Bank financial forecasting will be made easier by tabulating, analyzing, and interpreting the available data. The financial performance of the chosen joint venture banks will be evaluated in this study using trend, correlation, and ratio analysis.

4.1 Financial Analysis

One technique that highlights important links within financial statements is financial statement analysis. It uses activity ratios, profitability ratios, liquidity, and leverage to assess the historical performance of commercial enterprises. An analysis of Nepal Bank Limited and EBL's performance is conducted using a range of financial parameters pertaining to investment management and resource mobilization. Among the crucial ratios taken into account for this purpose are:

I) Liquidity ratio

II.**)** Leverage e ratio

III.**)** Profitability ratio

IV) Activity ratio

I) Liquidity ratio

Reliability ratios are essential to every company's existence. The short-term solvency or liquidity of a company is the main concern of short-term creditors. On the other hand, significant liquidity suggests that funds are either inactive or yield relatively little return when considering fund usage. Thus, it's crucial to find a balance between these conflicting demands. Liquidity ratios indicate a

company's short-term financial strength or solvency and quantify its capacity to fulfill short-term obligations.

a. Current ratio

Cash and assets that can be turned into cash in less than a year are considered current assets. These include of bank accounts and cash, investments in government securities, loans and advances, short-term and call money, invoices that need to be paid, and interest receivables. Conversely, current liabilities consist of debts that mature throughout the year, including bills for collection, dividend payable, borrowings, accrued costs, current, savings, and short-term deposits, as well as fixed deposits maturing during the year.

To be deemed technically solvent, a company's current liabilities should ideally be twice as large as its current assets. In many commercial settings, a 2:1 current ratio is considered sufficient. A current ratio below 2:1 indicates that the company may not be in a strong financial position. While a smaller ratio suggests possible difficulties in paying short-term obligations, a larger ratio shows stronger liquidity and the capacity to meet financial obligations immediately.

Even while a 2:1 current ratio is generally acknowledged, the right ratio might differ depending on a number of variables, including the industry and seasonal variations in operations.

a) The ratio of current assets to current liabilities

Table no: 4.1

Current assets to current liability ratio Rs In. (million)

Banks	EBL			NBL		
Years	Current Assets	Current liability	Ratio	Current Assets	Current liability	Ratio
2013/2014	10,364	7,320	1.41	14,063	34,972	O.40
2014/2015	11,215	12,370	0.9	14,484	41,233	0.35
2015/2016	13,173	12,910	1.2	66,607	46,326	1.43
2016/2017	25,117	49,100	0.51	92,621	70,590	1.31
2017/2018	23,117	14,710	1.57	156,140	84,111	1.85
MEAN			1.118			1.354
S.D			0.42234			0.6338
C V			0.51			0.45

Source: NBL & EBL Report (2013/14 to 2017/18)

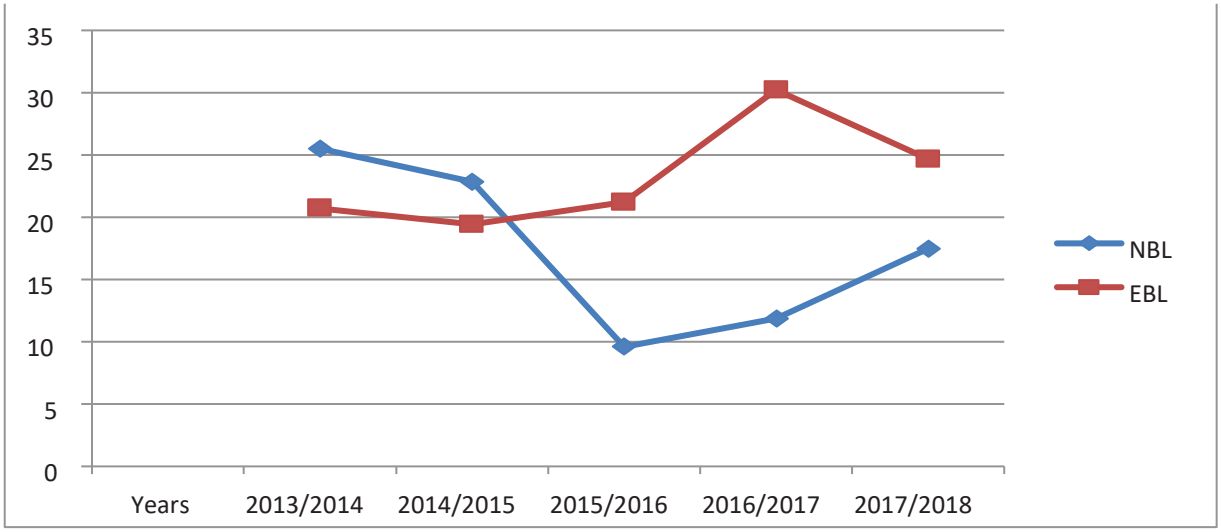
Table No. 4.1: With the exception of the last year, EBL's current assets (CA) have typically showed an upward tendency. With the exception of the last year, EBL's current liabilities (CL) have likewise shown an increasing tendency. The EBL current ratio has varied within a relatively small range, ranging from 1.57 to 0.51.

With the exception of the most recent year, NBL's current assets have steadily risen throughout the years. With the exception of the last year, NBL's current liabilities have likewise increased steadily over time.

NBL's current ratio has shown a broad range, ranging from 0.35 to 1.85. With a coefficient of variation (CV) of 0.4223, the mean current ratio of NBL is around 1.118, higher than that of EBL. This implies that NBL exhibits greater fluctuation in liquidity in contrast to EBL. The fact that NBL's CV is less than its mean, however, suggests that NBL's averages are more constant than its variance.

Figure no: 4.1

Current assets to current liability



Source: NBL & EBL Report (2013/14 to 2017/18)

b) Cash and bank balance to total deposit ratio

The capacity of banks to promptly pay their fixed deposits, current and savings accounts, margin calls, and other commitments is shown by this percentage. A bank's ability to satisfy these financial commitments immediately is shown by the ratio of cash and bank balance to deposit. While a lower ratio implies lesser liquidity and maybe inadequate cash to pay commitments, a higher ratio indicates a better liquidity position and the capacity to cover deposits.

Table no: 4.2

Cash and bank balance to total deposit ratio

Rs In (million)

Banks	NBL			EBL		
Years	Cash and bank b/c	Current deposit	Ratio	Cash and bank b/c	Current deposit	Ratio
2013/2014	14063	56052	25.5	10364	50006	20.7
2014/2015	14384	62988	22.83	11215	57720	19.43
2015/2016	6660	69337	9.6	13173	62108	21.2
2016/2017	9262	77999	11.87	25117	83094	30.22
2017/2018	15614	89410	17.46	23117	93735	24.66
Mean			17.452			23.242
S .D			6.8283578			4.355057
Variance			46.62647			18.96652
C V			0.0315676			0.945898

Source: NBL & EBL Report (2013/14 to 2017/18)

The mean, standard deviation, and coefficient of variation for the cash and bank balance to total deposit ratio of NBL and EBL, two banks, are displayed in Table 4.2.

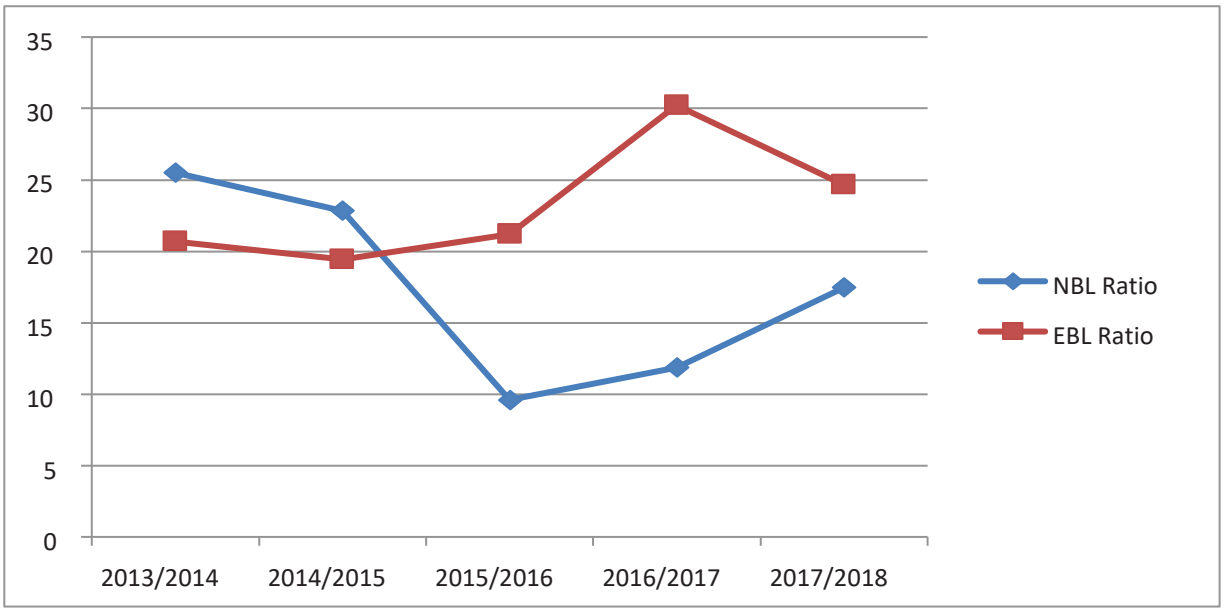
With the exception of the last year, NBL's cash and bank balance showed a growing tendency. Every year, the overall deposits likewise rose. There was a noticeable difference between the NBL ratios, which varied from 9.6 to 25.6.

Similar to this, EBL's total deposits increased together with its cash and bank balance, with the exception of the last year. The range of the EBL ratio, which again shown a significant disparity, was 19.43 to 30.22.

Over the period, there was a shifting tendency seen in the ratios of both banks. Since EBL's mean ratio was higher than NBL's, it may be concluded that EBL is more effective in fulfilling short-term responsibilities. Greater variance in the ratios is shown by the larger coefficient of variation (CV) in EBL relative to NBL.

Figure no: 4.2

Cash and bank balance to total current deposit



Source: NBL & EBL Report (2013/14 to 2017/18)

II) Leverage ratio

Leverage ratios, which show the ratio of debt to equity in a bank's financing structure, highlight the bank's long-term solvency. They are especially significant to long-term creditors, such financial institutions and holders of debentures, who evaluate the company's capacity to meet long-term financial obligations. Capital structure ratios show the bank's strengths and weaknesses as well as its overall long-term financial health and ability to service debt. The proportionate contributions of creditors and owners to the bank's capital are assessed using these ratios, which are calculated from balance sheet items.

Debt-to-equity ratio (a)

The debt-to-equity ratio evaluates how much of a bank's assets are owned by its creditors as opposed to its equity. It shows the proportion of loan capital vs equity capital used to finance the entire investment.

Retained earnings, general reserves, general loan loss provisions, and shareholders' capital are frequently included in equity funds. This ratio sheds light on the proportion of creditors' shareholding compared to proprietors of a business bank. A large amount of debt indicates more financial risk and possible owner irresponsibility.

a) Debt-equity ratio

Table no: 4.3

Debt equity ratio

Rs In (million)

Banks	EBL			NBL		
Years	Debt	Equity	Ratio	Debt	Equity	Ratio
2013/2014	1629	4177	39	5470	-2908	-188
2014/2015	3192	4828	66.11	10966	-172.66	-635
2015/2016	2880	5457	52.77	7720	3347	230.65
2016/2017	9169	6891	133	6381	3831	166
2017/2018	11635	8514	136.65	12109	6850	176.77
Mean			85.506			-49.916
S .D			46.04902			366.7813
C V			0.972833			0.504294

Source: NBL & EBL Report (2013/14 to 2017/18)

The overall mean, standard deviation, and coefficient of variation of the debt-to-equity ratio for each bank are shown in Table 4.3. With the exception of the last year, EBL's debt and equity ratios demonstrated an upward tendency. Both NBL's debt and equity showed a pattern of volatility. The NBL ratio showed a considerable degree of fluctuation, ranging considerably between -635 and 230.65. Comparably, throughout that time, EBL's ratio varied from 38.99 to 136.55. Both banks' ratios exhibited erratic patterns.

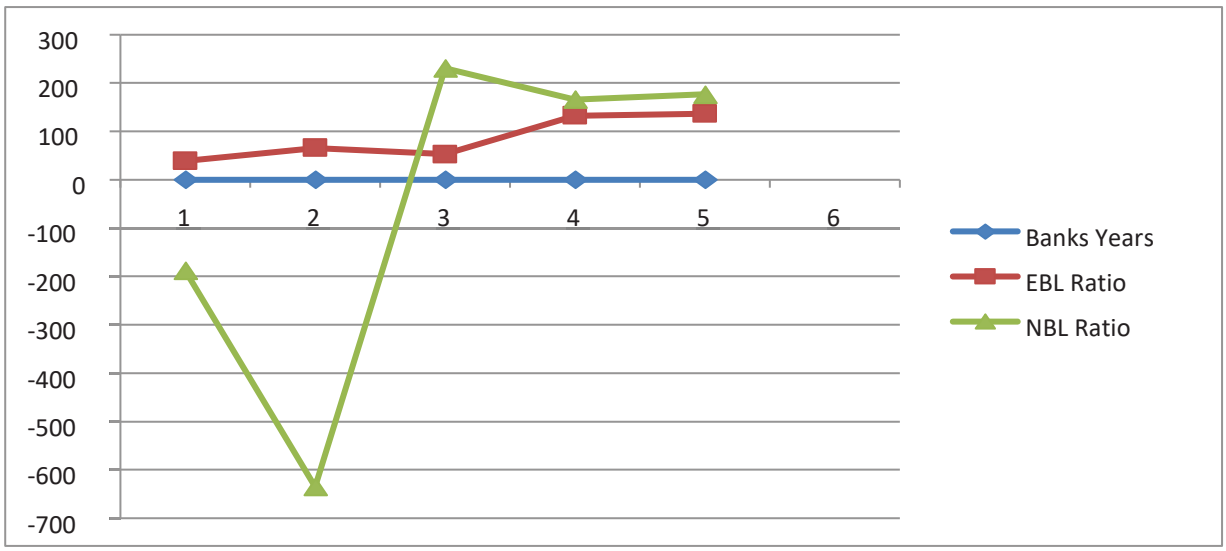
EBL's mean ratio seems to be greater than NBL's, but NBL's ratios looked to be more consistent due to its lower coefficient of variation. The different ways that the banks have financed interest-bearing loans are reflected in the mean ratio of -49.96% and the coefficient of variation of 0.50%

for NBL. When it came to capital raising, NBL was more active than EBL. On the other hand, NBL's capital structure seemed less precarious.

It is clear from the coefficient of variance analysis that EBL's ratios changed significantly during the course of the study period.

Figure no: 4.3

Debt to equity ratio



Source: NBL & EBL Report (2013/14 to 2017/18)

b) Debt-assets ratio

The percentage of outside money funded by the total assets is shown in this ratio. It assesses the financial leverage of the organization and indicates the amount of debt financing in relation to total assets. Both short-term and long-term loans are included in the numerator, which also includes debentures and other commitments that have to be paid back. better risk to creditors and shareholders is indicated by a high debt-to-total-assets ratio, whereas better financial stability is suggested by a lower ratio. A greater ratio for commercial banks might mean that they have successfully leveraged debt to increase profits.

Table no: 4.4

Debt to assets ratio

Rs In (million)

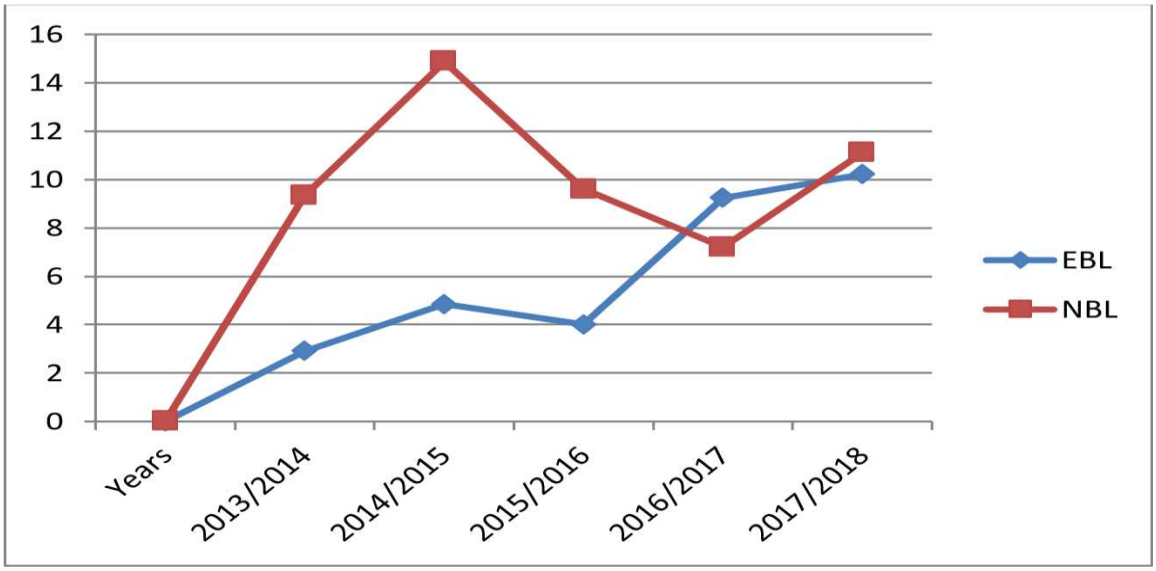
Banks	EBL			NBL		
Years	Debt	Assets	Ratio	Debt	Assets	Ratio
2013/2014	1629	55813	2.91	5470	58615	9.33
2014/2015	3192	65741	4.85	10966	73782	14.86
2015/2016	2880	70415	4	7720	80405	9.6
2016/2017	9169	99153	9.24	6381	88211	7.2
2017/2018	11635	113885	10.21	12109	108368	11.11
Mean			6.242			10.42
S .D			3.27106558			2.846867
Variance			10.69987			8.10465
C V			0.9921			0.630

Source: NBL & EBL Report (2013/14 to 2017/18)

The total mean, standard deviation, and coefficient of variation of the debt-to-equity ratio for the two banks are displayed in Table 4.4. With the exception of the last year, EBL's debt and assets showed a growing tendency, but NBL's debt and asset values varied equally. While EBL's ratio fluctuated between 2.91 and 10.11, NBL's ranged considerably between 7.2 and 14.86, showing high volatility. Given that NBL's mean ratio was greater than EBL's, NBL appears to be in a stronger position. Compared to EBL, NBL had a lower coefficient of variation (CV), which suggests that its ratios have been more consistent throughout time. This shows that although EBL's capital structure looked less hazardous, NBL adopted a more aggressive capital-raising approach.

Figure no: 4.4

Debt to equity



Source: NBL & EBL Report (2013/14 to 2017/18)

III) Activity ratio

Activity ratios are a useful tool for evaluating a bank's asset management effectiveness. These ratios evaluate the bank's efficiency in producing income from its resources. The activity ratios listed below are included in this category:

a) The ratio of loans and advances to total deposits

The effectiveness of banks in mobilizing outside money is evaluated using this ratio. It determines the proportion of total deposits used for overdrafts, advances, and loans. This ratio assesses how effectively loans are made in relation to the total amount of deposits that commercial banks hold. An elevated ratio suggests that the bank can effectively furnish loans and advances to its clientele. In general, a high loan-to-advance ratio indicates that a commercial bank is effectively mobilizing deposits, whereas a low ratio can indicate that deposited funds are not being fully utilized.

Table no: 4.5

Loan and advances to total deposit ratio

Rs In (million)

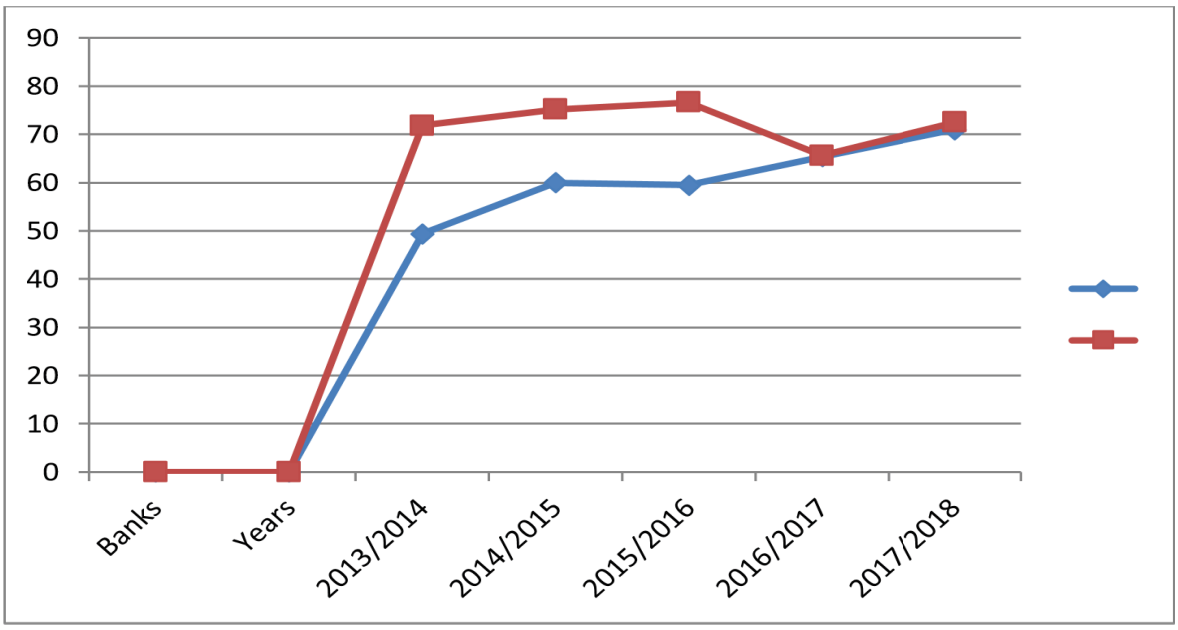
Banks	NBL			EBL		
Years	Loan and advances	Total deposit	Ratio	Loan and advances	Total deposit	Ratio
2013/2014	27670	56052	49.36	35911	50006	71.81
2014/2015	37855.28	62988	60.43	43393	57720	75.17
2015/2016	41218.3	69337	59.44	47572	62108	76.59
2016/2017	50971	77999	65.34	54482	83094	65.56
2017/2018	63527	89410	71.33	67955	93735	72.5
Mean			61.028			72.326
S.D			8.027373			4.252803
C V			0.995466			0.972073

Source: NBL & EBL Report (2013/14 to 2017/19)

Table 4.5 demonstrates that while total deposits have typically grown over time, with the exception of the last year, loans and advances for NBL have generally increased over time as well. With the exception of the last year, EBL has likewise seen a growth in loans and advances, and, with the exception of the last few years, its total deposits have trended similarly. For NBL, the proportion of loans and advances to total deposits varied significantly, from 71% to 49.36%. Comparably, this ratio varied from 75.17% to 65.56% for EBL. NBL outperformed EBL in terms of ratio on average. Compared to NBL, EBL had a lower coefficient of variation (CV), indicating that its ratios were more stable over time.

Figure no: 4.5

Loan and advance to total deposit



Source: NBL & EBL Report (2013/14 to 2017/18)

b) Total Investment to total deposits ratio

Banks invest money in a range of products, including government securities, shares of well-known corporations, cash credits, overdrafts, loans, and short-term investments. To calculate the ratio, this research takes into account investments in foreign banks, equities, and government securities. All of the bank's savings, current, fixed, and call deposits are included in the total deposits. The following formula is used to determine the ratio of total investments to total deposits:

Table no: 4.6

Investment to total deposit ratio

Rs In (million)

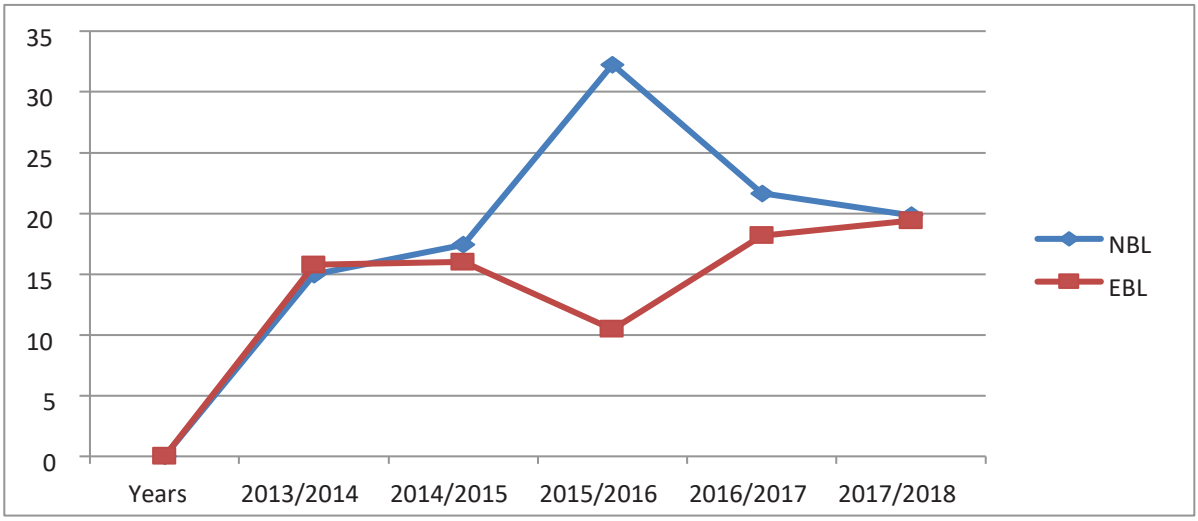
Banks	NBL			EBL		
Years	Investment	Total deposit	Ratio	Investment	Total deposit	Ratio
2013/2014	8391.73	56052	14.97	7864	50006	15.76
2014/2015	10976.67	62988	17.42	9264	57720	16
2015/2016	22664	69337	32.26	6504	62108	10.47
2016/2017	16902	77999	21.66	15103	83094	18.17
2017/2018	17739	89410	19.84	18199	93735	19.41
Mean			21.23			15.962
S D			6.544644			3.42667
Variance			58.35549			11.74207
C V			0.614			0.937065

Source: NBL & EBL Report (2013/14 to 2017/18)

Table 4.6: NBL's investments, with the exception of the previous year, demonstrated a growing tendency in line with a growth in deposits. The NBL ratio varied greatly, ranging from 14.97 to 32.22. With the exception of the last year, EBL has also seen an increase in investments, which is consistent with trends in deposits. For EBL, the ratio ranged from 10.47 to 19.4. With a coefficient of variation (CV) of 0.614, the mean ratio for NBL was around 21.23, whereas the mean ratio for EBL was approximately 15.962 with a CV of 0.937. The fact that NBL's mean ratio was higher than EBL's suggests that NBL's investment-to-deposit ratio was more consistently high over the time period.

Figure no: 4.6

Investment to total deposit



Source: NBL & EBL Report (2013/14 to 2017/18)

IV) Profitability ratio

The capacity of a business to manage its resources profitably is measured by profitability ratios, and profit-making is essential to the expansion and survival of commercial banks. Profit, which measures a company's operational effectiveness and capacity to give stakeholders sufficient returns, is the difference between total revenues and total costs during a certain time period. It is seen to be necessary for a bank's expansion, survival, and ability to compete in the marketplace. Adequate profitability guarantees the sustainability of operations, makes it easier for investors to finance growth, and advances national economic objectives.

Ratios of profitability are an important way to measure financial success. Better financial health for commercial banks is indicated by higher profitability ratios; lower ratios could point to possible problems. Several profitability ratios have been calculated for this study in order to evaluate and contrast the profitability positions of the chosen institutions.

a) Net profit to total assets ratio

By comparing profitability to total assets, this ratio shows how well banks use their whole resource base. The money left over for shareholders after all expenditures and expenses are subtracted is shown in the numerator. All of the assets shown on the assets side of the balance sheet are included in total assets. While a lower ratio may imply lesser profitability and asset utilization efficiency, a higher ratio usually indicates a higher profit margin and more effective rotation of all assets.

Table no: 4.7

Net profit to total assets ratio

Rs In (million)

Banks	NBL			EBL		
Years	Net profit	Total asset	Ratio	Net profit	Total asset	Ratio
2013/2014	176	58615	3	1091	55813	19.5
2014/2015	791	73782	10	1471	65741	22.37
2015/2016	716.96	80405	8.91	1550	70445	22
2016/2017	484	88211	5.48	1574	99153	15.87
2017/2018	3018	108368	2.7	1730	113885	15.19
Mean			6.018			18.986
S D			3.328737			3.351079
Variance			11.15672			11.22973
C V			0.85818			0.820046

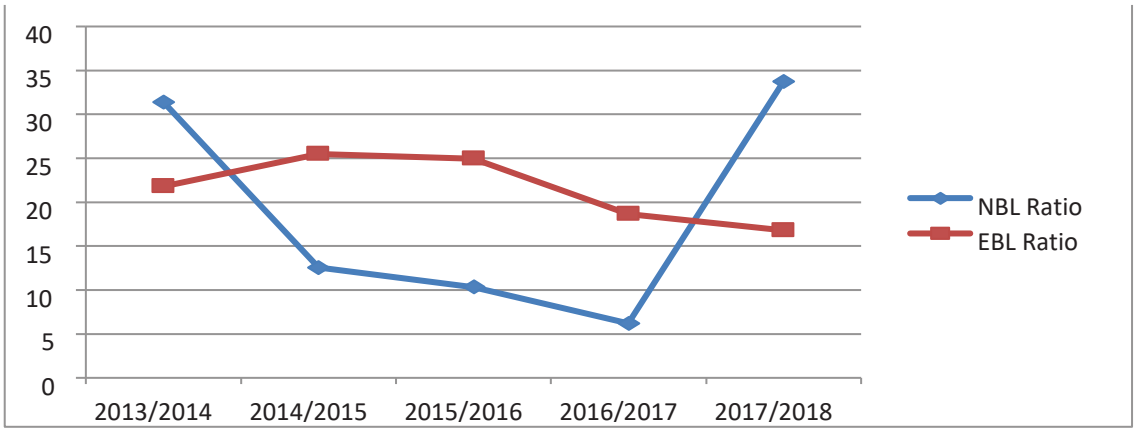
Source: NBL & EBL Report (2013/14 to 2017/18)

Table 4.6 demonstrates that although NBL's total assets grew over time, its net profit showed a varying pattern. There was a large range of variation in the NBL ratio, ranging from 2.7 to 10. On the other hand, EBL's net profit grew steadily year over year in tandem with a rise in total assets. EBL had a mean ratio that was larger than NBL's, ranging from 15.19 to 22.37. This implies that EBL's profitability increased. Additionally, EBL's mean ratio was more consistently consistent than NBL's, suggesting that EBL has a more solid profitability position relative to this ratio. The

profitability ratios in NBL appeared to be more variable than those in EBL, as evidenced by the much larger coefficient of variation (CV) of NBL's ratios.

Figures no: 4.7

Net profit to total assets



Source: NBL & EBL Report (2013/14 to 2017/18)

b) Net profit to total deposits (Return on total deposits)

This ratio assesses how well the management uses deposits to make a profit. Stronger profitability from total deposits is indicated by a larger ratio.

Net profit is the amount left over after taxes and interest are subtracted, whereas total deposits include the sums in current, savings, call, fixed, and short-term deposits, among other types. Superior use of total deposits is usually indicated by a larger ratio, and vice versa.

Real reserves, capital reserves, preference shares, common shares, share premiums, and other reserves that can be paid out as dividends to shareholders are examples of reserves. In this case, total operational funds are also taken into account.

Table no: 4.8

Net profit to total deposit ratio

Rs In (million)

Banks	NBL			EBL		
Years	Net profit	Total deposit	Ratio	Net profit	Total deposit	Ratio
2013/2014	176	56052	31.39	1091	50006	21.81
2014/2015	791	62988	12.55	1471	57720	25.48
2015/2016	716.96	69337	10.34	1550	62108	24.95
2016/2017	484	77999	6.2o	1550	83094	18.65
2017/2018	3018	89410	33.75	1574	93735	16.79
Mean			18.84			21.53
S D			12.76			3.82
Variance			130.2788			14.53478
C V			0. 8129			0.696985

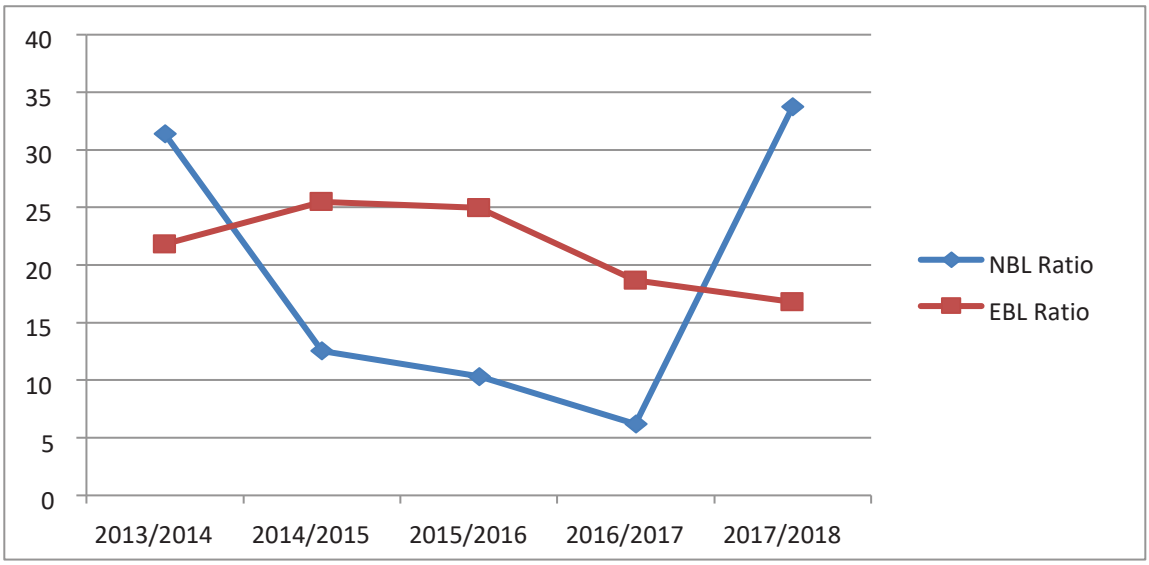
Source: NBL & EBL Report (2013/14 to 2017/18)

Table No. 4.8 demonstrates that while total deposits grew annually during the period, NBL's net profit varied. Significant diversity was evident in the NBL net profit to total deposit ratio, which varied substantially between 6.2 and 31.39. On the other hand, EBL's net profit and total deposits increased year after year. Compared to NBL, the mean ratio of EBL was greater. Even though NBL's coefficient of variation (CV) was larger than EBL's, the trend toward growth indicates that performance was good.

This ratio assesses how well management successfully uses deposits to create revenue. A greater ratio denotes better deposit usage. EBL continuously showed greater ratios.

Figure no: 4.8

Net profit to total deposit



Source: NBL & EBL Report (2013/14 to 2017/18)

4.2 Coefficient of Correlation

An important metric for determining how well one variable is explained by another is the coefficient of correlation. It measures the strength of the correlation between two causally connected variables, usually represented by the letters X and Y. The number "r" is Karl Pearson's coefficient of correlation, which quantifies the linear relationship between these variables.

Where,

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2 n\sum y^2 - (\sum y)^2}}$$

n = No. of observation of X and Y.

$\sum x$ = Sum of the observations in series X.

$\sum y$ = Sum of the observations in Series Y.

$\sum x^2$ = Sum of square observations in series X.

$\sum y^2$ = Sum of square observations in series Y.

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

a) Correlation between Net Worth and Net Profit

Net worth and net profit in NBL continue to have a correlation coefficient and probable error of 0.976 and 0.0140, respectively, as shown in Annex 4.9. The correlation coefficient indicates a highly positive and specific association between net worth and net profit in the bank, and it is much more than six times the likely mistake.

Comparably, the correlation coefficient in EBL is 0.9756, with a 0.0122 likely error. The relationship between net worth and net profit is similarly positively correlated at a substantial level, being larger than six times the likely error (0.9645 > 6 × 0.0181). This suggests that rises in net worth are almost always accompanied by increases in net profit at both institutions.
In contrast, it seems like EBL has had a little better success using investor capital wisely and profitably.

b) The relationship between net profit and total deposit

The correlation coefficient and probable error of the correlation coefficient between the total deposit and investment in NBL stayed at 0.95 and 0.017, respectively, throughout the study period, as shown in Annex 4.10. A modest degree of negative correlation is shown by the negative correlation coefficient, indicating that a rise in deposits does not necessarily translate into a corresponding fall in investment.
The correlation coefficient in EBL is 0.9945, with a likely error of 0.0023. There is a strong positive connection at a substantial level between total deposit and investment in the bank, as indicated by the correlation coefficient, which is considerably more than six times the likely error (0.9945 > 6 × 0.0023).
It seems that NBL invests a bigger percentage of the money it receives from depositors than the other bank does. In contrast, investments in EBL grow or shrink more slowly than changes in deposits.

4.3 Least Square Liner Trend Analyses

When making predictions about the future based on historical trends, trend analysis is quite useful. This approach is predicated on the idea that historical patterns will persist into the future.
Any variable's future trend may be predicted using an equation,

Where,

Yc = the dependent variable
a = Y-intercept
b = the slope of trend hue
(Regarding the date utilized in the study) X = Year 20013/14. The standard formulas for determining the trend equation's fit are;

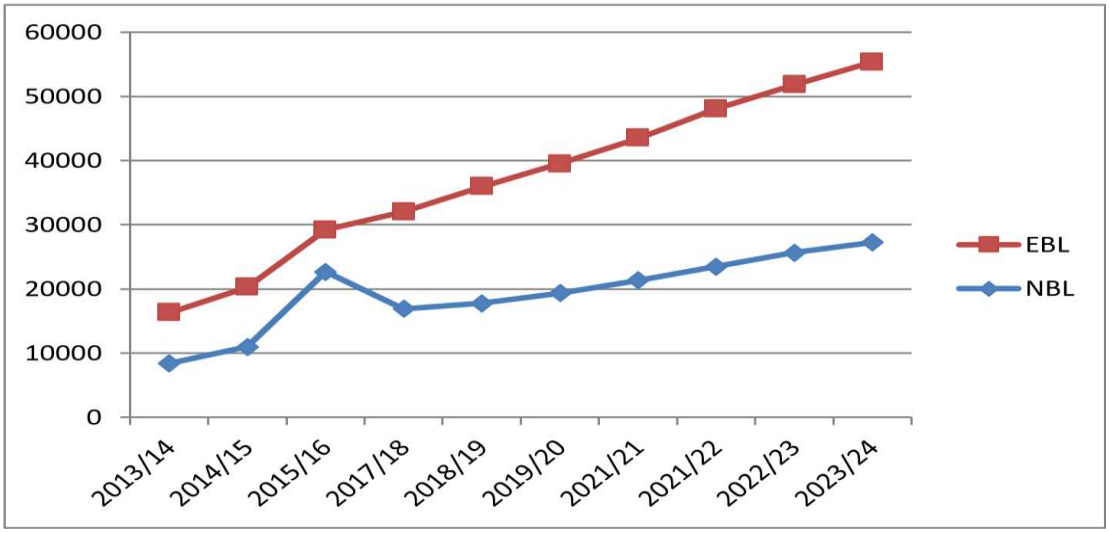
$$\sum Y = Na + b\sum X$$

$$\sum XY = a\sum X + b\sum X^2$$

$$\sum X = 0,\ a = \frac{\sum y}{\sum n},\ b = \frac{\sum XY}{\sum X^2}$$

The following variable's projected value for the next five years has been predicted using the trend equation.
1. Total deposit
2. Net worth
3. Total investment

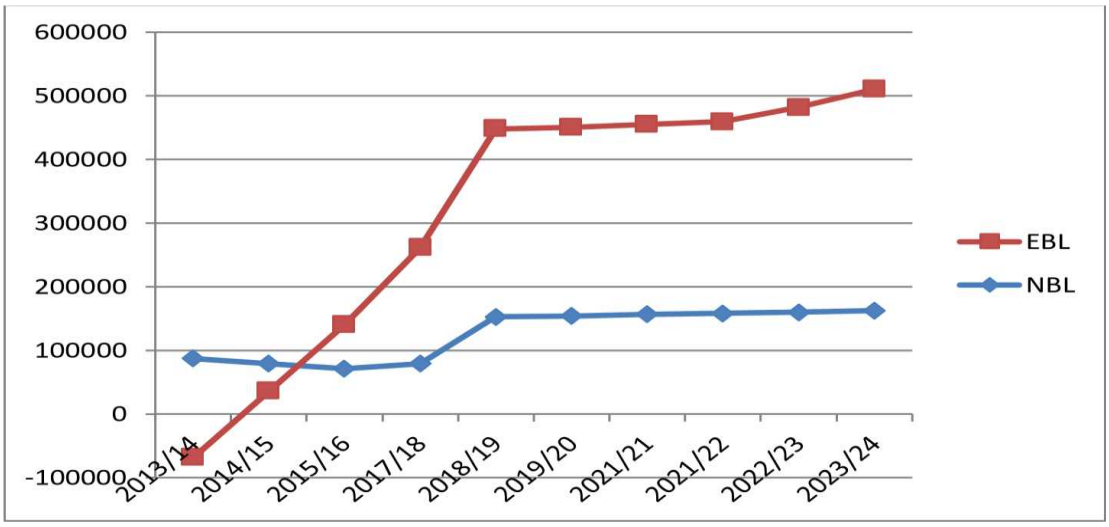
a) Lest Square Linear Trend of investment



The actual line and trend line averages for NBL and EBL, as well as the trend behavior of total deposits during the previous five years, are shown in Annex 4.11. The trend line for NBL has the greatest beginning point at first, but its slope degree is the lowest. By 2014/2015, EBL's deposit levels were almost identical to NBL's.

When comparing the two banks, EBL appears to have a larger average deposit as well as a faster pace of growth in total deposits. This implies that during the next five years, EBL's total deposits are expected to expand at a greater pace if present trends continue.

b) Lest Square Linear Trend of Net Worth



The average trend line for NBL and EBL banks is shown in Annex 4.12 together with the trend behaviors of the investments in these two banks. The average investment and the pace of growth appear to be higher for EBL compared to the other two banks. This implies that investments in EBL should rise more quickly over the next five years if the historical pattern holds true.

1.4 Major findings of the study

The study's main conclusions are based on an investigation of a few chosen JVBs, which are listed below.

4.4.1 Liquidity ratio

The chosen banks' liquidity positions show the following:

NBL and EBL have average current ratios of 1.2 and 1.7, respectively. This suggests that the present ratios of both banks are lower than the recommended 2:1 ratio. EBL has somewhat more liquidity than NBL. A low current ratio does not, however, always indicate that either bank is in bad shape.

For NBL and EBL, the average percentage of cash and bank balance to total deposits is 1.71% and 2.23%, respectively. This shows that EBL generally possesses more liquid assets to fulfill its deposit obligations on time. NBL, on the other hand, has a smaller cash holding compared to its deposits.

4.4.2 Leverage ratio

The following may be seen from the sampled banks' leverage ratios:

For NBL and EBL, the average ratio of total debt to net worth is -49.91 and 85.50, correspondingly. With debt financing reaching 85.50 times shareholder equity throughout the research period, EBL appears to be highly leveraged, while NBL has a lower ratio (about -49.91), indicating a distinct financial structure.

For both NBL and EBL, the average ratio of total debt to total assets is 10.42% and 6.42%, respectively. This shows that NBL relies more on debt financing than other companies because its total debt to asset ratio is higher (10.42%). By comparison, EBL's average ratio of 6.42% for the research period shows a smaller percentage of debt to total assets.

4.4.3 Activity ratio

The activity ratios of the selected banks reveal the following:

The average ratio of loans and advances to total deposits for NBL and EBL are 61.80% and 72.91%, respectively. This indicates that EBL has utilized a higher percentage (72.91%) of its total deposits for loans and advances compared to other sampled banks over the study period. Conversely, NBL has allocated a lower percentage (61.80%) of its total deposits to loans and advances during the same period.

The average ratio of total investments to total deposits for NBL and EBL are 21.23% and 15.96%, respectively. This implies that on average, NBL has invested 21.23% of its total deposits in projects other than regular loans, indicating a higher allocation to non-loan investments. Similarly, EBL has allocated an average of 15.96% of its total deposits to investments. In terms of investment as a percentage of total deposits, NBL leads among the sampled banks with the highest ratio (21.23%), suggesting a focus on less risky ventures compared to EBL and other banks in the sample.

4.4.4 Profitability ratio

The following may be seen from the chosen banks' activity ratios:

- For NBL and EBL, the average net profit to total assets ratios are 6.018% and 18.983%, respectively. This suggests that, in comparison to the other banks in the sample, EBL has generated a larger proportion of net profit (18.983%) in relation to its total assets on average. On the other hand, throughout the course of the research, NBL has managed to attain a lower average ratio of net profit to total assets (6.018%). This ratio shows how well

the banks have used the resources at their disposal, with EBL showing a more efficient use of those resources to generate profit than NBL.

- For both NBL and EBL, the average ratio of net profit to total deposits is 12.76% and 21.538%, respectively. This suggests that, when looking at the other banks in the study, EBL has made the most proportion of net profit (21.538%) on average by using all of its deposits. NBL, on the other hand, has during the course of the research period achieved the lowest average ratio of net profit to total deposits (12.768%). This ratio highlights how well banks have made use of the deposits they have on hand for profitable ventures. In comparison to NBL, EBL's higher ratio shows that it has been more successful in generating net profit by making efficient use of its available deposits.

4.4.5 Trend Analysis

The following is revealed by the trend analysis of NBL and EBL:

- The overall deposit trend for both banks is rising. The NBL peaked in 2017–2018, which corresponded to the maximum deposit level during the research period. In the same way, EBL's total deposit reached a record high in 2017–2018. It is clear that when it comes to deposit collecting, EBL is in a better position than NBL.
- Total loans and advances at both institutions show an upward trend. During the research period, NBL reported the highest total loans and advances of $14,142,285.90 thousand in 2017/2018. Similar to this, in 2017–18, EBL's total loans and advances reached a height of 15,878,767.00 thousand. It is noted that when it comes to lending, EBL is in a better position than NBL.
- Both NBL and EBL's total investments indicate a rising tendency. During the research period, NBL's total investments reached their maximum point in 2017/2018, totaling 1,618,010.70 thousand. In a similar vein, EBL invested $6,512,012.20 thousand in total in 2017–2018. It's clear that EBL is in a better financial condition than NBL.

4.4.6 Co-efficient of Correlation Analysis

The following is revealed by the coefficient of correlation study between the various NBL and EBL variables:

- Deposits and investments in both NBL and EBL have a substantial link. In contrast to EBL, NBL exhibits a greater coefficient of correlation between deposits and loans and advances, demonstrating its superior ability to mobilize deposits for loans and advances.
- EBL appears to follow a strategy of modest deposit investment, as evidenced by the lower correlation coefficient between deposits and total investment in EBL compared to NBL.
- For both banks, the correlation coefficient between net profit and outside assets is positive. EBL outperforms NBL in terms of value, demonstrating its ability to raise capital and generate returns that is, net profit from that capital. This implies that EBL is in a stronger position than NBL in this area.
- Based on the aforementioned findings, it can be said that in both NBL and EBL, there is a substantial correlation between deposits and loans and advances as well as between outside assets and net profit.

CHAPTER-V
SUMMARY, CONCLUSION IMPLICATION

This chapter presents a few chosen, practical conclusions and their consequences based on the examination of the study's key results. All four chapters are revised or summarized in the summary section. The research findings are summarized in the conclusion section, along with recommendations for both more research and ways to improve the parties' presence. NBL and EBL are two sample banks. In brief

5.1 Summary

A nation's commerce and industry are fundamental to its growth and serve as important barometers. Commercial banks are essential to a country's economic development because they effectively use small savers' idle funds. They finance the productive sectors by pooling significant amounts of money, which encourages commerce, industrialization, and the creation of jobs. Commercial banks play an important role in the economy, and this means that their continued existence and expansion depend on them being profitable enough to do so.

This study examines a number of joint venture bank-related topics during a five-year span, from 2013–2014 to 2017–2018. The research methodology chapter describes how financial ratios and statistical tools like the mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination, and probable

error were used to analyze the data, which were mainly taken from the banks' annual reports. The current chapter, "Summary, Conclusion, and Implication," presents the research's findings, conclusions, and implications.

This study's primary goal is to assess and examine the financial performance of NBL and EBL institutions and offer suggestions for development. It looks at these banks' operational operations, profitability results, and liquidity levels. Commercial banks play a major role in GDP and are essential to the contemporary economy. Economic downturns, however, can have an effect on the

banking industry, thus banks must be strong financially, competitive, and strategically positioned in relation to global economic possibilities and trends.

This study compares government banks and joint ventures, namely NBL and EBL, utilizing analytical methods such as profitability ratios and ratio analysis on secondary data. It seeks to shed light on Nepalese commercial banks' financial performance, especially that of their joint ventures, which have received little prior research. NBL and EBL have been chosen as case studies in an effort to close the knowledge gap about the financial norms and procedures of joint venture banks in Nepal. The secondary data used in the study was gathered from annual reports, the website of the Nepal Stock Exchange, pertinent papers, journals, and earlier research reports.

The Nepal Rastra Bank oversees 20 commercial banks in Nepal; this study focuses on NBL and EBL as sample banks from FY 2014/2015 to 2017/2018. These banks were chosen by convenience sampling, and a thorough literature study was done to obtain further data and information from resources including the Nepal Rastra Bank Library and the Central Library of Tribhuvan University. Carefully considered, collated, and evaluated data allowed for the development of insightful findings and suggestions.

5.2 Conclusions

Several conclusions have been made in light of the study's key findings:

Both NBL and EBL banks have average current ratios that are greater than 1, which shows that they can meet short-term obligations. When compared to NBL, EBL exhibits the greatest current ratio, indicating a healthier solvency situation. Because EBL has more cash and bank balance than total deposits, it is more liquid and can pay depositors right away.

Among the sample banks, EBL has the lowest net profit to total asset ratio, suggesting that assets are not being used to their full potential for profit. In spite of this, EBL has managed to increase its net profit by effectively utilizing the resources at its disposal. In a similar vein, EBL has increased profitability through efficient fund use, but NBL has not optimized its deposits for profit production.

NBL has successfully created more interest revenue from its available assets than EBL, which has not efficiently organized its assets into interest-generating initiatives.

EBL has committed a larger proportion of its total deposits to loans than NBL has when it comes to loans and advances against total deposits. On the other hand, NBL has allocated a larger portion of its total deposits to investments overall, encompassing a range of financial products.

Better returns to shareholders are indicated by NBL's greater profits per share and dividend payment ratio when compared to EBL. In comparison to EBL, NBL also exhibits greater net interest income, exchange income, commission and discount revenue ratios.

According to spending study, NBL has more staff expenditures related to pay, benefits, and gratuity funds, whereas EBL has higher interest expenses. Based on correlation and regression research, EBL and NBL both demonstrate a positive association between net profit and total deposits.

Trend analysis reveals an upward trend in advances and loans for both banks over the research period, with NBL exhibiting a greater average growth rate than EBL.

5.3 Implications

1. It is discovered that the chosen joint venture banks do not uphold the conventional current ratio (1:1) based on liquidity ratio analysis. However, this is not viewed as disadvantageous from an aggressive working capital standpoint. When compared to EBL bank, NBL seems to have larger cash and bank balances. All commercial banks should find a balance between investing idle deposits in profitable ventures and keeping enough cash on hand to cover their immediate liabilities in order to maximize liquidity management.

2. NBL's profit before taxes has dropped as a result of a decline in the profitability ratio. Therefore, in order to improve operational efficiency, this bank needs lower operating expenses. Any bank may greatly boost profitability by cutting costs; the key is to find and remove operational expenses that are superfluous.

3. Activity ratio research shows that all EBL banks prioritize loan and advance issuance above NBL. Nevertheless, this field is particularly delicate and dangerous given the heightened competitiveness and financial difficulties. To increase profitability, it is advised that they make investments in less hazardous assets.

4. The two sample banks' debt financing has continuously surpassed 90% of their total assets across the evaluation period, demonstrating their heavy reliance on debt capital. On the other hand, neglecting to provide stable financing may endanger their viability. Therefore, before taking large numbers of deposits, the sample banks should thoroughly review their risk asset portfolios.

5. One of the main factors influencing bank profitability is expenses. Interest costs on deposits are also quite important. Therefore, it is advised that banks concentrate on non-interest bearing deposits like current accounts and margin deposits and decrease high-interest bearing deposits like fixed deposits. Prioritizing efforts to reduce operational expenditures at the same time will help to increase profitability.

6. Since they are the actual owners of the company, shareholders don't seem to be happy with the rate of return on equity that banks are offering. Maximizing shareholder wealth should be the top priority for management teams. Commercial banks' low market share prices and earnings per share are a reflection of the market's underperformance. A low dividend payment ratio likewise depresses investors in a similar way. It is thus advised that the management team of EBL improve their performance in light of this study.

Correlation between investments to Total deposit

Banks	NBL						EBL				
YEARS	Investment(Y)	Years (X)	x2	xy	Yc=a+bx	YEARS	Investment(Y)	Years (X)	x2	xy	Yc=a+bx
2013/14	8391	-2	4	-16782	10410	2011/12	7864	-2	4	-15728	2380
2014/15	10976	-1	1	-10976	4358	2012/13	9264	-1	1	9264	6883
2015/16	22664	0	0	0	15334	2013/14	6504	0	0	0	11386
2016/17	16902	1	1	16902	17796	2014/15	15103	1	1	15103	15889
2017/18	17739	2	4	35478	20258	2015/16	18199	2	4	36398	20392
	∑y= 76672	∑X =0	∑X2 =10	∑XY = 24622			∑y= 56934	∑X =0	∑X2 =10	∑XY = 45037	
a=15334			b=2462				a=11386		b=4503		

Net worth to net profit

Correlation analysis between Net worth and Net Profit

Banks	NBL					EBL				
YEARS	Net worth (X)	Net Profit (Y)	x2	y2	xy	Net worth (X)	Net Profit (Y)	x2	y2	xy
2013/14	-2908	176	8456464	30976	-51808	1629	1091	2653641	1190281	1777239
2014/15	-172	791	29584	625681	-156052	3192	1471	10188864	2163841	4695432
2015/16	3347	716	11202409	512656	2396452	2880	1550	8294400	2402500	4464000
2016/17	3831	484	1467656	234256	1854204	9169	1574	84070561	2477476	14432006
2017/18	6850	3018	46922500	9108324	20673300	11635	1730	11233508	2992900	20128550
	∑x= 10948	∑y= 5185	∑X2 =12063590	∑Y2 =105118 9	∑XY =2471609 6	∑x= 25362	∑y = 7416	∑X2 =241567808	∑Y2 =32849498	∑XY =4549722 7
Correlation					0.976					0.9756
PE					0.014					0.0122

Correlation analysis between Total Deposit and Net Profit

Rs In (million)

Banks	NBL					EBL				
Years	Deposit (X)	Net profit(Y)	x2	y2	xy	Deposit (X)	Net profit(Y)	x2	y2	xy
2013/14	56052	176	3.14E+09	30976	9865152	50006	1091	2.5E+09	1190281	54556546
2014/15	62988	791	3.97E+09	625681	49823508	57720	1471	3.33E+09	2163841	84906120
2015/16	69337	716	4.81E+09	512656	49645292	62108	1550	3.86E+09	2402500	96267400
2016/17	77999	484	6.08E+09	234256	37751516	83094	1574	6.9E+09	2477476	130789956
2015/16	89410	3018	7.99E+09	9108324	269839380	93735	1730	8.79E+09	2992900	162161550
2017/18	∑X=355786	∑Y=5185	$\sum X^2$=2599492652	$\sum Y^2$=10511893	∑XY=416924848	∑X=346663	∑Y=7416	$\sum X^2$=25380 4651	$\sum Y^2$=3284 949	∑XY=528681572
					0.95					0.9945
P E					0.017					0.0023

Trend Value of Total Deposit

Years	NBL	EBL
2013/14	87501	-156324
2014/15	79329	-43496
2015/16	71157	69332
2017/18	79329	182160
2018/19	152884	294988
2019/20	154234	296234
2021/21	156702	298567
2021/22	158234	301234
2022/23	160123	321567
2023/24	162452	347890

Least Square Linear Trend of investment

Years	NBL	EBL
2013/14	8391	7864
2014/15	10976	9264
2015/16	22664	6504
2017/18	16902	15103
2018/19	17739	18199
2019/20	19339	20191
2021/21	21345	22134
2021/22	23456	24567
2022/23	25670	26123
2023/24	27236	28123

Least Square Linear Trend of Total Deposit of EBL

YEARS	Deposit (y)	Years(x)	x2	xy	Yc = a+bx
2013/2014	50006	-2	4	-100012	-156324
2014/2015	57720	-1	1	-57720	-43496
2015/2016	62108	0	0	0	69332
2O16/2017	83094	1	1	83094	182160
2017/2018	93733	2	4	187466	294988
a= 69332	∑y= 346661	∑x =0	∑ x2 =10		
			b=112828		

Least Square Linear Trend of Total Deposit of NBL

YEARS	Deposit (y)	Years(x)	x2	xy	Yc = a+bx
2013/2014	56052	-2	4	-112104	87501
2014/2015	62988	-1	1	-62988	79329
2015/2016	69337	0	0	0	71157
2O16/2017	77999	1	1	77999	79329
2017/2018	89410	2	4	178820	152884
	∑y= 355786	∑x =0	∑ x2 =10	∑XY = 81727	
	a=71157			b=8172	

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CHAPTER I INTRODUCTION 1.1 Background of the Study The banking sector serves as the backbone of economic development in countries like Nepal, aggregating small amounts of capital and channeling them into productive sectors. Nepal faces challenges such as complex geographical terrain, inadequate infrastructure, limited industrialization, political instability, and high unemployment rates, contributing to its classification as a Least Developed Country (LDC). With 31% of its population living below the poverty line and a low Gross National Product (GNP) resulting in an average per capita income of just $1381, Nepal remains predominantly agrarian, with agriculture being crucial for income and employment. Liquidity in commercial banks refers to the availability of funds to meet obligations promptly. It encompasses both the liquidity stored in the balance sheet and that accessible through purchased funds. High liquidity, while ensuring immediate cash availability for depositors, can also lead to reduced profitability and inefficiencies within the banking sector over time (Pandey, 1999). Industrialization plays a vital role in achieving economic and social progress by providing essential goods and services, creating employment opportunities, and mobilizing capital and skills that might otherwise go untapped. It fosters innovation and technological advancements, thereby exerting a multiplier effect on the economy. The banking industry, a critical component of the economy, mobilizes savings from the public into various productive sectors, facilitating economic activities and acting as a catalyst for development, particularly in countries with informal economies. Currently, Nepal hosts twenty- eight commercial banks, with Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) dominating due to their extensive reach across the country. Political instability has hindered the expansion of private banks into remote areas, despite their efforts to innovate with new products such as ATM cards, debit cards, housing loans, education loans, and vehicle financing. Depositors trust banks to repay their savings promptly, and the Nepal Rastra Bank (NRB) plays a crucial role as regulator, supervisor, and inspector of banking activities to ensure fair competition and safeguard public deposits. As the number of banks increases, NRB must enhance its regulatory oversight to maintain stability. In order to predict future patterns in variables like sales, costs,

net income, cash flow, and return on investment, financial analysis is crucial for evaluating **the** success **of**

businesses. It does this by using historical financial data. It is analyzing accounting data from financial accounts critically in order to identify operational and financial traits that are advantageous to managers, creditors, shareholders, investors, and depositors. The contemporary stage of banking evolution Up to 2040 B.S., the financial system in Nepal has not developed to a suitable level. While existing bank branches grew, no new banks were founded during this time. Nepal was keeping a close eye on and researching the best laws, policies, initiatives, and regulations to put into effect. The nation realized that it needed to acquire cutting-edge technology from outside in order to elevate its standing as it couldn't accomplish it with its own resources alone. As a result, regulations and legislation were passed to promote foreign participation in the banking industry. As a result, Nepal's financial sector started to expand more quickly. A major turning point was reached when banks began to offer worthwhile services to customers with new technologies