

CHAPTER – ONE

INTRODUCTION

1.1. General Background of the Study:

Nepal is a least developed Country by means of high population growth rate (2.16%) and low per capita income (\$300) per year. Banking sector plays vital role for the country's economic development. Banks is a resource mobilizing institution which accepts deposit form various sources and invest such deposit to different fields such as agriculture, trade, commerce, industry tourism etc. Banks have gained paramount trust in the public now days. Accepting deposit and investment in different sources is the function of banks. Main objectives of banking sector are to mobilize idle scattered resources in productive sectors and there by earn reasonable profit as reward for their services; especially they collect required capital through issues of different types of securities,. primary share and debenture.

The history or origin of modern banking was started from Bank of Venice (Est 1157) which is the first commercial bank of the work. In Nepal, Nepal Bank Ltd. (Estd.1994 B.S) is the first Commercial Bank. The history of Joint venture bank in Nepal is not more than 25 yrs. old. In early 1980's three Joint venture banks namely Nepal Arab Bank Ltd. (NABIL), Nepal Grindlays Bank Ltd. (now Standard Chartered Bank) and Nepal Indo–Suez Bank (Investment Bank) Ltd. were established. After those joint–venture bank, other joint venture banks were established dramatically after democratic government adopted the liberal market oriented economic policy. Other joint venture banks are Himalayan Bank Ltd.(HBL). Everest Bank Ltd. Nepal SBI Bank Ltd., Nepal Bangladesh Bank Ltd.

Joint venture Banks are those types of Banks Which pool together the saving of the community and arrange them for the productivity use. In

global perspective joint venture are the modes of trading through partnership among nations and also a form of negotiation between various groups of Industries and traders to achieve mutual exchange of goods and services for sharing competitive advantages “ A Joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation i.e. industries or commercial investment and products or trade .”¹

The various roles of Joint venture Banks being performed in Nepal can be classified as follows:

- ☞ Foreign Investment: - For the economic development of the country, foreign Investment is one of the important aspect . The joint venture Banks help the multinational companies to built of their confidence for investment by providing necessary information and financial support.
- ☞ New Banking Technique : - Modern Banking service are being provided to Nepalese financial system by new joint Venture Banks. New Banking techniques such as tale banking computerization , fee besd activities , hypothecation etc are the important contribution of Nepalese joint venture Banks to the gradually changing commercial Banking scenario.
- ☞ Healthy Competitions: - Joint venture banks also bring the benefit of healthy competition. The competition would force the domestic banks, Nepal Bank Ltd, and Rastriya Banijya Bank to include their services and efficiency.

Capital and assets structure management of joint venture commercial Banks is the key to short – to – intermediate – term decision making in today’s dynamic and volatile banking environment. Broadly defined capital

1. Gupta, D.P.(1984) “ *The Banking System, its role in export development* , Geneva, International Trade Center UNCTAD .

and assets structure management includes all policies and approaches designed to obtain funds from deposits and investment.

The primary goal of any nation, including Nepal is rapid economic development to promote the welfare of the people and nation as well. The role of commercial banks in economy is obviously prime requisite in the formulation of banks policy. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective joint venture banks formulate sound capital and assets structure management policies. Which eventually contribute to the economic growth of a country, The sound policies help joint venture banks to maximize quality and quantity of capital and asset and thereby, achieve own objective of profit maximization and social welfare. The banking sector has to play development role to boost the economy by adopting the growth oriented capital and assets structure management policy and building up the financial structure for economic development. Formulation of sound capital and assets structure management policies co-ordination and planned efforts pushes forward the forces of economic growth.

Capital and Assets Structure Management is the primary focus of funds, management. The essence of capital and assets structure management is co-ordination of the inter – relationship between the source and uses of funds in short term financial planning and decision making.

Moreover, this study has given the short highlight about the joint venture banks. It is now very important to focus directly regarding how joint venture banks managing their capital and assets structure . This study is also expected to benefit other similar financial institution.

There are currently 25 commercial banks operating in Nepal including 6 joint venture banks. This study is mainly focused on joint venture bank in Nepal therefore, a brief profile about some selected JVBs are given as follows :

Brief profile of Selected Joint venture Banks in Nepal

1. **Nabil bank Ltd (NABIL):**

Nabil Bank Ltd. (NABIL) is the first commercial joint venture bank in Nepal, which was established in 1984 under the company act 1964. Dubai Bank Ltd. was the initial foreign joint venture partner with 50% equity investment. The shares owned by Dubai Bank Ltd. were transferred to Emirates Bank International Limited, Dubai by virtue of its annexation with the latter. Later on Emirates Bank International Ltd. Dubai sold its entire 50% equity holding to National Bank Ltd. of Bangladesh is managing the bank in accordance with the technical services agreement signed between it and the bank on June 1995. Later on the name of this bank is changed as NABIL BANK LTD.

2. **Standard Chartered Bank Ltd.:**

Standard Chartered Bank Ltd is a British based joint venture bank in Nepal with banking expertise and professional service provided by Grindlays Bank P.L.C. London. Being a new bank, fully computerized to meet the growing competition in banking system and operations, new hopes and strategies are chalked out to ensure success in the years to come .

Standard Chartered Bank was established under the company act 1964. Grindlays Bank PCL hold 50% of the share. The remaining 50% is shared between NBL 33.34% and the Nepalese public and other financial institution 16.66% . Now it has 6 branches all over the kingdom.

3. Nepal SBI Bank Ltd.:

Nepal SBI Bank Ltd. was registered under the company Act, 1964 in 1993. This is the joint venture of state of Bank of India and Nepali promoters. The bank is managed by state Bank of India under the joint – venture and technical services agreement signed between it and Nepali promoters viz employees provident fund and Agriculture Development Bank, Nepal .The state bank of India is holding its 50% equity.

The main objective of the banks to carryout modern banking business in the country under the commercial Bank Act 1974. The bank provides loan to agriculture, commerce and Industrial sector.

4. Nepal Bangladesh Bank Ltd.:

Nepal Bangladesh Bank Ltd. a joint venture Bank with IFIC Bank Ltd. of Bangladesh was established in 1993 under the company Act 1974. The Bank is managed by IFIC Bank Ltd. Bangladesh in accordance with the joint venture and technical services agreement between it and Nepalese promoter.

5. Everest Bank Ltd. :

Everest Bank Ltd. was established in 1992 under the company Act , 1964 with an objective of carrying out commercial Banking activities under the commercial Bank Act , 1974. United Bank of India Ltd. under technical services agreement signed between it and Nepalese promoters was managing the Bank from the very beginning till November 1996. Later on it handed over the management to the Punjab National Bank Ltd. India which holds 20% in the Banks share capitals.

1.2. Statement of the Problem:

Joint venture banks are major financial institutions which occupy quite an important place in the frame work of every economy. Due to the lack of other specialized institutions the joint venture commercial banks

have to shoulder more responsibilities and act as development banks, which is the major problem in almost all undeveloped countries and Nepal is do exception.

Joint venture commercial banks in Nepal have not managed and formulated appropriate capital and assets structure management policy in an organized manner. They do not have clear view towards sound capital and assets structure management. The interest structure in joint venture banks is unorganized and unfavourable. Further, more the credit extended by JV commercial banks to agriculture and industrial sector is not satisfactory to meet the growing need of the present day.

The entrance of banking and finance companies and about a dozen of rural banks and co-operative societies in a very short span of time, has brought new competitive scenario and has posed a challenge to the recently established JVBs, who are making attractive profits. In this changed and dynamic scenario joint venture bank need to explore their strengths and weaknesses and improve their performance their ability to boost up their productivity and effective capital and asset; structure management.

Thus this study needs to analyze efficiency and weaknesses of capital and asset structure management of all joint venture banks which aims to help it to make a proper decision. This study specially deals with following problems: -

- a) To what extent joint venture banks have been able to raise their profitability?
- b) How efficiently joint venture banks are managing their liquidity, assets and capital structure?
- c) What is the relationship of investment and loan and advances with deposits and total net profit?

- d) How far joint venture banks have been able to convert the mobilized resources into investment.

1.3. Objective of the Study:

Joint venture banks have played a vital role to create a hurdle in the pave of economic development of the country. First of all, it must have strong financial position i. e. capital and assets structure and the way it is financed. The size and type of the capital and assets depends upon the size and nature of the organization.

The main objectives of this study are to analyze, examine and interpret the capital and assets structure of joint venture banks. To achieve the main objectives following subsidiary objectives have been set one:-

- a) To evaluate the growth, functions, objective management structure, policies and its practices in joint venture banks.
- b) To analyze the various variable like bank asset, Bank liability and income etc. :-
 - i) To analyze the trend of interest earned, interest paid current assets and current liabilities of concerned banks.
 - ii) To evaluate the net worth, liquidity and profitability.
- c) To provide suggestions and recommendations on the basis of findings and analysis to improve the financial weakness of joint venture banks.

1.4. Significance of the Study:

Banking institutions definitely contribute and play an important role for domestic resource mobilization and economic development of the nation. It is a resource for economic development and maintains economic confidence of various segments and extends credit to people .

It has definitely notable contributes to create good capital and assets structure of commercial Banks, Newly established JVBs. And the other financial institutions in order to accelerate the economic prosperity of Nepalese trade, industries and other sector.

As mentioned above, following are the major significance of the study in terms of capital and assets structure of joint venture banks:-

- a) This study has multidimensional significance in particular area of concerned banks which have been undertakes that justify for finding out important points and facts to researcher, shareholders, brokers, traders, financial institution, public knowledge.
- b) This study helps and justify for finding out significant parts for management of concerned banks and His Majesty Government, too for making plans and strategy.
- c) This study certainly input the policymakers of joint venture banks for making plans and policies of the effective banking system.

1.5. Limitation of the study:

This study is simply presented to fulfill a partial requirement of MBS program. It is a mini – research which is conducted and submitted within a time constraint tools used and other variation. This study will be limited with following factors:

- a) There are many factors that affect the capital and assets structure decision and valuation of a firm. However only those factors which are related with capital and assets structure management will be considered in this study.
- b) The study concerns only a period of 5yrs. i.e. from 2002 to 2006 and hence the conclusion drawn confines only to the above period.

- c) Primary and secondary data will be analyzed to interpret result emerging from decision consequently the result depend on the reliability of secondary data.
- d) This study is only for suggestion not for direction.
- e) Hypothesis has been formulated for this study.

1.6. Organization of the Study:

The whole study has been divided into 5 major chapters

1. Introduction:
This chapter is introductory and organization as background , statement of the problem, objective of the study, significance of the study , Methodology used in the study limitation of the study and organization of the study .
2. Review of literature :
This chapter deals with review of available literature. It includes review of books, review of articles review of reports and unpublished master level dissertation.
3. Research Methodology :
In this chapter several tools and techniques employed for analysis and presentation of data, have just been defined.
4. Presentation and analysis of data :
In this chapter the effort has been made to analyze . the impact of capital structure on risk and return of joint venture banks . This chapter consists of organizing, tabulating and assessing financial and statistical results.
5. Summary of major Finding, Issues and Gaps and Recommendations:

Ultimately this chapter comprises summary of main finding prevailing issues and gaps of the company and some workable suggestion to the company that help then to improve their miserable situation to some extent.

CHAPTER – TWO

REVIEW OF LITERATURE

2.1. Introduction :

The purpose of reviewing the literature is to develop some expertise in one's area, to see what new contributions can be made and to receive some ideas for developing a research design. Thus the previous studies can not be ignored because they provide the foundation to the present study. In other words there has to be continuity in research. The continuity in research is ensured by linking the present study with the past research studies.

From above, it is clear that the purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to be done.

Thus this chapter is broadly discussed under 4 sections :-

-) Conceptual frame work
-) Review of books
-) Review of Journal Articles
-) Review of thesis

2.2. Conceptual Frame work:

The capital and assets structure of any company holds paramount importance so far its long term operation and survival is concerned that is why, lots of conceptual and theoretical association, associated to capital and assets structure were establish and brought in to the practice.

2.2.1. Concept of Capital :

"Capital as fixed liabilities are those liabilities which are payable only on the termination of the business such as capital which is a liability

to the owner"¹

So this Capital is owner's financial interest or holding in the business and it is represented by the value of net assets. Capital can be obtained from trade creditors, from banks, from bill holders and others outside parties. The owner's equity is the capital supplied by the owner, It is owners claim.

Two possible approaches to the concept of capital. First one is "Fund concept" and other is the "Asset concept" of capital. According to fund concept " The capital of the firm is the sum total of funds that have been employed for its running". It corresponds to the idea of total capital and may also be described as "Financial capital". The fund concept recognizes the separate entity of a firm and considers capital as liability side the balance sheet.²

According to asset concept "Capital means capital invested in fixed assets and current assets". In both the cases the assets may be either tangibles or Intangibles including fictitious assets .³

"The financial interests of owners are called owner's equity. The owner's interest is residual in nature, reflecting the excess of the firm's assets over its liabilities. As liabilities are the claims of the outside parties owner's equity represents owner's claim against the business entity as of the balance sheet date. In financial management capital means total funds invested in the business.⁴

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1. Jain , S.P. & . Narang, K. L (1991), *Advanced Accounting*, (8th ed), New Delhi, Kalayani Publishers, p- 61.
 2. Bannerjee, Bhabatosh (1993) , *Financial Policy and Management Accounting* (4th ed.) , Culcutta, The world Press private Ltd. p – 561
 3. Ibid, p – 562
 4. Panday, I.M. (2002), *Financial Management* (8th ed.), New Delhi, Vikash publishing house Pv. Ltd. p – 30 .

The Accounts generally prefer to take fund originally brought by the owners together with fund that have been subsequently ploughed back into the firm out of the retained earnings. Fund contributed by the creditors (both long term and short – term) are excluded from the composition of capital.

2.2.2. Concept of Assets:

Simply assets can be defined as any property that has money value. Asset can be defined as " Physical thing or right owned that has a money value is asset. In other words asset is that expenditure which results in acquiring of some property of benefit of a lasting nature."⁵

"Asset representing economic resources is the valuable possessions owned by the firm."These possessions should be capable of being measured in monetary terms. Assets are the future benefits"⁶

According to him asset represent.

- a) Stored purchasing power (e.g. cash)
- b) Money claims (e.g. receivables, stock) and
- c) Tangible and intangible items that can be sold or used in business to generate earnings.

Assets can be classified as following:

- a) Current assets or liquid assets
- b) Investments
- c) Fixed assets
- d) Other assets

5. Jain, S.P. & Narang, K.L. (1991), *Advanced Account* (8th ed), New Delhi, Kalayani publisher. P – 8

6. Panday, I. M. (2002), *Financial Management* (8th ed.) New Delhi, Vikash Publishing house Pv. Ltd., p – 31

2.2.3. Concept of Capital Structure :

"Capital structure is the permanent financing of the firm, represented primarily by long term debt, preferred stock and common stock but excluding all short term credit. Thus a firm's capital structure is only a part of its financial structure, common stock, capital surplus and accumulated retained earnings. The capitals structure of the firm, defined as the mix of financial instruments used to finance the firms, is simplified to included only long term interest bearing debt and common stock excluding short term liabilities.⁷

"Capital structure is the composition of debt equity securities that comprises a firm's financing of its assets."Both debt and equity securities are used in most large corporation, the choice of the amount of debt and equity is made after a comparison of certain characteristics of each king of security, of internal factors related to the firm's operations and of external factors that can affect the firm.⁸

"Financial structure refers to the way the firm's assets are financed. The entire right hand side of balance sheet represents financial structure. It includes short term debt and long term debt as well shareholder's equity. Capital structure or the capitalization of the firm is the permanent financing represented by long term debts, preferred stock and shareholder equity. "Thus a firm's capital structure is only part of its financial structure. The book value of shareholders equity includes common stock, It is added to the shareholders equity my be termed as the firms net worth.⁹

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7. Weston, J fred and Brigham, Eugene F. (1991), *Managerial Finance*, Illions ,(7th ed)., The Dryden Prem , p - 555
 8. Hamton, John, J. (1992) , *Financial Decision Making Concept Problem* , (4th ed)., New Delhi, Prentice Hall of India Pvt. Ltd. p – 33
 9. Weston, J fred & Copland, Thomas E. (1997), *Managerial Finance* , (9th ed). , USA, The Dry den press, p – 565

"The capital structure of the firm defined as the mix of financial instruments used to finance the firm is simplified to be included only long term interest bearing debt and common stock excluding short term liabilities. Capital structure is the combination of long term sources of funding i.e. debt, preferred stock, common stock that are used to finance the firm. Optimum capital structure can be defined as that mix of debt and equity which will maximize the market value of a company i.e. aggregate value of the claims on ownership interest represented as the credit side of the balance sheet. Further. The advantage of having on optimum financial structure, if such as optimum does exist, is tab-fold, it maximizes the value of the company and hence the wealth turn increase its ability to find new wealth creating investment opportunities.

Also by increasing the firm's opportunity to engaged in future wealth creating investment in increases the economics rate of investment and growth."¹⁰

2.2.4. Assets Structure :

"Assets structure influences the sources of financing in several ways. Firms with long lived fixed assets, especially when demand for their output relatively assured, use long term mortgage debt extensively. Firm have their assets mostly in receivable and long term inventories whose value is dependent on the continued profitability of the individual firm rely on long term debt financing and more on short term financing."¹¹

The word asset denotes the arrangement of various parts of single body in some standard properties in which various elements or parts are integrated together. Here the asset structure means the combination of

10. Soloman. F.(1989), *Theory of Financial Management*, Colombia University press , p - 42

11. Weston, J fred & Copland, Thomas E (1997), *Managerial Finance* , (9th ed)., USA, The Dry den press, p, 570.

deferent types of assts, which appear in the asset side of the balance sheet of the company. Asset structure is firmed as a result of investment decision or capital investment. Capital investment is the allocation of capital to investment proposal whose benefit are to be realized in the future. Normally capitals raised through different means are invested in different firms of assets. These assets are used in different future activity of the company according to their nature type and necessity. The total amount of the asset held by the firm, composition of these assets and their nature and type determines the business risk completion of the firm is the supplies of the capital. So it is very necessary to manage existing assts.

2.3. Review of Books :

Under this heading effort has been made to review of books.

2.3.1. The Capital structure Theories :

In respect of capital structure decision of any firm should be to maximize the value of its firm. Under favorable economic conditions the earning per share increases with leverage.¹² But leverage also financial risk of the shareholder. As a result it cannot be stated definitely whether or not the value of the firm will increases with leverage. If the value of the firm can be affected by leverage, a firm would like to have a capital structure which maximizes the market value of the firm.

The value of a firm depends upon its expected earning stream and the rate used to discount this steam, Leverage cannot charge the total expected earning of the firm but it can affect the shareholder's earning. The effect of leverage on the cost of capital, rate used to discount the stream of earnings is not very clear. Conflicting opinions have been expressed on this issue. There exist two extreme views and middle positions.

12. Panday, I.M. (2002), *Financial Management* , (8th ed.), New Delhi, Vikash Publishing house Pv. Ltd., p - 675

In order to grasp the leverage and value of the firm or cost of capital controversy properly we make the following assumptions.

- i) There are no corporate or personal income taxes and bankruptcy costs.
- ii) The ratio of debt or equity for a firm is changed by issuing debt to repurchase stock or issuing by stock to pay off debt. In other words, a change in capital structure is affected immediately. In this regard we assume no transaction costs.
- iii) The firm has a policy of paying 100% of its earning in dividends. Thus, we abstract from the dividend decision.
- iv) The expected value of the subjective probability distribution of expected future operating earnings for each company are the same for all investors in the market.
- v) The operating earning of the firm is not expected to grow. The expected operating earning for all future periods are the same as present operating earnings.

2.3.2. Net Income Approach:

The essence of the NI approach is that the firm can increase its value or lower the overall cost of capital by increasing the proportion of debt in the capital structure.¹³

The crucial assumptions of this approach are:

- i. The use of debt does not change the risk perception of the investors. As a result, the equity capitalization rate and the debt capitalization rate remains constant with change in leverage.
- ii. The debt capitalization rate is less than equity capitalization rate.

13. I. M. Panday, O.P. cit.

- iii. The corporate income taxes do not exist.

The overall cost of capital is measured by

$$\text{Cost of capital} = \frac{\text{NOI}}{\text{Value of firm}}$$

Or,
Market value of debt/ value of firm.

2.3.3. Net Operating Income Approach:

According to NOI approach the market value of the firm is not affected by the capital structure charges. The market value of the firm is found out by capitalizing the net operating income at the overall, or the weighted average. Cost of capital which is constant. The market value of the firm is determined as follows.¹⁴

Value of firm = Market value of debt + Market value of common share

Or,

NOI / cost of capital

Or,

EBIT / cost of capital

The critical assumptions of the NOI approach are:

- i. The market capitalizes the value of the firm as a whole. Thus, the split between debt and equity is not important.
- ii. The market uses as overall capitalization rate to capitalize the net operating income. Cost of capital depends on the business risk. If the business risk is assured to remain constant, cost of capital is constant.
- iii. The use of less costly debt funds increases the risk to the shareholders. This causes the equity capitalization rate to increase. Thus the advantage of the debt is offset exactly by the increase in the equity – capitalization rate.

14. Horne, J.C.Van(2002), *Financial Management and Policy*, (10th ed.), Prentice Hall of India, p – 34.

- iv. The debt – capitalization rate is constant .
- v. The corporate income taxes do not exist.

As stated above, under NOI approach the value of the firm is found out by dividing the net operating income by overall cost of capital.

2.3.4. The Traditional View :

The traditional approach, popularized by Ezra Soloman, is also known as an intermediate opportunity is a compromise between the net income approaches. The traditional approach to evaluation and leverage assumes that there is an optimal capital structure and that the company can increase the total value of the company through the judicious use of leverage. The traditional presumption is that a company's value is a concave function of its financial leverage and that an optional financial leverage exists where the slope of the function is zero.¹⁵

According to traditional position, the manner which the overall cost of capital reacts to change in degree of leverage can be divided into three stages.

First stage:

In the first stage, the rate at which the shareholders capitalized their Net Income that is, the cost of equity, k_e remains constant or rises slightly with debt. But when it increases it does not increase fact enough to affect. The advantage of low – cost debt. During this stage the cost of debt k_d remains constant or rises negligibly. As a result overall cost of capital falls with increasing leverage.

15. Ibid, p 35.

Second stage:

Once the firm has reached a certain degree of leverage, increases in leverage have a negligible effect on the value or the cost of the firm. This is so because the increase in the cost of equity due to the added financial risk offsets the advantage of low cost debt. Within the range or at the specific point, the value of the will be maximum or the cost of capital will be minimum.

Third stage:

Beyond the acceptable limit of leverage, the value of the firm decreases with leverage or the cost of capital increases with leverage. This happens because investors perceive a high degree of financial risk and increases equity capitalization rate of by more than to offsets the advantage of low cost debt.

2.3.5. The Modigliani – Miller Hypothesis:

The Modigliani – Miller hypothesis is identical with the NOI approach. Modigliani – Miller (m – m) argues that, in the absence of taxes, a firm's market value and the cost of capital remain invariant to the capital structure changes. In their 1958 article, they provide analytically sound and logically consistent behavioral in favour of their hypothesis and recent any other capital structure theory as incorrect.¹⁶

Assumptions:

The M – M Hypothesis can be explained in terms of their proposition II and I. It should however be noticed that their proposition are based on certain assumptions. These assumptions, as described below, particularly relate to the behavior of the investors and capital market, the actions of the firm and the tax environment.

16. Horne, J. C. Van, OP cit.

1. The securities are traded in the perfect capital market situation. This specifically means (a) investors are free to buy or sell securities. (b) they can borrow without restriction at the same terms as the firms do and (c) they behave rationally. It is also implied that the transaction costs, i.e. the costs of buying and selling securities, do not exist.
2. Firms can be grouped into homogeneous risk classes. Firms would be considered to belong to a homogeneous risk class if their expected earnings have identical risk characteristics. It is generally implied under the M-M hypothesis that the firms within same industry constitute the homogeneous class.
3. The expected NOI is a random variable, with a constant mean probability distribution and finite variables.
4. Firms distribute all net earnings to the shareholders which mean a 100% payout.
5. In the original foundation of their hypothesis, M-M assumes that no corporate income taxes exist.

Proposition I

Given the above stated assumption, M-M argue that, for firm in the same risk class, the total market value is independent of the debt equity combination and is given by capitalizing the expected net operating income by the rate appropriate to that risk class.

Arbitrage process:

Thus, the two firms identical in all respect for their capital structure cannot command different market values nor have different costs of capital. M-M does not accept the NI approach as valid. Their opinion is that if two identical firms, except for the degree of leverage have different market value or costs of capital, arbitrage (or switching) will take place to

enable investors to engage in "personal home – made leverage" as against the " corporate leverage" to restore equilibrium in the market.¹⁷

Proposition II

M – M's proposition II, which defines the costs of equity, follows from their proposition I. The cost of equity can be derived from M – M's definition of the average cost of capital.

2.3.6. Criticism of the M – M Hypothesis :

The arbitrage process is the behavioral foundation for the M – M thesis. The shortcoming of the M – m thesis lies in the assumption of the perfect capital marketing which arbitrage is expected to work. Due to the existence of the imperfection in the capital market, arbitrage will fail to work and will give rise to discrepancy between the market values of the levered and unlevered firms. The arbitrage process would fail to bring equilibrium in the capital market for the following reasons.

1. The assumption that firms and individuals can borrow and lend at the same rate of interest does not hold well in practice.
2. It is incorrect to assume that "personal home – made leverage" is a perfect substitute for "corporate leverage."
3. The existence of the transaction costs also interfaces with the working arbitrage.
4. Institutional restriction also impede the working of arbitrage.
5. The incorporation of the corporate in cone axes will also frustrate M–m's conclusions.

2.4. Review of Related Journals Article :

Under this headings, efforts has been made to examine and review of some related articles published in different economic journals magazines, newspapers and other related books.

17. Horne, J. C. Van , OP cit .

In his articles "The choice between equity and debt", **Paul Marsh** has expressed the following issues.¹⁸

-) Whether companies are having the targeted debt.
-) Whether they have similar targets for the composition of their debt.
-) Whether debt ratio or the choice of the finance instrument are influenced by other factors.
-) How accurately can we predict whether the company will issue equity or debt?

Then he suggested that:

-) While planning their issues, company should consider future as well as current debt ratio.
-) If the companies are looking at book value debt ratio, there will be change during the interest issuing period of retentions and bank loans.
-) Any overall change in tax label cause issuing companies to shift their performance towards either debt or equity.
-) Small companies rely on bank loan rather than long – term debt because of location caused and problems of access to capital market.
-) Equity issues seem to be favorable as it provides strong share price and overall market performance.

In his work, **Mr. M.K. Shrestha** on "Analysis of capital structure of selected public enterprises," concluded that the capital structure of those enterprises were quite confusing. This is because those enterprises were not guided by the objective based financial plans and policies. Most of them, to relieve financial obligations debts are eliminated. He further added that the calculation of equity capitalization rate and overall

18. Marsh, Paul (1982), "The choice between equity & debt", The journal of finance, vol. xxvii, no.1.

capitalization rate has been given very fantastic results in many cases. The use of NI and NOI approach in those were rather academic practice than proving valid. The debt – equity ratio was improperly determined and the contribution of the debt procurement of assets was very insignificant. He suggested that debt – equity ratio neither should be highly levered to create too much financial obligation that lies beyond capacity to meet nor should be much low to infuse operational lethargy to by pass responsibilities without performances. The aid – donor strategies should be properly taken into consideration as the inflow of foreign government and international financial decision institution credit has dominant influence in the capital structure.¹⁹

Dr. Manohar Krishna Shrestha has concluded in his article "Commercial Banks comperative performance Evaluation" that the JVBs are operationally more efficient that the local commercial banks. The JVB have achieved better performance by using sophisticated technology and skilled man power and providing modern banking facilities where as local commercial banks have been burdened by the government's policy of rural branching and financing PES having so reimbursement capacity.

However, local commercial banks have competitively out performed the JVBs in terms of granting loans to cottage and small industries local banks have number of loopholes like absence of modern global balance sheet, absence of precise classification of loans and absence of proper development of computer networks. More one local commercial banks have to face various problems from socio – economic, political system on one hand spectrum and that of issues and challenges from JVBs commanding significant banking business on their spectrum.²⁰

19. Shrestha, Dr. M.K. (1985), "An analysis of capital structure of selected public enterprises" (March), Prashasan Nepalese Journal of Public Administration.

20. Shrestha Dr. Manohar Krishna (1990), "Commercial Banks Comparative Performance Evaluation", Karmachari Sanchaykosh Public, KTM.

Dr. Radhe S. Pradhan, on his research, "Financial management practices in Nepal" has studied about the major features of financial management practices in Nepal.

He analyzed that most enterprises do not borrow from one bank only and they do switch between banks to whichever offers best interest rates. Most enterprises find that banks are flexible in interest rates and covenants. He further found that among the bank loans, bank loans of less than one year more popular in public sector whereas bank loan of 1 – 5 years are more popular in private sector.²¹

"A study on capital structure: its impact on a value of a firm" an article by **Sudhir Poudel** concentrated his study to examine the interrelationship between the objective of achieving an optimal capital structure and to provide conceptual framework for the determination of the optimal capital structure.²²

For this a hypothetical firm is constructed and different assumptions are laid down to analyze the effect of capital structure. Various statistical and financial tools like ratio analysis are used to extract reasonable figure for the hypothetical firm. It is observed that the minimum weighted average cost of capital, maximum value of the firm and price per share are attended at debt ratio of 30%.

Furthermore, if there is flexibility to select capital structure in any proportion optimal capital structure, range from 30% to 40%. An optimal

21. Pradhan, Dr. R.S. (1994), *Financial management practices in Nepal*, New Delhi, Vikash Publishing House Pvt. Ltd.

22. Poudyal, Sudhir (2002), "Capital structure. It's impact on value of firm", Research paper submitted to faculty of management, T.U. Kathmandu, Nepal.

capital structure would fulfill the interest of equity shareholder and financing requirement of a company as well as other concerned groups.

2.5. Review of Thesis:

Prior to this thesis, several thesis work has been conducted by some students. Some of them as one supposed to be relevant for this study are presented below :

Mr. Krishna Pathak conducted a study on "Capital structure management of Gorakhali Rubber Udhogh Limited."

The objective of this study are as follows in details:-

- a) To analyze the financial position of Gorakhakali Rubber Udhogh.
- b) To analyze the financial performance of Gorakhakali Rubber Udhogh Ltd.
- c) The main objective of this study is to assets the capital structure of the company in terms of debt interest coverage, EBIT and EBT, EAT and total debt value of firm and find out capitalization rate.
- d) To give the suggestive judgmental decision which will strengthen there capital structure position. So that they can achieve their objective.

His findings are as follows :-

-) The company's debt serving capacity was poor as its interest coverage ratio was negative.
-) The operational performance was not satisfactory due to the negative earnings and low volume of sales revenue.
-) The company was not able to use its full capacity, which resulted in a huge loss.
-) It's debt capital was very high as compared to the shareholders equity and the trend of debt / equity was increasing every year.

He later suggested:-

-) It is beneficial if company issues equity capital to obtain additional funds.
-) The over staffing problem should be solved by proper strategic plan.²³

Mr. Rajendershwar Poudel studied on "Capital and Assets structure of Nepal Bank Limited".

The specific objectives of the study are as follows:

- a) To highlight about the company regarding its growth, expansion stability etc.
- b) To analyze the related variable like assets liabilities in case of Nepal bank limited.
- c) To provide suggestion by appropriate capital structure for the Nepal bank limited.

In this study he recommended following points.

1. The total investment was not significantly related with total deposit and total assets. So the bank needs to stabilize the ratio trend of the total deposit to total investment through the help of sound investment policies and programs.
2. The net worth of the bank was low as compared to the total deposit and total liability. So the bank needs to increase its net worth to reduce the risk. An increase in net worth will help to reduce the fluctuation on net profit.
3. The net worth of the bank was loss than other assets of the bank. It indicated that all the net worth of the bank was used on unproductive uses of its net worth.

23. Pathak, Krishna (1995), "A study on capital structure management of Gorakhali Rubber Udhog". Unpublished MBA thesis, TU Kathmandu, Nepal.

4. The increasing trend of total expenditure exceeded the increasing trend of total income. The bank needs to review the trend and it is possible only when the asset and liabilities management is improved. The net profit of the bank was fluctuating so do the earnings per shares. To stabilize net profit and earnings per shares, total expenditure and total income of the bank should be under control. To control total income and total expenditure, the bank in effect needs to control total deposit and total investment.²⁴

Mr. S. N. Mainali concluded his dissertation – "A structure on capital management of Jyoti Spining Mills Livited" with following objectives:

- a) To be familiar with the capital structure of Jyoti Spining Mills Limited in the terms of financial ratios.
- b) To analyze the relationship between their capital structure and profitability.
- c) To provide a suggestive frame work which will strengthen the capital structure position so that they can take concrete steps in achieving there objectives.

His findings are as follows :-

-) The company was highly levered
-) The portion of share capital is found comparatively low and increasing with moderate growth rate.
-) The company's earning power is weak and investors are bearing high loss upon their investment.

He also suggested following points:-

-) It is better to issue share capital upon additional requirement of funds.

24. Poudel, Rajendrashwor (1997), "A study on assets and capital structure of NBL", Unpublished MBA thesis, TU Kathmandu, Nepal.

-) The old debt should be paid off by the sale of its unused fixed assets and then search for cheaper source of debt.
-) The company should adopt attractive advertisement policy to push its existing product and to promote new market.
-) The company should change its existing capital structure. For this long term debt should be reduced by converting foreign exchange deferred account into equity capital. ²⁵

Mr. Karmacharya has conducted a research in " Study on the relationship between capital structure and profitability of joint venture commercial bank and NRB," and this study tries to analyze the relationship between capital structure and profitability of the company.

This research has following other specific objectives:

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

His finding and suggestion are as follows:

- a) The capital structure of the JVBs is highly levered. The portion of debt and equity capital should be decided keeping in mind the effect of tax advantage and financial distress. The banks when it is difficult to pay interest and principle, ultimately lead to liquidation.
- b) The largest item of the bank in the assets side is loan and advances which is the main cause of an assists in the bank an are of the main resources a bank failure to overcome this commercial bank are strongly recommended to follow liberal lending policy.

25. Mainali, S.N. (1999), "A study on capital structure management of Jyoti sp. Mills Ltd". Unpublished MBA thesis, TU, Kathmandu.

- c) The banks are required to maintain improved capital structure by increasing equity base i.e. issuing more equity capital expanding general reserve and retained more earnings. It will compromise among the conflicting factors of cost and risk.
- d) The bank's most unsatisfactory performance in net profit and earning per share deteriorates yearly. This is mostly due to sudden decrease interest rate of loan and investment. So in this scenario the bank should explore the new ways of service marketing increase its income based on fees and the bank should attract its clients on low or non interest bearing deposits.
- e) To increase its liquidity and profitability position it should bring revolution in its quality of loans and investments. The bank should explore the new ideas of clients satisfaction and initiate different services to customer viz home banking, tele banking, credit card facilities automated tailor machine service, all time banking services and so on.
- f) In the scenario of operating large number of banks and financial institutions in a limited modern and fast growing urban area, to operate efficiently and to build the liquidity position strong the bank should expand its branches in proper area all over Nepal.²⁶

26. Karmacharya, B. (2002), "Study on the relationship between capital structure and profitability of Joint Venture Commercial Bank and NRB". Unpublished MBA thesis, TU, Kathmandu.

CHAPTER – THREE

RESEARCH METHODOLOGY

3.1. Introduction :

"Research methodology" is composed of two words. "Research" and "Methodology". "Research" is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought activities of gathering, recording, analyzing and interpreting that data with the purpose of finding answers to the problem. Thus the entire process by which we attempt to solve problems is called research, while "Methodology" is the research method used to test the hypothesis¹.

"Research Methodology" refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view".² In other words, research Methodology describes the methods, techniques and process applied in the entire aspect of the study. The basic objective of this study is to measure the trends in the items of assets and liabilities of Joint Venture Banks. To accomplish this goal, the study follows the research methodology described in this chapter.

3.2. Research Design

The analysis of the study is based on certain research design. Selection of appropriate research design is necessary to meet the study objectives. It emphasizes on descriptive and analytical study of the collected data as of profit and loss A/c and balance – sheet over a period of time and it gives suggestion on improvement of the capital structure.

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1. Wolff, H.K. and Pant, P.R. (1999), *Social science Research and thesis writing*, (2nd ed.) First, 2000 A.D. p – 203.
 2. Kothari, C.R. (1989), *Research Methodology Methods and Techniques*, New Delhi, Wiley Eastern Limited.

"The formidable problem that follows in task of defining the research is the preparation of design of the research project popularly known as "Research Design".³

Some statistical and accounting tools have also been applied to examine the facts and descriptive techniques have been adopted to evaluate the structure of Joint venture banks.

3.3. Population and Sample

When democratically elected government introduced, new liberalization and open economic policy JVBs increased dramatically.

There are some Joint Venture Banks whose shares are traded actively in the stock market. A list showing the listed Joint Venture Banks:

1.	Nabil Bank Ltd.	1984
2.	Standard chartered Bank Ltd.	1987
3.	Himalayan Bank Ltd.	1993
4.	Nepal SBI Bank Ltd.	1993
5.	Nepal Bangladesh Bank Ltd.	1994
6.	Everest Bank Ltd.	1994

From above all JVBs are selected as a sample except Himalayan Bank Ltd. for the study. That set of $\sum n^4 \frac{n}{N} = \frac{5}{6}$

3.4. Data Collection Activities

This is the study of joint venture banks of Nepal. The study is based on the facts collected from the balance sheet of concerned joint venture banks. Following have been used for the analysis:

1. Primary data
2. Secondary data

3. Ibid p – 39

1. **Primary data:** Primary data are those which are collected for the first time and are thus original in character. Primary data are in the shape of raw materials to which statistical methods are applied for the purpose of analysis and interpretation. For this study primary data are collected by schedule questionnaire. The informative obtained by this method using personal interview techniques in which questionnaires are placed to respondent of concerned JVBs.

2. **Secondary data:** Secondary data are those which has already been collected by others. Mostly data are collected from the secondary data i. e, from B/S and income statement of the bank from the head office of the concerned banks.

3.5. Tools for Analysis

To make rational decisions in keeping with the objectives of the bank, the financial manager must have certain analytical tools. The more useful tools of financial analysis are the subjects of this chapter. The major tools employed for the analysis of this study is the ratio analysis which establishes the quantitative or numerical relationship between two variables of the financial statements. Besides these, statistical tools have also been used.

The various tools applied in the study, has been briefly presented bellow:

3.5.1. Financial Tools:

The financial tools employed in this study basically represent ratio analysis and financial statement analysis.

3.5.1.1. Ratio analysis:

Ratio analysis is the powerful tool of financial analysis. Financial ratio represents the relationship between two accounting figures expressed mathematically. Ratio analysis is defined as the systematic use

of ratios to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial condition can be determined. Like other tools of financial management, ratio analysis involves two types of comparison. First it is employed to compare present ratio with past and expected figure ratio for same corporation. Second, the comparison is done to see the difference exist between ratio of one corporation with those of similar corporation or with industries averages of the same period. The required financial ratios for this study are enable in details as follows:

A. Liquidity Ratio:

Liquidity ratio measures the ability of the firm to meet its current obligations. These ratios provide in sight in to the present cash solvency in the event of adverse financial condition. This ratio is used to measure the company's short terms obligations with short – term resources available at a given point of time.

Thus it is the measurement of speed with which a bank's assets can be converted into cash to meet deposit with drawal and other obligations.

The following commercially used ratios are evaluated under liquidity ratios.

(I) Current Ratio:

This ratio measures the short term solvency i.e. it's ability to meet short term obligations. As a measure of creditor reuse current assets, it indicates each rupee of CAs available for each rupee of current liability. It is computed by divided current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current liability}}$$

Current asset normally include loans and advances cash and bank balance, Money at call or short notice, investment in government securities, other receivables and miscellaneous current assets. Similarly, current liabilities include deposits and other short term loan, bills payable, staff bonus, dividend payable and miscellaneous current liabilities.

Higher the ratio, greater the ability of the bank to pay its current obligations. The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio and the nature of business.

(II) Cash and bank balance to total Deposit Ratio (Including fixed deposit):

This ratio is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and bank balances in banks by saving and current deposits.

This ratio is calculated as =
$$\frac{\text{Cash \& bank balance}}{\text{Total Deposit}}$$

(III) Cash and Bank Balance to current Asset Ratio:

This ratio is calculated to find the ability of banks to pay total calls made on current deposit. It is computed dividing cash and bank balance by current assets as

=
$$\frac{\text{Cash \& Bank balance}}{\text{Current Assets}}$$

It is hidden fact that the depositors would not with draw the total deposit, in case at a time so the bank keeps a certain margin of cash. This ratio indicates that, if the ratio is

higher, there is higher margin and if lower the banks is less liquid. These resources of the firm but also the use of various components of total assets.

B. Asset management Ratio or Activity Ratio

This ratio measures how efficiently the bank manager is using the resources. The following ratios are evaluated under asset management ratio.

(i) Loan and advances to total deposit ratio:

The main purpose of this ratio is to find out, how successfully the banks are utilizing their total deposits of loan and advances for generating more profit. Higher ratio implies the better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposits, which can be expressed as

$$\frac{\text{Loan and advances}}{\text{Total deposits}}$$

(ii) Total investment to total deposit ratio:

This ratio implies the utilization of firm's deposit on investment in government securities and shares debentures of other companies and bank. This ratio can be completed as.

$$\frac{\text{Total investment}}{\text{Total deposits}}$$

The numerator consists of investment on government securities, investment on debenture and bonds, shares in subsiding companies, shares in other companies and other investment.

(iii) Loan and advances to working fund ratio:

Loan and advances is the major component in the total working fund (total asses) which indicates the ability of bank to channelize its deposits in the firm loan and advance to gain high return. This ratio is calculated as:

$$\frac{\text{Loan and advances}}{\text{Total working fund}}$$

Here, the denominator includes all assets of balance sheet items. In other words, this includes current assets, net fixed assets, loans for development banks and other miscellaneous assets but excludes off balance sheet items as letter of credit (L.C), letter of grantee etc.

(iv) Investment on government securities to total working fund (Total assets) ratio:

This ratio picturize that bank investment on government securities in comparison to the total working fund i.e. totals assets. This ratio is calculated by dividing investment on government securities by total working fund which is presented as:

$$\frac{\text{Investment on government securities}}{\text{Total working fund.}}$$

C. Profitability Ratio

Profitability ratio measures the profitability of firm, which provides an incentive to achieve efficiency. Profitability also indicates public acceptance of the product and shows that the firm can produce competitively. Moreover profits provide the money for

repaying debt, incurred to finance the project resources for the internal financing requirement. The profitability of a firm can be measured by its profitability ratio.

Profitability position of Joint venture bank can be evaluated through following ratios :

(1) Return on total working fund / Total assets (ROF):

Return on total working fund a total assets ratio measures the overall profitability. Assets management is very essential and important because of the return on assets will rise if fewer assets are employed and all the required measures of the effective management of working capital apply. A bank has to earn satisfactory return on asset on working fund for its survival. This ratio is calculated as:

$$\frac{\text{Net profit}}{\text{Total working fund}}$$

The numerator indicates the portion of income left to the internal equities after all costs, charges, and expenses have been deducted.

(2) Net Profit to total deposit ratio:

This ratio is calculated to find out efficiency towards its deposit mobilization. Generally, higher ratio indicates proper utilization of total deposits and vice versa. The ratio can be computed as:

$$\frac{\text{Net Profit}}{\text{Total deposit}}$$

(3) Return on loan and advance ratio:

This ratio indicates how efficiently the bank employed its loan advances. This ratio is computed by dividing net profit by loan and advances.

This can be expressed as:

$$\frac{\text{Net profit}}{\text{Loans \& Advances}}$$

Hence, the numerator consists of interest expenses on deposits, loan and advances, borrowing and other deposits.

D. Capital adequacy ratio

The question of capital adequacy lies at the heart of the financial strength, safety and solvency. This ratio is highly applied specially to assess the strength of the capital adequacy of the available capital. The following ratio are selected under capital adequacy ratio.

i) Shareholder's fund to total deposit ratio:

This ratio shows how well joint venture banks are maintaining sufficient amount as shareholder's fund in comparison to the amount of total deposits. This can be stated as:

$$\frac{\text{Shareholder's fund}}{\text{Total deposit}}$$

Here, total deposit consists of current deposits saving deposits, fixed deposits and call and other deposits.

ii) Shareholder's fund to total assets ratio:

It is quite essential for every financial institutions to have a balance of required percentage of total assets as capital fund. This ratio measures the relative claims of owners of the bank over the banks assets, which can be expressed as:

Shareholder's fund

Total assets

E. Growth Ratios

To examine and analyze the expansion and growth of the banks business following growth ratios are calculated and interpreted in this study:

- (A) Growth ratios of liquidity position
 - i. Growth ratios of total deposit
 - ii. Growth ratios of loan and advances
 - iii. Growth ratios of total investment.

- (B) Growth ratios of profitability position
 - i. Growth ratios of net profit
 - ii. Growth ratios of DPS
 - iii. Growth ratios of EPS.

Growth ratios represent how well the JVBs are maintaining their economic position. Under this, two types of growth ratios i.e., growth ratios of liquidity position and growth ratios of profitability position are calculated.

These ratios can be computed by divided the last period (yr) figure by the first period (yr) figure. This can be states as:

$$\text{Growth ratio} = \frac{\text{last year figure}}{\text{First year figure}}$$

3.5.2. Statistical Tools:

Many statistical tools are often employed in the analysis and interpretation of data as an aid to management and managerial decision, To achieve the objectives of the study some important statistical tools have been used which are as follows:

- a. Arithmetic mean (AM)
- b. Standard deviation (SD)
- c. Co-efficient of variance (CV)
- d. Co-efficient of correlation analysis.
- e. Least square linear trend analysis.
- f. F – Test (variance Ratio Test)

a) Arithmetic Mean (AM):

The arithmetic mean, often simply referred to as mean, is the total of the values of a set of observations divided by their total number of observations. Thus, if $x_1 x_2 \dots\dots\dots x_N$ represents the values of N items or observations, the arithmetic mean denoted by \bar{x} is defined as :-

$$\bar{X} = \frac{x_1 + x_2 + \dots\dots\dots + x_N \dots\dots\dots}{N} = \frac{\phi \cdot X}{N}$$

Where,

- ϕX = the sum of the observation
- N = No of year.

b) Standard Deviation (SD) :

The SD measures the absolute dispersion i.e. scatter ness of the mass of figures in a series. A small SD means a high degree of uniformity of the observation as well as homogeneity of a series, a large SD mean. Just the opposite. In this study, SD of different ratios is calculated. It is defined as the positive square of the

deviation of the given. Observations from the arithmetic means. Thus if x_1, x_2, \dots, x_n in a set of n observation then its standard deviation is given by.

$$\sigma = \sqrt{\frac{1}{n} \sum (x - \bar{x})^2}$$

Where,

$$\bar{x} = \frac{1}{n} \sum \phi x \text{ is the AM of the given values.}$$

σ Denotation of SD, sigma,

c) Co-efficient of variance (CV):

The co-efficient of variance is the relative measure of dispersion, comparable across distribution which is defined as the ratio of the standard deviation to the means expressed in percent. It is calculated as: -

$$C.V = \frac{SD}{\bar{x}} \times 100$$

Where,

$$SD = \sqrt{\frac{\sum \phi x^2}{N} - \left(\frac{\sum \phi x}{N}\right)^2}$$

d) Co-efficient of correlation Analysis:

When the relationship is a quantitative nature, the appropriate statistical tool for discovering the measuring the relationship and expressing it in a brief formula is known as correlation.

Correlation is an analysis of the correlation between two or more variable. In the case of highly correlated variable under this topic, Karl – Person’s co-efficient of correlation has been found out the relationship between the following variables:

- i) Co-efficient of correlation between total deposit and total investment.

- ii) Co – efficient of correlation between debt and return.
- iii) Co – efficient of correlation between net profit and total outside assets.

Karl Person's co – efficient of correlation is widely used in practice to measure the degree of relationship between two variables. So the degree of relationship is measured by using following formula:

$$r = \frac{N \cdot \phi xy - (\phi x)(\phi y)}{\sqrt{N \cdot \phi x^2 - (\phi x)^2} \sqrt{N \cdot \phi y^2 - (\phi y)^2}}$$

Where,

- r = The co – efficient of correlation
- ϕxy = The total of production of items in two series.
- ϕx = The total of x series.
- ϕy = The total of y series.
- ϕx^2 = The total of the square of item in x series.
- ϕy^2 = The total of the square of item in y series.
- N = the number of items period.

e) Least square linear trend analysis :

The straight line trend implies that irrespective of the seasonal and cyclical swings and irregular fluctuations, the trend values increases or decreases by a constant absolute amount "b" per unit of time. Hence the linear trend value from a series in arithmetic progression, the common different i.e. being "b" the slope of the trend line.

To compute the straight line trend,

$$y = a + bx$$

where,

$y =$ dependent variable

$A =$ Constant, which compute y value.

When $\phi x = 0$

$$\text{i. e., } b = \frac{\phi y}{N}$$

$b =$ constant which is change in y corresponding to the change in x by are unit .

$$\text{i. e., } b = \frac{\phi x y}{\phi x^2}$$

$x =$ $t -$ base year.

X unit = 1 year.

The constant ' a ' is simply equal to the mean of y value and constant ' b ' gives the rate of change i.e. slope of trend line.

Here, least square linear analyzes the trend of interest paid, interest earned and trend of total assets of joint venture banks.

f) F – test (Analysis of variance) :

" F – test " is used in such problems where we want to test for the significance of the difference among more than two sample means. In fact, the technique of analysis of variance is one of the most powerful of statistical method developed by R.A. Fisher. F – Test, enables us to for the significance of the differences between more than two sample means. This technique can be used to conclude whether the regression equation provides significant result or not.

Test of Hypothesis :

A hypothesis is a conjectural statement of the relationship between two or more variables. The test of hypothesis discloses the fact whether the difference between the computed statistic and

hypothetical parameter is significant. Thus the hypothesis statement should be able to show the relationship between variables and they should at the same time carry clear implications for testing the stated relations.

Hypothesis tests:

Null Hypothesis (Ho):-

- (I) There is no significant difference in Net profit made by NABIL, SCBL, SBI, NBBL and EVEREST.
- (II) There is no significant difference in Net profit made during 5 different yrs.

$$\hat{\mu}_1 = \hat{\mu}_2 = \hat{\mu}_3 = \hat{\mu}_4 = \hat{\mu}_5$$

Alternative Hypothesis (H₁) :-

- (I) There is significant difference in net profit made by NABIL, SCBL, SBI, NBBL and EVEREST
- (II) There is significant difference in Net profit made during 5 different yrs.

$$\hat{\mu}_1 \neq \hat{\mu}_2 \neq \hat{\mu}_3 \neq \hat{\mu}_4 \neq \hat{\mu}_5$$

Calculating F – Ratio by Two way Classification ANOVA Table

In two way classification we study the effect of two factor i.e. the data are classified according to the two different factors. Thus we can classify the net profit between banks in the column and net profit of each bank between period in the rows. But there may be sampling variation beside these two factors which called residual variation.

We have, SST + SSC + SSR = SSE

Where,

- SST = Total sum of Square of variation
 SSC = Sum of Square of variation in column
 SSR = Sum of Square of variation in row
 SSE = Sum of Square as residual due to errors

The total number of degrees of freedom = $K \cdot r - 1$

Where,

K and r refer to column and rows respectively

d . f between column = $k - 1$

d. f between rows = $r - 1$

d. f between residual = $(k - 1) (r - 1)$

ANOVA Table

Sources of Variation	Sum of Square	Degree of Freedom	Mean sum of Square	F – Ratio
Between Column	SSC	$K - 1$	$\frac{SSC}{K - 1}$	$\frac{MSC}{MSE}$
Between Row	SSR	$r - 1$	$\frac{SSR}{r - 1}$	$\frac{MSR}{MSE}$
Residual	SSE	$(k - 1) (r - 1)$	$\frac{SSE}{(k - 1) (r - 1)}$	
Total	SST	$N - 1$		

CHAPTER – FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1. Introduction :

In this chapter, to achieve the objectives which are set in introduction chapter, the relevant data and information on capital and Assets structure Management of joint ventures banks are presented and analyzed comparatively. It is notable that all types of financial ratios are not studied under this chapter. Only those ratios are calculated and analyzed which are very significant to picturize the real capital and assets structure of joint venture Banks.

In this chapter evaluation, analysis and interpretation are made, according to the research methodology as mentioned in the previous chapter. The following ratios are applied for the study purpose:

- a) Liquidity Ratios
- b) Assets Management, Utilization ratio.
- c) Profitability Ratios
- d) Capital Adequacy Ratios
- e) Growth Ratios.

Liquidity Ratio :

Liquidity ratio is employed to measure the company's ability to meet short – term obligation. These ratio provide insight into the presence cash solvency in the event of adverse financial condition. This ratio is used to measure the company's short terms obligation with short term resources available at a given point of time.

To find out the ability of banks to meet their short term obligations which are likely to mature in the short duration. The following ratios are computed to find out the short – term solvency.

a) Current Ratio :

Current ratio is a broad measure of liquidity position of the financial institution. This ratio indicates the capability of the bank to meet its current obligation. This ratio computed by dividing current assets by current liabilities (detailed in Appendix B). The following table shows the current ratios of joint venture bank.

Table No. 1
Current Ratios (times)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	1.058	0.764	0.8125	0.9162	0.95	0.90	0.104	11.55
STANDARD	1.055	1.056	1.068	1.062	1.063	1.0608	.0048	0.45
SBI	1.023	1.017	1.0504	1.058	1.068	1.043	0.02	1.92
NBBL	1.0128	1.3875	1.027	1.01	1.013	1.09	0.149	13.67
EVEREST	1.04	1.035	1.048	1.056	1.052	1.0462	0.008	0.72

From above table, It is obvious that current assets of each joint venture banks except NABIL bank Ltd. has contained more than its current liabilities. The table has revealed that current ratios of all banks have followed a fluctuating trend throughout the study period. The current ratio of NABIL is less than 1 after 2001/002 under the study period. This indicates that it may have difficulty to pay current liabilities. Where as in the case of other remaining bank, they are capable to pay their current obligations. The current ratio of SCBL and NBBL has followed a increasing trend in the first

two fiscal year i.e. 2001/02 and 2002/03, though it has decreased in succeeding year.

In average NBBL has maintained higher current ratio i.e. 1.09 than that of other banks likewise, the coefficient of variation between current asset and current liabilities. 48 percent interns of SCBL which shows that current ratio of SCBL are less consistent than that of other banks.

Thus, from above analysis it is known that NBBL and SCBL has better performance than other banks.

More over, from the liquidity situation point of view SCBL and NBBL seems better which is possibly the result of higher portion of fixed deposit in total deposits. But from the working capital policy point of view JVBs has followed aggressive working capital policy by attracting more current liabilities and applying them into liquid sectors.

b) Cash and Bank Balance to Total Deposit Ratio:

This ratio measures the ability of bank to meet their daily requirements. A high ratio indicates the greater ability to meet their deposits and vice – versa. More over too high ratio is unfit as capital will be tied up and opportunity cost will be higher. This ratio is computed by dividing case and bank balance by total deposits. (detailed in appendix – C)

The following table shows the ratios of cash and bank balance to total deposit in details.

Table No. 2
Case and Bank Balance to Total Deposit Ratio:
 (%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	8.52	5.14	6.78	8.51	6.87	7.164	1.263	17.63
SCBL	8.11	6.22	5.21	8.06	9.56	7.43	1.535	20.65
SBI	19.62	29.42	29.07	20.44	12.01	22.11	6.52	29.49
NBBL	9.99	11.93	18.49	8.50	11.20	12.022	3.44	28.61
EVEREST	9.11	18.25	10.84	17.02	7.84	12.612	4.23	33.54

From the above table cash and Bank Balance to total deposit ratio of almost all joint venture banks are in fluctuating trend. The range of cash and bank balance of SBI is high among all banks in fiscal year 2002/03 with the ratio of 29.42%.

While examining the mean ratio, SBI has maintained higher performance i.e., 22.11 % than that of other banks. On the other side co-efficient of variation among is lower in the case of NABIL which indicates NABIL is ratio are highly consistent than that of other rest banks.

It may concluded from above analysis that cash and bank balance position with respect to total deposit has better performance in the case of SBI, NBBL and Everest against the readiness to serve its customers deposit than other banks NABIL and SCBL. In contrast a high ratio cash and bank balance may be in appropriate which may indicate that the bank has burdened of more idle money. Thus in case of SBI, NBBL and Everest, they could investment their more idle cash balance to more productive sector i.e. in marketable securities, treasury bills etc, for improving their profitability position.

c) Cash and Bank Balance to current Assets Ratio:

This ratio measure the ability of the bank to make the payment of its customer deposits. The main objectives of calculating this ratio is to examine the bank's liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice – versa. Both higher and lower ratios are not desirable because if a bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may b lost. In contrast if a bank maintains low ratio of cash it may fail to make the payment for presented cheques by its customer. Thus sufficient and appropriate cash reserve should be maintained properly.

The cash and bank balance to current assets ratios and computed by dividing cash and bank balance by current assets (detailed in appendix – D). The Ratio percentage is presented in the following table:

Table No. 3
Cash and Bank Balance to Current Assets Ratio:

(%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	7.63	6.17	7.9	8.25	6.81	7.252	0.851	11.73
SCBL	6.13	5	4.5	7.22	8.61	6.29	1.5	23.85
SBI	17.83	24.14	23.27	18	10.36	19.32	5.67	29.35
NBBL	9.18	10.64	16.40	7.92	10.44	10.92	2.91	26.65
EVEREST	8.35	16.53	9.32	14.54	6.72	11.09	3.77	34

From the above table cash and bank balance to current assets ratio during the study period are in fluctuating trend. In the beginning of two fiscal years i.e. 2001/02 and 2002/03 except NABIL and SCBL all other bank's ratios are in increasing trend. During the study period SBI bank maintained highest ratio in the fiscal year 2002/03 and SCBL maintained lowest ratio recorded in the same year. While examining the mean ratios SBI has maintained higher performance i. e. 19.32% than that of other banks. On the other side CV ratio of NABIL is lower which indicates that NABIL ratio are highly consistent than that of other banks.

Thus it can be concluded that SBI bank is in better position to maintain its cash and bank balance in comparison to other banks but it does not mean that it has mobilized its more funds in profitable sector. It actually means that SBI bank can meet its daily requirement to make the payments on customer deposits.

Asset Management Ratio (Activity Ratio) :

Asset management ratio (activity ratio) measures how efficiently the manages the resources at its command. A joint venture bank must be able to manage its assets very well to earn high profit to satisfy its customers and for its owner existence. These ratios are also called turnover ratio because they indicate the speed with which assets are being converted of turned over in to profit generating assets.

a) Loan and Advances to Total Deposit Ratio :

This ratio assesses to what extend the banks are able to utilize the deposits fund to earn profit by providing loans and advance: A high ratio of loan and advances indicate better mobilization of collected deposits and vice versa. But it should be noted that too high ratio may not be better from its liquidity point of view. This ratio is calculated by dividing loan and advances by total deposits (detailed in appendix – E)

The following table No. – 4 display the ratio of loan and advances to total deposits of joint venture banks.

Table No. 4
Loan and Advances to Total Deposit Ratio :
 (%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	57.39	52.56	47.97	57.68	58	54.72	3.92	7.16
SCBL	38.64	37.35	33.87	30.36	30.29	34.102	3.456	10.13
SBI	38.47	63.34	77.15	68.50	71.46	71.78	5.58	7.78
NBBL	71.39	85.56	80.22	68.50	67.23	74.58	7.321	9.548
EVEREST	74.25	65.70	72.23	73.32	72.97	71.694	3.07	4.28

On the basis of table listed above all joint venture bank fluctuating types nature of loan and Advances to total deposit ratio during the study period. NBBL maintained highest ratio in 2002/03 and SCBL has lowest ratio during 2005/06 during the study period.

In overall, the mean ratios of loan and advances of NBBL perform the best ratio among the bank under study. Where as SCBL has lowest mean ratio. Which seems to be slightly weak to mobilize its total deposits as loan and advances. On the basis of co-efficient of variation, we can say that Everest Bank's loan and advances ratio is more consistent than that of other banks because of its lower CV i.e., 4.28 percent. From the above description, it can be concluded that SCBL, to mobilize its total deposits or loan and advances is found slightly weak in comparison to other banks. But it should be noted that in the process of loan management of bank assets, so many factors are to be considered such as risk analysis,

diversification, social responsibilities bank's credit policy, compensation policy etc.

b) Total Investment to Total Deposit Ratio:

Joint venture banks may invest its funds in different securities issued by government and other financial companies to mobilize bank's deposit. Total investment to total deposit ratio measure the extent to which the banks the successful mobilizing the total deposits on investment. High ratio is the indicator of high success to mobilize the banking fund as investment advice versa.

This ratio is calculated by dividing total investment by total deposit (detail in app- F). These ratios one presented in following table :

Table No. 5
Total Investment to Total Deposit Ratio : (%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	9.66	17.26	26.58	26.69	26.01	21.24	6.796	32
SCBL	26.56	61.88	58.50	55.16	53.63	51.146	12.62	24.67
SBI	4.25	5.52	9.03	18.23	26.25	12.66	8.37	66
NBBL	6.86	7.86	10.2%	20.14	20.78	12.19	7.31	60
EVEREST	8.43	18	28.15	23.89	30.59	15.88	8.62	54.28

From the above tables it is obvious that the ratios of total investment to total deposits in case of all banks except SCBL are in rising trend during the study period. SCBL recorded the highest ratio i. e. 61.88% in the fiscal year 2002/03 among all other banks. The lowest ratio was recorded i. e. 4.25 percent of SBI in the fiscal year 2001/02. On the basis of mean ratios. It can observe that SCBL performs very good ratio i. e. 51.146 percent than that of

other bank. It means SBI's capacity to mobilize its deposits on total investment is preferable and performed better. On the basis of co – efficient of variation we can say that SCBL's total Investment to total deposit ratio is more consistent than that of other banks because of its lower CV i. e. 24.67.

c) Loan and advances to Total working fund Ratio.

This ratio reflects the extent to which the banks are capable to mobilize their total assets on loan and advances for the purpose of income generation. Commercial bank's working fund play very active role in profit generation through its funds mobilization. A high ratio indicates the better mobilization of resources as loan and advances and vice versa. This ratio is computed by dividing loan and advances the total working fund i. e. total asset (detail in appendix – G). The following table displays the ratio of loan and advances to total working fund of joint venture banks during the study period.

Table No. 6

Loan and Advance to Total Working Fund Ratio:

(%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	48.82	45.32	42.19	46.83	48.9	46.41	2.50	5.39
SCBL	28.86	29.77	29.08	27.12	27.11	28.39	1.08	3.8
SBI	69.7	57.5	61.23	59.1	60.9	61.69	4.23	6.86
NBBL	62.84	73.86	68.75	60.74	60.66	65.37	5.17	7.91
EVEREST	66.54	57.77	59.76	60.96	61.24	61.25	2.91	4.75

From the above table It has been found that All JVBs have fluctuating types of loan and advances to working find ratios. Everest Bank has the highest ratio of 66.54 percent in Fiscal Year

2001/02 and SCBL has the lowest ratio of 27.11 percent in Fiscal Year 2005/06.

On the basis of mean ratio NBBL has maintained higher ratio i. e. 65.37 percent which seems in good condition to mobilize its total working fund as loan and advances. Similarly SCBL has maintained lower ratio i. e. 28.39 percent. In case of co – efficient of variation SCBL's ratios are more consistent than that of other banks due to the lowest CV ratio i. e., 3.8%. From above analysis it can be concluded that NBBL's fund mobilization in terms of loan and advances with respect to total working fund is more satisfactory than that of other banks.

d) Investment on Government Securities to Total Working Fund Ratio:

This ratio measures the capacity of banks to mobilize their working fund on different types of government securities to maximize the income. All the deposits of the bank should not invest in loan and advances and other credit, from security and liquidity point of view. Therefore up to some extent banks seem to be interested to utilize their deposits by purchasing government securities. This ratios shows that out of total working fund, How much percentage of it, has been occupied by the investment on government securities. (detail in appendix – H)

Table No.7

Investment on Government Securities to Total Working Fund Ratio:
(%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	8.21	14.88	23.37	21.67	21.93	18.01	5.72	31.76
SCBL	19.83	24.85	31.37	32.01	33.62	28.34	5.20	18.35
SBI	3.78	5	7.17	15.72	22.17	10.77	7.07	65.65
NBBL	6.04	2.64	8.03	17.1	18.09	10.38	6.146	59.21
EVEREST	7.55	15.82	23.29	19.86	25.67	18.44	6.38	34.6

From the above table It has been found that the ratio of Investment on government securities to total working fund of all joint venture banks are in rising trend during study period. Everest bank has been successful to maintain the highest ratio i. e. , 25.67 percent in Fiscal Year 2005/06. Similarly SBI has maintain the lowest ratio among all banks i. e. 3.78 percent in the Fiscal Year 2001/02.

On the basis of mean ratio of investment on government securities and total working fund of Everest bank is higher than other banks which indicate that Everest bank has been capable to maintain the attractive ratio performance. In the case of co – efficient of variation SCBL’s ratios are more consistent than that of other banks due to the lowest CV Ratio i. e. 18.35 %.

Profitability Ratio :

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Profit is also regarded as the most essential element for company’s growth, survival and to compete

with competitors. The following ratios are calculated, evaluated and analyzed for the study purpose.

a) Return on Total Working Fund / Return on Total Assets (ROA):

Return on total working fund is the measuring rod of the profitability with respect to each financial resources investment of the bank's assets. If the bank's working fund is well managed and efficiently utilized, return on such assets will be higher and vice versa. The ratio of return on total working fund is calculated by dividing net profit by total working fund i. e. total assets (detailed in appendix – I). The following table shows the profitability position.

Table No. 8
Return on working Fund Ratio :

(%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	2.19	1.59	1.54	2.51	2.72	2.4	0.476	19.83
SCBL	2.33	2.23	2.60	2.41	2.27	2.368	0.131	5.53
SBI	0.98	0.17	0.58	0.64	0.72	0.618	0.262	42.39
NBBL	1.9	1.99	0.59	0.60	0.02	1.02	0.784	76.86
EVEREST	1.21	1.34	1.29	1.17	1.49	1.3	0.112	8.62

From above table, It is found that return on working fund ratios have been fluctuating trend throughout the study period. NABIL is able to maintain the highest ROA ratio among all banks with the ratio of 2.72 percent in the Fiscal Year 2005/06. But the lowest ratio recorded in the Fiscal Year 2005/06 by NBBL with the ratio of 0.02 percent.

Observing the mean ratios SBL and NBBL seems to be failure to earn higher return on its working fund in comparison to other remaining banks. Those banks that seem weak to generate more profit, they should try to earn more profit by mobilizing its working assets more efficiently. On the other hand co – efficient of variation of SCBL is lower than that of other banks which indicates that the ratios of SCBL are more consistent in comparison to other banks.

From the above analysis, it can be said that SCBL’s capacity to gain profit seems attractive due to the proper mobilization of available resources.

b) Net Profit to Total Deposit Ratio:

This ratio is used to measure its efficiency towards its deposit mobilization. Generally high ratio indicates better mobilization of Total deposits and vice – versa. This ratio can be derived by dividing net profit by total deposits (details appendix – J). The following table displays the percentage of net profit to total deposit of joint venture.

Table No. 9
Net Profit to Total Deposit Ratio: (%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	2.58	1.84	1.75	3.1	3.22	2.498	0.614	24.58
SCBL	3.12	2.79	3.03	2.7	2.54	2.836	0.213	7.51
SBI	1.1	0.19	0.73	0.75	0.85	0.724	0.298	41.16
NBBL	0.16	2.31	0.69	0.68	0.02	0.742	0.615	82.88
EVEREST	1.35	1.52	1.56	1.41	1.78	1.524	0.148	9.71

From the above table each banks have the fluctuating nature of ratios over the different Fiscal Year. In the case of SCBL; it has earned more profit than other banks by appropriate and perfect utilization of total deposits. But in the case of NBBL and SBI, seems to be weak in profitability.

In average SCBL has been able to maintain high ratio i. e. 2.836 percent. Where as mean ratio i. e. 0.724 percent. Coefficient of variation of SCBL is lower than that of other banks which indicates that the net profit to total deposit ratio of SCBL is more consistent than that of other banks.

From the above analysis it can be said that SBI and NBBL bank are not able to earn more profit with the help of proper utilization of its total deposit.

c) Return on Loan and Advances Ratio (%) :

This ratio is used to measure the earning capacity of a joint venture bank on its mobilized fund based loan and advances. A high ratio indicates a high success to mobilize fund as loan and advances and vice versa.

This ratio is calculated by dividing net profit by loan and advances (detailed in appendix – K).

Table No. 10
Return on Loan and Advances Ratio (%):

(%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	4.48	7.99	3.65	5,37	5,56	5.41	1.46	27
SCBL	8.08	7.47	8.93	8.9	8.39	8.35	0.55	6.59
SBI	1.41	0.29	0.95	1.1	1.83	1.12	0.51	45.54
NBBL	3.02	2.7	0.86	0.99	0.031	1.52	1.15	75.66
EVEREST	1.82	2.32	2.16	1.92	2.44	2.03	0.68	33.5

From the above table, It has been found that SBI and NBBL follows decreasing trend where as other remaining banking follows fluctuating trend in the ratio of return on loan and advances during the study period. The highest ratio recorded in the Fiscal Year 2004/05 by SCBL among all banks. But the lowest ratio records in the Fiscal Year 2003/04 by SBI bank.

When the mean ratios are observed SCBL has maintained the highest ratio of 8.35 percent which indicate the highest performance. Like wise low co – efficient of variation of SCBL i. e. 6.59 percent among all the banks during study period indicates its less variability of ratios than that other banks.

From the above analysis it can be said that SBI and NBBL are not able to earn more return on its loan and advances in comparison to other banks. SCBL shows the best performance on the basis of mean ratio and CV.

d) Total Interest Earned to Total outside Assets Ratio:

This ratio reflects the extent on which the banks are successful to earn interest on all outside assets. A high ratio indicates high earning on such total assets and vice versa. The main assets of a commercial bank are its outside assets, which include loan and advances, investment on government securities, investment in shares and debentures and other all types of investments.

This ratio is calculated by dividing total interest earned by total outside assets (detailed in appendix – L).

The following table shows the percentage of total interest earned to total outside asset of joint venture banks under the study period.

Table No. 11

Total Interest Earned to Total Outside Assets Ratio:

(%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	12.22	11.45	9.7	8.97	8.44	10.16	1.45	14.27
SCBL	12.84	8.12	6.93	6.24	5.87	9.42	2.47	26.22
SBI	11.65	9.76	8.32	8.3	7	9	1.58	17.56
NBBL	12.04	10.08	9.89	10.8	9.69	10.5	0.86	8.19
EVEREST	10.58	10.06	8.09	8	7.87	8.97	1.16	13

From the above table, It is clear that All joint venture banks have followed trend of this ratio. SCBL has the highest ratio of 12.84 percent in Fiscal Year of 2001/02 and lowest ratio of 5.87 percent in Fiscal Year of 2005/06. On the basis of mean ratios, NBBL's total

Interest earned to total outside asset is higher than that of other JVBs.

On the other hand SCBL's coefficient of variation among the ratios under study period seems to be more variable than that of other banks because CV of SCBL is 26.22 percent which is greater than that of other banks.

From the above analysis, it can be concluded that Interest earning for all joint venture banks are in decreasing trend.

e) Total Interest Earned to Total Working Fund Ratio (%) :

This ratio reflects the extent on which the banks are capable to mobilize their total assets to generate high income as interest. To find the earning capacity of JVBs on its total WF total interest earned to total WF ratio is very helpful and significant. A high ratio is an indicator of high earning power of the banks on its total WF and vice versa.

This ratio is computed by dividing total interest earned by total working fund i.e. total assets (detailed in appendix – M) The following table display the total interest earned to total working fund ratios of JVBs during the study period.

Table No. 12

Total Interest Earned to Total Working Fund Ratio:

(%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	6.97	6.9	6.35	6.15	5.98	6.47	.49	0.0
SCBL	6.25	6.42	5.5	4.77	4.41	5.47	0.79	14.44
SBI	8.56	6.10	5.69	6.21	5.85	6.48	1.05	16.2
NBBL	8.29	8.13	7.66	8.50	7.68	8.05	0.33	4.1
EVEREST	7.84	7.4	6.72	6.46	6.84	7.05	.50	7.1

From the above table all the banks has been succeed to increase their ratio of total interest earned to total working fund. Their ratios are seemed to be declined during the study period. NBBL maintain the highest ratio i. e. 8.50 percent for the Fiscal Year 2004/05 and the lowest ratio i. e. 4.41 recorded by SCBL in the Fiscal year 2005/06.

On the other hand, mean ratios. Of NABIL shows it's less efficiency to earn total interest with the help of utilizing total working fund than other banks as its mean ratio is lowest among all.

Similarly, co – efficient of variation of NBBL is found 4.9 percent which indicates that the earning ratio with respect to total working fund of NBBL is less variable than that of other banks.

Thus in conclusion we can say that all JVBs have not been able to increase the interest earning on its total working fund.

f) Total Interest paid to Total Working Fund Ratio (%):

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates high interest expenses or total working fund and vice – versa.

This ratio is calculated by dividing total interest paid by total working fund (detail in appendix – N). The following table display the total interest paid to total working fund ratio of joint venture banks.

Table No. 13

Total Interest Paid to Total Working Fund Ratio:

(%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	2.88	3.15	2.62	1.92	1.69	2.45	0.56	22.86
SCBL	2.53	2.44	1.62	1.21	1.15	1.79	0.59	33
SBI	5.52	3.73	4.11	3.86	3.03	4.05	0.82	20.25
NBBL	5.65	5.18	4.95	4.98	4.36	5.02	0.42	8.37
EVEREST	5.21	4.54	3.89	3.81	3.27	4.14	0.67	16.18

From the above table It is revealed that interest paid ratio of almost all banks has been in decreasing trend during the study period. NBBL has maintained highest ratio of 5.65 percent in the Fiscal Year 2001/02 among all banks. Similarly SCBL has maintained lowest ratio of 1.21 percent in Fiscal Year 2004/05.

Observing the mean ratio, SCBL seems lower than other banks. It means SCBL has not paid high interest as other banks during the study period. On the other hand, NBBL's lower coefficient of variation i.e 8.37 percent in comparison to other rest

banks indicates that NBBL's ratio of interest paid to total working fund is more consistent than other banks.

From above analysis, It can be concluded that SCBL is in better position from interest expenses point of view. It seems to be successful to collect its working fund from less expensive sources in comparison to other banks.

Capital Adequacy Ratios:

This ratio is used specially in case of banks to assess the strength of the capitals adequacy of the available capital. However a very high or low ratio is undesirable in terms of lowered return or lowered solvency respectively. Capital adequacy of banks can be measured by analyzing the following ratios.

a) Shareholder's fund to Total Deposit Ratio:

This ratio shows how well banks are maintaining sufficient amount as shareholder's fund in comparison to the amount of total deposits. Total deposits consist of current deposits saving deposits, fixed deposits and call and other deposits. This ratio is calculated by shareholder's fund divided by total deposit (detailed in appendix – O).

The shareholder's fund to total deposit ratios of joint venture banks has been tabulated below:

Table No. 14
Shareholder's Fund to Total Deposit Ratio:

(%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	7.70	6.71	7.39	9.77	10.49	8.41	1.46	17.36
SCBL	8.07	7.21	7.8	7.3	7.07	7.6	.35	4.6
SBI	4.96	3.61	10.06	8.74	8.71	7.22	2.48	34.35
NBBL	6.13'	6.92	6.58	6.46	5.13	6.24	0.61	9.78
EVEREST	6.63	6.98	7.15	7.06	6.70	6.9	0.20	2.90

The table listed above shows that the fluctuating nature of ratios over the different Fiscal Years. The shareholder's fund to total deposit ratio of NABIL seems highest among all banks during the study period. The main reason behind the fluctuation in ratio may be bank's policy, values and regulation, strategies regarding the shareholder's fund.

When mean ratios are observed, NABIL has maintained highest mean ratios i. e. 8.41 percent among all banks due to its ratio performance i.e. 10.49 percent registered in Fiscal Year 2005/06. Similarly, NBBL has maintained lowest mean ratio i.e. 6.24 percent.

Like wise co – efficient of variation in the ratio of Everest bank is lower than other banks which mean that Everest bank has less variability of ratio.

In conclusion it can be said that, though NABIL has a success to maintain higher ratio of shareholder to total deposit but it has not capable to achieve the stability in ratio.

b) Shareholder's Fund to Total Assets Ratio :

This ratio measures the relative claims of owners of the bank over the bank's assets. It is very essential for every financial institution to have a balance of required percentage of total assets as shareholder's fund i.e. capital fund. A high ratio generally indicates that out of total assets, shareholders have more controlled onward and command and vice-versa.

This ratio is derived by dividing shareholder's fund by total assets of joint venture banks during the Fiscal Year 2001/02 to 2005/06 (detailed in appendix – P). The shareholders found to total assets ratios of JVBs are tabulated below:

Table No. 15
Shareholder's Fund to Total Deposit Ratio :
(%)

Banks	Fiscal year					\bar{X}	SD	CV
	2001/02	2002/03	2003/04	2004/05	2005/06			
NABIL	6.55	5.79	6.50	7.93	8.85	7.12	1.11	15.59
SCBL	6.03	5.74	6.70	6.52	6.33	6.26	0.34	5.43
SBI	4.41	3.27	7.98	7.53	7.42	6.12	1.91	31.21
NBBL	5.40	5.97	5.64	5.73	4.60	5.47	0.47	9%
EVEREST	5.95	6.14	5.92	5.87	5.62	5.9	0.1	2.85

From above table it is quite clear that NABIL has maintained highest ratios among all banks. It means that out of total assets more percentage is onward and controlled by its shareholders fund. It will be wise decision at the situation when NABIL bank earns more profit on the capital. Similarly NBBL has maintained the lowest ratios among all banks. Observing the mean ratios of shareholders fund to total assets NABIL shows the better results i.e.

7.12 percent with comparison to other banks. Moreover lower coefficient of variation regarding the ratios with respect to SCBL and Everest indicates that both banks have performed stable ratios. Than that of other banks.

In conclusion it can be said that BANIL has performed best results regarding the shareholder's to total assets ratio, But SCBL and Everest bank has shown more stability among all banks.

Growth Ratios:

Growth ratios represent how well the joint venture banks are maintaining their economic and financial position. Here those growth ratios are calculated analyzed and interpreted which significantly shows the capital and assets structure of concerned banks. Under this topic growth ratios are classified and evaluated on the basis of following sub headings:

Table No. 16

Growth Ratio of liquidity position	Growth Ratio of profitability position
1. Total Deposit	1. Earning per share (EPS)
2. Total Investment	2. Net Profit
3. Loan and advances	3. Dividend Per share (DPS)

From the above table the first three growth ratios under growth ratios of liquidity position express the fluctuation and growth in deposit collection, loan and advances and total investment of a Joint venture bank whereas the second three types of ratios expresses profitability performance, overall growth trend and dividend paying ability of joint venture bank. Generally a high growth ratio indicates better performance of joint venture banks and vice – versa. This ratio can be computed by dividing the last year figure by the first year figure and then referring to the compared interest tables.

a) **Growth Ratios of Liquidity Position:**

Table No. 17
Growth Ratio of Total Deposit (%)

Banks	Total Deposits (Rs. In million)					Growth Rates%	Average Growth Rate
	Fiscal year						
	2001/02	2002/03	2003/04	2004/05	2005/06		
NABIL	12,779.51	15,839.01	15,506.44	13,447.65	14,119.03	2.52	14.95
SCBL	12,568.49	15,430.05	15,835.75	18,755.64	21,161.46	13.91	„
SBI	4,535.73	6,612.29	5,572.47	6,522.82	7,198.32	12.24	„
NBBL	6,467.19	8,600.81	9,514.47	10,580.65	12,807.37	18.63	„
EVEREST	3,057.43	4,574.51	5,466.61	6,694.95	8,063.9	27.44	„

Table No. 18
Growth Ratios of Total Investment (%)

Banks	Total Investment (Rs. In million)					Growth Rates%	Average Growth Rate
	Fiscal year						
	2001/02	2002/03	2003/04	2004/05	2005/06		
NABIL	1,234.82	2,733.96	4,121.29	3,588.77	3,672.63	31.32	52.29
SCBL	3,338.67	9,547.98	9,264.68	10,346.49	11,349.14	35.78	„
SBI	192.85	364.69	503.17	1,189.39	1,889.63	76.93	„
NBBL	443.55	676.08	970.23	2,130.51	2,660.75	56.5	„
EVEREST	257.61	823.00	1,538.9	1,599.35	2,466.43	75.9	„

Table No. 19

Growth Ratios of Loan and Advances (%)

Banks	Loan and advances (Rs. In million)					Growth Rates%	Average Growth Rate
	Fiscal year						
	2001/02	2002/03	2003/04	2004/05	2005/06		
NABIL	7,334.75	8,324.44	7,437.9	7,755.95	8,189.99	2.8	12.7
SCBL	4,857.17	5,763.13	5,364.00	5,695.82	6,410.24	7.18	„
SBI	3,559.41	4,188.41	4,299.25	4,468.72	5,143.66	9.64	„
NBBL	4,617.1	7,358.84	7,632.42	7,247.98	8,648.74	16.98	„
EVEREST	2,270.18	3,005,76	3,948.48	4,908.46	5,884.12	26.88	„

The table No. 17 listed above clearly shows that growth ratios of deposit in case of NBBL and Everest bank are significantly higher than that of other banks. Whereas the same of other banks BANIL, SCBL and SBI growth ratios are 2.52 percent, 13.91 percent, 12.24 percent respectively. It indicates poor performance to collect deposits during the study period. Moreover growth ratios of these banks could not able to meet the range of average growth ratios.

From the table No. 18 , It has been found that growth ratio of Investment in case of SBI and Everest bank are significantly higher than that of other banks which indicates that SBI and Everest have succeeded to collect more deposit and able to invest more in profitable sectors. Other remain banks like NABIL, SCBL, SBI have not maintained higher ratio than the average ratio.

From the analysis of growth ratios of loan and advances table No. 19, It is obvious that NBBL and Everest has maintained the good growth rate. Where as other remaining banks seemed to be failure in maintaining the good growth rates of loan and advances.

From above, analysis, It can be concluded that NABIL, SCBL has failed to maintain higher growth ratios on total deposit, total investment and loan and advances. SBI and Everest banks have been success to increase its total deposit, loan and advances and total investment at a higher rate. Thus all other banks showed emphasize on improving performance in terms of collecting deposits, increase its rates of loan and advances and total investment.

b) Growth of Profitability position :

Table No. 20
Growth Ratios of Net Profit

Banks	Net Profit (Rs. In million)					Growth Rates%	Average Growth Rate
	Fiscal year						
	2001/02	2002/03	2003/04	2004/05	2005/06		
NABIL	329.12	291.37	271.63	416.25	455.32	8.45	11.88
SCBL	392.59	430.83	479.21	506.95	537.80	8.19	„
SBI	50.07	12.51	40.85	48.75	60.86	21.55	„
NBBL	139.53	198.75	65.78	71.51	2.65	262.88	„
EVEREST	41.27	69.70	85.33	94.17	143.57	36.57	„

Table No. 21
Growth Ratio of EPS.

Banks	EPS (Rs. In million)					Growth Rates%
	Fiscal year					
	2001/02	2002/03	2003/04	2004/05	2005/06	
NABIL	83.79	59.26	55.25	84.66	92.61	2.53
SCBL	118.48	83.45	18.41	19.87	0.74	271.89
SBI	115.62	126.88	141.13	149.30	143.55	5.56
NBBL	41.74	8.69	9.61	11.47	14.26	223.55
EVEREST	34.85	31.56	32.91	29.90	45.58	6.94

Table No. 22
Growth Ratio of DPS

Banks	DPS (Rs. In million)					Growth Rates%
	Fiscal year					
	2001/02	2002/03	2003/04	2004/05	2005/06	
NABIL	55	40	30	50	65	4.26
SCBL	100	100	100	110	110	2.41
SBI	15.01	0	0	8	0	0
NBBL	0	5.04	0	0	0	0
EVEREST	0	0	0	20	20	0

From table No. 20 It obviously shows that growth ratios of Net profit in case on NBBL have failed to maintain even positive growth ratio. When we observe the growth ratio of other banks SBI and Everest bank have success to keep good growth rates i. e. 21.55 percent and 36.57 percent respectively. On the other hand NABIL and SCBL has lower ratio than the average growth Ratio.

From table No. 21 observing the EPS NABIL, SBI and EVEREST has success to have positive growth ratios. Other banks i. e. SCBL and NBBL are unable to keep even positive growth rates. Thus we can draw a conclusion that SCBL and NBBL could not successfully mobilize its resources in proper way with right decision for generating more incomes as availed higher earning per share.

Similarly, from the analysis of growth ratios concerned with DPS of joint venture bank under the study period SBI and NBBL are unable to declare dividend for several years. Whereas NABIL and SCBL have maintained the positive growth ratio of 4.26 percent and 2.41 percent respectively.

Overall from above evaluation It can be conclude that during the study period SCBL NBBL have failed to maintain higher growth rate on EPS and DPS. NBBL's Net profit and EPS both are negative. This indicates that they are unable to mobilize available resources in right investment sector. On the other hand SBI bank is unable to declare the dividend even having profit.

4.2. Statistical Analysis :

Some Statistical tools such as co – efficient of correlation analysis between different variables, trend analysis of deposit utilization and its projection, Multiple regression analysis are applied to achieve the objectives of study.

4.2.1. Co – efficient of correlation Analysis:

It is most widely used statistical tools which measures the significance of the relationship between two variables during the study period Karl Pearson's co – efficient of correlation has been used to find the relationship between deposits and total investment, debt and return, deposit and loan and advances.

a) Co-efficient of correlation between Total Deposit and Total Investment :

The co-efficient of correlation between deposit and investment is to measure the degree of relationship between two variables. In correlation analysis of total deposit and total investment, total deposit is independent variable (X) and total investment is dependent variable (Y). The main purpose of computing correlation of co – efficient is to justify whether there is any relationship between these two variables or not.

To find out the correlation various calculation are made for the reason (detailed in appendix – Q). The following table shows

the co – efficient of correlation between total deposit and total investment i. e. PEr, 6 PEr, and Co – efficient of determination (r^2) of joint venture banks during the study period.

Table No. 23
Co-efficient of correlation Analysis between Total
Deposit and Total Investment

Bank	Evaluation criterion			
	r	r^2	PEr	6 PEr
NABIL	-0.47	0.2209	0.2350	1.41
SCBL	0.86	0.74	0.079	0.474
SBI	0.763	0.582	0.126	0.756
NBBL	-0.938	0.880	0.036	1.216
EVEREST	0.325	0.106	0.270	1.62

From the above table, It is obvious that the co-efficient of correlation between deposit (independent variable) and total investment (dependent variable) value of r is 0.86, 0.763 and 0.325 in the case of SCBL, SBI and Everest Bank respectively. However by application of co-efficient of determination the value of r^2 is 0.74, 0.582 , 0.106 only which indicates that 74 percent 58.2 percent and 10.6 percent of the variation in the dependent variable (Total investment) has been explained by the independent variable (Total deposit) with respect to SCBL, SBI and Everest. More over by considering the probable error, since the value of r is 0.86 is greater than six times of PEr i. e., 0.474, We can say that the value of "r" is significant i. e. there is significant relationship between deposit and total investment in the case of SCBL.

On the other hand, observing the co-efficient of correlation between total deposits and total investment in the case of NABIL and NBBL, it has been found that value of r is negative, which

shows the negative relationship between these two variables. But considering the value of r^2 i.e. 0.2209, and 0.880, we can conclude that only 22.09 percent and 88 percent on the dependent variable (total deposit). Moreover, on the base of PEr in the case NABIL and NBBL, We can further conclude that the relationship between the variable is in significant because r is less than six times of PEr for each banks.

For the above analysis, it can be concluded that SCBL has efficiently utilized their deposit on proper investment, due to the relationship between the variable seem to be significantly positive as well as the value of r^2 is higher than that of all other banks. Further conclusion may draw that except SCBL, all other banks have no certain investment policy to mobilize their deposits.

b) Co-efficient of correlation Analysis Between Debt and Return:

Karl Pearson's co-efficient of correlation is widely used in practice to measure the degree of relationship between two variables. In correlation analysis debt and return is assumed as independent variable (X) and dependent variable (y) respectively. The purpose of composing compellation of co-efficient is to justify whether the debts are significant in generating more return or not. The various calculations are made for that reason. The following table shows the co-efficient of correlation between debt and return, PEr, 6 PEr and co-efficient of determination (r^2) of joint venture banks during the study period.

Table No. 24

Co-efficient of Correlation Analysis between Debt and Return:

Bank	Evaluation Criterion			
	r	r ²	PEr	6 PEr
NABIL	-0.513	0.263	0.222	1.332
SCBL	0.878	0.771	0.069	.414
SBI	-0.002	.00004	0.3017	1.8102
NBBL	-0.785	.6162	0.11576	0.6946
EVEREST	0.968	0.937	0.019	.114

From the above table it is obvious that the co – efficient of correlation between debt (independent variable) and return (dependent variable) the value of r are 0.878 and 0.968 in the case of SCBL AND Everest respectively which indicates that there is positive relationship between these two variables during the study period. However, by application of co-efficient of determination, the value of r² are 0.7710 and 0.9370 in the case of SCBL and Everest, determines that 77.10 percent and 93.70 percent of the variable in the dependent variable (return) has been explained by the independent variable (debt). Moreover by considering the probable error. Since the value of r i.e. .968 is greater than six times of the PEr i.e. 0.114. Hence we can say that the value of "r" is significant the variables debt and return for SCBL and for Everest.

On the other hand, observing that co-efficient of correlation between debt and return in case of NABIL, SBI and NBBL. It has been found that value of r is negative, which shows the negative relationship between these two variables. But considering the value of r² i. e. 0.263, .00004 and 0.6162, we can conclude that only 26.30 percent .004 percent and 61.62 percent on the dependent

variable (return). Moreover on the base of value of PEr in the case of NABIL, SBI, NBBL, We can further conclude that the relationship between the variable is in significant because r is less than six times of PEr . for each banks.

From the above analysis, it can be concluded that the degree of relationship between debt (independent variable) and return (dependent variable) of SCBL and EVEREST are significant due to the value of r is more than 6 times of PEr value. But in the case of NABIL, SBI and NBBL, the degree to the value of r is not greater than 6 times of its PEr value. It means these banks NABIL, SBI and NBBL could not able to mobilize their debt in appropriate way for bearing more required return.

c) Co – efficient of correlation Between outside Assets and Net Profit :

The co – efficient of correlation between outside Assets and Net Profit is to measure the degree of relationship between two variables. Outside assets include loan and advances and all types of investment of a bank. In this analysis, total outside assets and Net profit are assumed as Independent variable (X) and dependent variable (Y) respectively. The main purpose of computing co – efficient of correlation is to justify whether the net profit is significantly correlation with respect to total outside or not. For this purpose, various calculations are made (detailed in appendix – R). Following table shows the co – efficient of correlation (r) between the variable. PEr and co – efficient of determination (r^2) of Joint venture banks during the study period.

Table No. 25
Co-efficient of Correlation Between Outside
Assets and Net Profit:

Bank	Evaluation Criterion			
	r	r ²	PEr	6 PEr
NABIL	0.281	0.079	0.278	1.668
SCBL	0.864	0.746	0.076	0.456
SBI	0.5	0.25	0.226	1.356
NBBL	0.707	0.5	0.151	0.906
EVEREST	0.976	0.953	0.014	0.084

On the basis of above table we can find the co-efficient of correlation between total outside Assets (Independent Variable) and Net Profit (dependant variable) value of r is 0.281 and 0.5 in the case of NABIL and SBI, shows the positive relationship between these two variables, However by application of co – efficient of determination (r²) , the value of r² is 0.079 and 0.25 only which represents that 7.9 percent and 25 percent of the variable in the dependent variable (total outside assets) . Moreover by considering the probable error, since the value of r i.e. .281 and 0.5 is less than six times of the PEr i.e 1.668 and 1.356, We can further conclude that the value of r is not significant i. e. there is no significant relationship between total outside asset and net profit for the bank NABIL, SBI and NBBL.

On the other hand when we observe co – efficient of correlation between outside assets and Net profit in case of SCBL and Everest. It has been found that the value of r is 0.864 and 0.976 respectively which denotes the positive relationship between the variables total outside asset and net profit. If we again consider the value of co – efficient of determination (r²) it is found 0.746 and

0.953 respectively which means 74.6 percent and 95.3 percent in the dependent variable (net profit) has been explained by the independent variable (total outside assets) . Moreover on the basis of 6 PEr and "r" we can say there is significant relationship between the outside assets and Net profit because of the value of r is 0.864 and 0.976 whereas values of 6 PEr is 0.456 and 0.084 respectively. Thus we can say that these banks i. e. SCBL and Everest have significant correlation between proper utilization of funds and return i. e. net profit from mobilized funds.

In conclusion, It can be said that in case of NABIL, SBI and NBBL the values of ' r ' are insignificant and the values of co – efficient of determination are very low. But in case of the SCBL and Everest the value of both ' r ' and ' r² ' are high. Now, it is obvious that SCBL & Everest are seem to be weak in earning net profit by utilizing its total outside assets that of other banks.

4.2.2. Trend Analysis of Interest Paid on Borrowing and Deposit and Interest Earned From Investment:

The main objective of this analysis is to present the trend of interest paid i. e. cost of service and interest earned on Investment. To generate attractive earning as interest received, bank may grant loan and advances and invest some of the funds in different investment sectors i.e. government securities and shares and debentures of other companies. Under this study, trend of interest paid on borrowing and deposit and interest earned on investment are forecasted for next five years. District assumptions have been followed for projection of trend values for the Fiscal Year 2001/02 to 2010/11, if all other things remain unchanged.

- a) The economy will exist in present stage.
- b) Nepal Rastra Bank will not change its guidelines to joint venture Banks.

- c) Daily operation of bank should run in present situation.
- d) The forecast will be true only when the limitation of least square method is carried out.

4.2.2.1. Trend Analysis of Interest paid on Borrowing and Deposits:

The trend values of interest paid on borrowing and deposits of joint venture banks have been calculated, analyzed and interpreted for 5 yrs from 2001/02 to 2005/06. The forecast for next five years till 2010/11 has also been made.

The following table shows the trend values of 10 yrs. from 2001 to 2011 of joint venture banks (detail in appendix – T) .

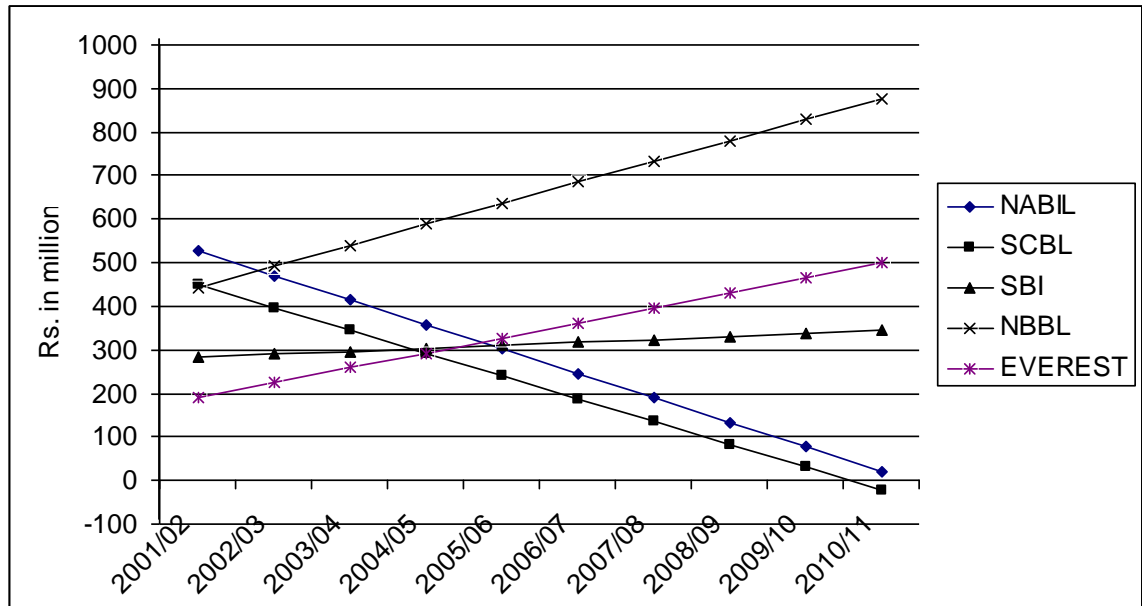
Table No. 26

Trend Analysis of Interest paid on Borrowing and Deposits:

Fiscal Year	Trend Value of Joint venture Banks				
	NABIL	SCBL	SBI	NBBL	EVEREST
2001/02	526.948	449.73	283.072	444.154	189.712
2002/03	470.843	397.268	289.802	492.218	224.049
2003/04	414.738	344.80	296.532	540.282	258.386
2004/05	358.633	292.344	303.262	588.346	292.723
2005/06	302.528	239.882	309.992	636.41	327.06
2006/07	246.423	187.474	316.722	684.474	361.397
2007/08	190.318	135.012	323.452	732.538	395.734
2008/09	134.213	82.55	330.182	780.602	430.071
2009/10	78.108	30.088	336.912	828.666	464.408
2010/11	22.003	222.374	343.642	876.73	498.746

Figure No. 1

Trend analysis of Interest paid on borrowing and Deposit (2000/09)



The above table of trend values of total interest paid of joint venture banks . It has been focused that the expected amount is in increasing trend for SBI, NBBL and Everest bank whereas it is in decreasing trend for NABIL, SCBL. Other things.

Finally, it can be concluded that NABIL and SCBL has followed the policy of minimizing the cost of service i. e interest paid on borrowing and deposits in comparison to other banks.

4.2.2.2. Trend Analysis of Interest Earned on Investment:

An attempt is made to calculate analyze and interpret the trend values of interest earned on investment of joint venture banks for 5 yrs for 01/02 to 2005/06 and forecast for next 5 yrs till 2010/011.

The trend values of 10 yrs. from 2010 to 2011 of joint venture banks are tabulated below (detail in appendix – U)

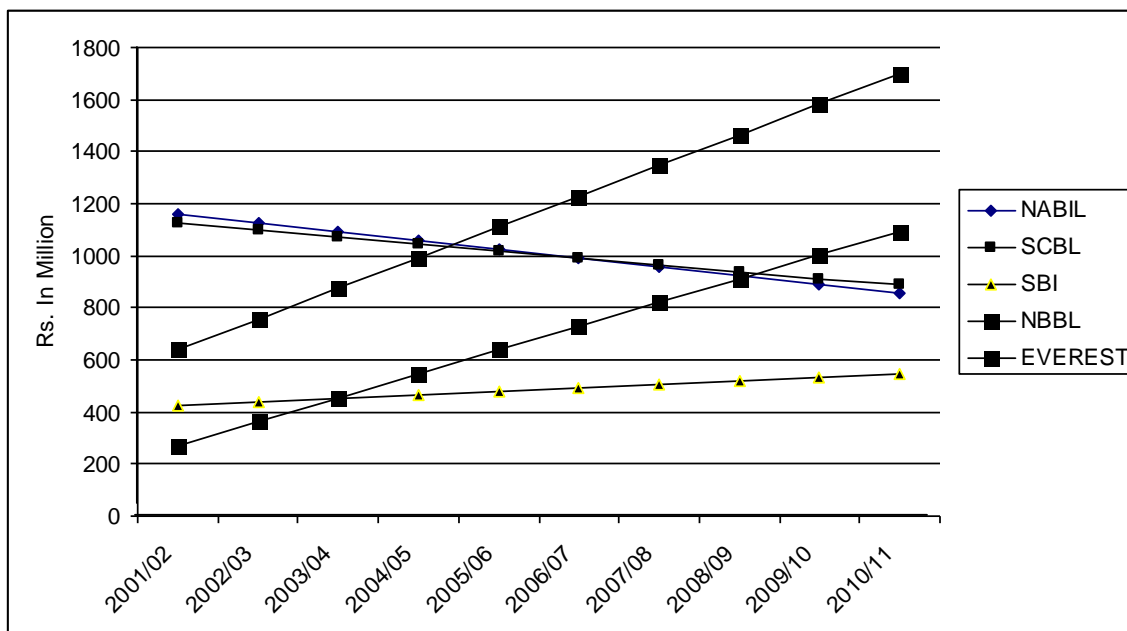
Table No. 27

Trend Analysis of Interest Earned on Investment:

Fiscal Year	Trend Value of Joint venture Banks				
	NABIL	SCBL	SBI	NBBL	EVEREST
2001/02	1158.61	1122.876	421.422	640.588	271.786
2002/03	1124.645	1096.684	435.196	758.2	363.263
2003/04	1090.68	1070.492	448.97	875.812	454.74
2004/05	1056.715	1044.3	462.744	993.424	546.217
2005/06	1022.75	1018.108	476.518	1111.036	637.694
2006/07	988.785	991.916	490.292	1228.648	729.171
2007/08	954.82	965.724	504.066	1346.26	820.648
2008/09	920.855	939.532	517.84	1463.872	912.125
2009/10	886.89	913.34	531.614	1581.484	1003.602
2010/11	852.925	887.146	545.388	1699.096	1095.079

Figure No. 2

Trend Analysis of Interest earned on Investment



From the above table, it has been clear that trend values of interest earned on investment of NABIL, SCBL are in decreasing trend whereas

trend value of remaining JVBs are in increasing trend. The highest trend value is expected by NBBL in Fiscal year 2010 i. e. 1699.096 . because of its higher value of " b " (slope of trend line) .

4.2.2.3. Trend Analysis of current Assets:

Under this topic, an effort has been made to calculate, analyze, and interpretation of the trend values of current assets of selected JVBs for 5 yrs from 2001/02 to 2005/06. Similarly forecast has been made for next 5 yrs till 2010/11.

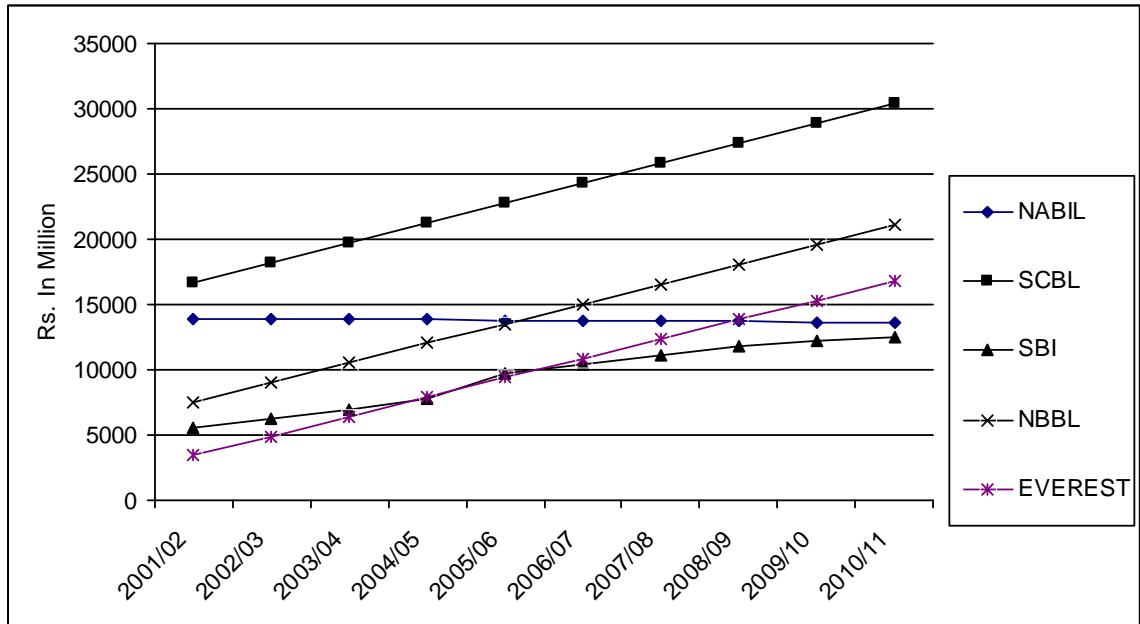
The trend values of 10 yrs from 2001/02 to 2010/11of joint venture banks (detail in appendix – V) are tabulated below:

Table No. 28
Trend Values of current Assets (2001 – 2010) :

Rs. In Million

Fiscal Year	Trend Value of Joint venture Banks				
	NABIL	SCBL	SBI	NBBL	EVEREST
2001/02	13951.48	16647.102	5550.462	7469.438	3412.636
2002/03	13913.24	18173.306	6244.844	8985.004	4904.412
2003/04	13875.00	19699.51	6939.226	10500.57	6396.188
2004/05	13836.76	21257.714	7833.608	12016.136	7887.694
2005/06	13798.52	22751.918	9716.754	13531.702	9379.74
2006/07	13760.28	24278.122	10411.136	15047.267	10871.516
2007/08	13722.04	25804.326	11105.518	16562.833	12363.292
2008/09	13683.8	27330.53	11799.9	18078.399	13855.068
2009/10	13645.56	28856.734	12192.8	19593.905	15346.844
2010/11	13607.32	30382.938	12494.282	21109.531	16838.62

Figure No. 3
Trend Value of Current Assets



From the above table, it is clear that current Assets of JVBs except NABIL are in increasing trend. The highest increasing trend value is registered by SCBL. Other things remaining the same, current assets of joint venture banks NABIL, SCBL SBI, NBBL, EVEREST will be Rs. 13,607.32, 30382.938., 12494.28, 21,109.531, 16838.62 Million in 2010/11 respectively.

According to above trend analysis, it can be concluded that SCBL and NBBL's current assets position in comparison to other bank is proportionately better.

4.2.3. F – Test Analysis:

F – test is used to examine the significance of the differences between more than 2 samples mean at once and the same time. F – test enables us to test for the significance of the differences between more than two sample means.

Table No. 29

Net profit

(Rs. In Million)

Banks	2002	2003	2004	2005	2006
NABIL	329.12	291.37	271.63	416.25	455.32
SCBL	392.59	430.83	479.21	506.95	537.80
SBI	50.07	12.51	40.85	48.75	60.86
NBBL	139.53	198.75	65.78	71.51	2.65
EVEREST	41.27	69.70	85.33	94.17	143.57

Null Hypothesis (H₀):-

- (I) There is no significant difference in Net profit made by NABIL, SCBL, SBI, NBBL and EVEREST.
- (II) There is no significant difference in Net profit made during 5 different yrs.

$$\hat{\mu}_1 = \hat{\mu}_2 = \hat{\mu}_3 = \hat{\mu}_4 = \hat{\mu}_5$$

Alternative Hypothesis (H₁) :-

- (I) There is significant difference in net profit made by NABIL, SCBL, SBI, NBBL and EVEREST
- (II) There is significant difference in Net profit made during 5 different yrs.

$$\hat{\mu}_1 \neq \hat{\mu}_2 \neq \hat{\mu}_3 \neq \hat{\mu}_4 \neq \hat{\mu}_5 \quad (\text{detail in appendix - V})$$

Computation of test statistics

Total sum of square (TSS) = 677544,74

Sum of square (SS) = 170968.7
(between column)

Sum of square (SS) = 2689.87
(Between rows)

Table No. 30
ANOVA TABLE (TWO WAY)

Sources of Variation	sum of Square	degree of Freedom	Mean sum of Square	f – ratio
Between Banks	683874.78	$5 - 1 = 4$	$683874.78/4=170968.7$	$F_1 = \frac{170968.7}{5875} = 29.17$
Between Years	10759.46	$5 - 1 = 4$	$\frac{10759.46}{4} = 2689.87$	$F_2 = 0.46$
Residual	94010.60	$(5 - 1)(5 - 1) = 16$	$\frac{94010.60}{4} = 5875.66$	
Total	788644.84	$25 - 1 = 24$		

We have,

- (I) The tabulated value, —0.5 for $\hat{1}_1 = 4$, $\hat{1}_2 = 16$ is 5.82
 (II) The tabulated value of —0.5 for $\hat{1}_1 = 4$, $\hat{1}_2 = 16$ is 5.82

- Decision – I) Since computed value of f is 29.10 which is greater than tabulated value so null hypothesis is rejected. Hence there is significant difference in net profit between JVBs.
 II) Computed value of f is 0.46 which is less than tabulated value so Null hypothesis is accepted. Hence there is no significant difference in net profit within each JVBs during 5 yrs. study period

4.3. Analysis of Primary Data :

This chapter enlightens over a methodology to meet the objectives of the study and set a logical and qualitative framework to recommend probable solution to the problems that were inherent with capital and asset structure management of joint venture bank in Nepal.

To evaluate the management view relating capital and asset structure, a set of questionnaire is used which contents 10 questions relating to capital and asset aspect of joint venture bank.

The responds are regarded as the representative of the management among whom majority hold higher position in their firm. The representative being on the decision making position, the response is regarded as representative for major decisions of finance.

The qualitative aspects are examined by distributing questionnaires to 25 financial executives. (detail in appendix – A)

For analysis and classification of the primary data a simple ranking method is used where appropriate. While ranking rank 1 is assumed as top most prioritized and the last number imported for the query was assumed as least prioritized. Since the queries are related with capital and asset structure management which itself is on abstract factor relating a firm no attempt has been made to present and interpret it using weighted average score where the ranking is not possible or necessary a simple objective (Yes/No) questions are used. For classification total number of respondent as 100%. Further such classification was supported with the graphical and tabular presentation where it is appropriate.

Table No. 31

Statement of Major Decisions

Name of the banks	Financing decision	Investment decision	Divided Decision
SBI	2	2	1
SCBL	-	5	-
EVEREST	3	2	-
NABIL	1	3	1
NABBL	-	2	3
Total	6	14	5

From the above table it is obvious that the views of the respondents are differentiating. The majority of the respondents gave the first priority to investment decision (i.e. 56%), the second priority to financing decision (i.e. 24%) and the respondent gave least priority to dividend decision i.e. only 20%. All respondents of SCBL gave the first priority to investment decision. Similarly the respondents of SCBL and NBBL didn't consider the dividend decision as a major financial decision the above result can be shown in following pie charts:

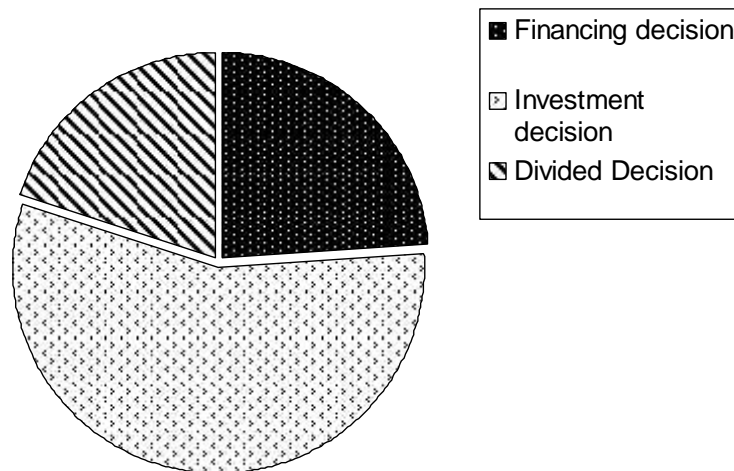


Table No. 32

Statement of Reasons for not using debenture

Name of the banks	Due to high fixed capital cont.	Possibility of low subscription	Lack of knowledge with possible invest.
SBI	1	2	4
SCBL	2	1	2
EVEREST	1	2	2
NABIL	2	2	3
NABBL	2	2	1
Total	8	5	12

From the above table it is clear that majority of the respondents gave the first priority to lack of knowledge with possible investor (i.e. 48%) for the reasons of not using the debentures. The second priority to possibility of low subscription (i.e. 32%) and the respondent gave least priority to due to high fixed cost. Majority of respondents of SBI gave the first priority to lack of knowledge with possible investors similarly the respondents of SBI and NABL Didn't consider the possibility of low subscription for the causes of not using debenture. The above result can also be shown in following pie – chart :-

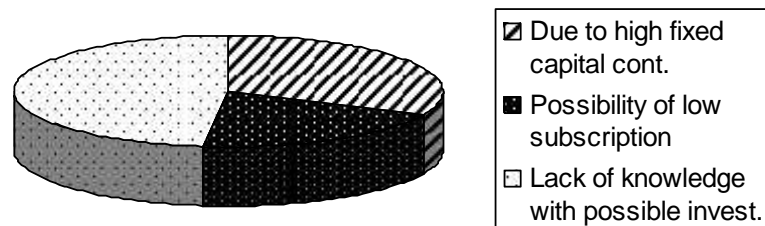


Table No. 33

Long Term Capital Instrument

Name of the banks	Equity capital	Equity & debenture	Equity & Debenture 2 preference she.	Equity + long Term loan
SBI	5	Z	Z	Z
SCBL	5	Z	Z	Z
EVEREST	5	Z	Z	Z
NABIL	5	Z	Z	Z
NBBL	3	Z	Z	2
Total	23	Z	Z	2

From the above table it is clear that almost all banks use the equity capital as a long term capital instrument. Majority of the respondents i.e.

92% gave their respond to the equity capital only while 8% respondents gave their respondent to equity and long term loan. Therefore it is clear those debenture and preference shares are not used as long term capital instruments by the mentioned JVBs.

The above result can also be represented with the help of following bar diagram:

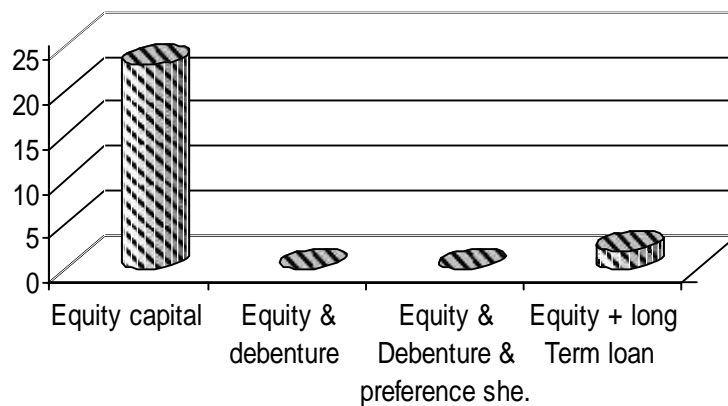


Table No. 34

Statement of financial alternatives to increase capital :

Name of the banks	By issuing debenture	By offering right share	By offering stock dividend	By offering right share & bonus share
SBI	Z	Z	Z	5
SCBL	Z	Z	Z	5
EVEREST	Z	Z	1	4
NABIL	Z	Z	2	3
NBBL	2	Z	Z	3
Total	2	Z	3	20

From the above table it is clear that majority of respondents i.e. 80% have responded to By offering right share and bonus share, 12% respondents have responded to "By offering stock dividend" and minority

of respondents i.e. 8% have responded to "By issuing debenture to increase the capital upto Rs. 1000 million. Therefore it is clear that the major financial sources of capital are to offer right share & bonus. Only the respondent of NBBL have responded to "By issuing debenture The above result can be shown in following bar diagrams :-

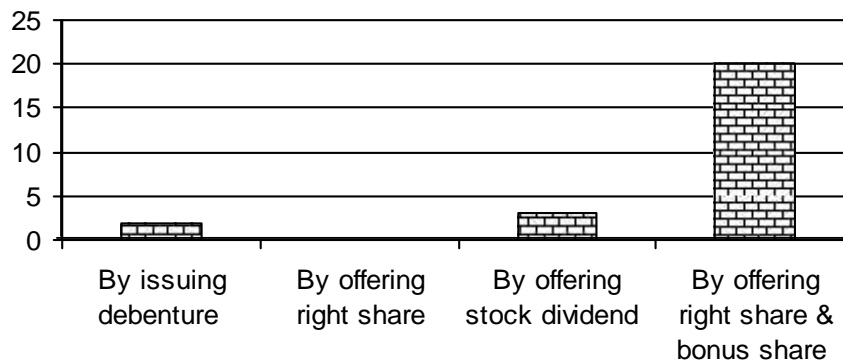


Table No. 35

Statement showing objectives of Capital Structure decision:

Name of the banks	Increase liquidity	Increase shareholder wealth	Minimize cost of capital
SBI	Z	5	Z
SCBL	Z	3	1
EVEREST	Z	5	Z
NABIL	Z	4	1
NBBL	2	4	Z
Total	2	21	2

From the above table it is clear that the majority of respondents gave the first priority to increase shareholder's wealth which is the main objective of the capital structure decisions. 80% of respondents have

responded to the alternative "increase shareholder's wealth's". And 8 % of respondent have responded equally options ":Increase liquidity" and option " Minimize cost of capital". Therefore it is obvious that the main objective of capital structure decision is to increase the shareholder's wealth. The above result can be shown in following bar diagram: -

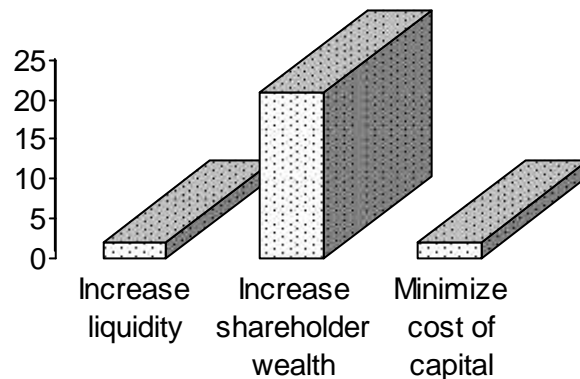


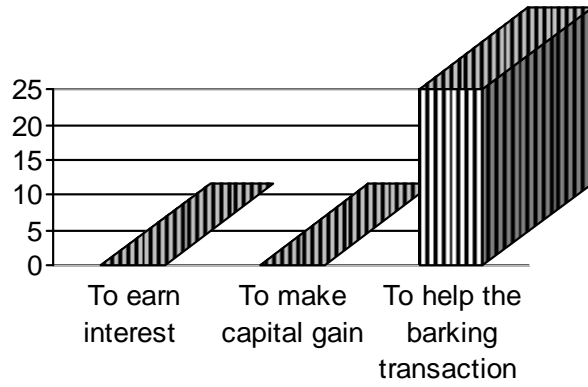
Table No. 36

Statement of Main Motives for Investment in Fixed Assets::

Name of the banks	To earn interest	To make capital gain	To help the banking transaction
SBI	Z	Z	5
SCBL	Z	Z	5
EVEREST	Z	Z	5
NABIL	Z	Z	5
NBBL	Z	Z	5
Total	Z	Z	25

From the above table it is clear that the main motives of joint venture banks for investment in fixed asset is to help the banking transaction. All respondents have felt that the main motive for investment in fixed assets is to help the banking transactions. Therefore to operate banking transactions smoothly investments are made in fixed assets by joint venture banks.

The above result can also be represented by following bar diagram:



CHAPTER – FIVE

5. SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS:

This is the last chapter of this research study. A brief introduction about this study has been already presented in chapter I. In second chapter various related books, journals and other publications as well as unpublished master level dissertations have been reviewed.

After completion of the basic analysis required for the study, the final and most important task of the researcher is to enlist findings of the study and give suggestions for further improvement. The main objective of this research is not only to point out faults and errors but also to provide sound directions for further improvements.

In this chapter the effort has been made first to present summary of major findings while last step proceeds with recommendations.

5.1. Summary of Major Findings:

The major findings from the general and some specific analysis of secondary data of joint venture banks are as follows:-

Liquidity position of Joint Venture Banks reveals that :

) The current ratio of all joint venture banks are always below than normal standard 2:1. It is the indication of unsatisfactory liquidity position comparatively the mean current ratio of SCBL and NBBL are better than other JVBs. Like wise, variability of ratios of SCBL is lower than other banks because of its lower standard deviation (SD).

-) The mean ratio of cash and bank balance to total deposit of SBI is higher i.e. than other banks similarly NABIL's ratios are more consistent than other JVB's since it has low standard deviator.
-) The mean ratio of cash and bank balance to current assets of SBI and Everest are higher in comparisons to other banks. Similarly NABIL's ratios are more consistent than other JVBs during the study period.
-) The above results show that liquidity position of almost all JVBs is not satisfactory. Highly fluctuating liquidity position of these banks shows that banks have not succeeded to formulate stable liquidity policy.

Utilization of Assets :

The assets managements ratio of joint venture banks reveals that:-

-) The mean ratio of loan and advances to total deposit of NBBL is higher i.e. 74.58.% than other selected JVBs. Similarly SBI and NBBL's ratios seem to be more variable among other banks because of its higher standard Deviations.
-) The mean ratios of total investment to total deposit ratio of SCBL is higher i.e. than rest banks and variability of the ratios of SCBL has higher than other banks. Because of its higher i.e. 51.146% than other banks.
-) The mean ratios of loans & advances to total working fund of NABIL and SCBL are lower than other JVBs. Whereas NBBL's ratios are more variable than other banks.
-) The mean ratio of investment on Government securities to total working fund of SCBL is higher i.e. 28.34% than other banks. On

the other hand SBI's ratios are more variable than the rest banks. Due to its higher standard deviation i.e. 7.07 %.

-) In conclusion NBBL and Everest Banks have been efficient in utilizing most part of their total assets in profit generating purpose. NABIL and SCBL have not been able to mobilize and utilize their resources as efficiently as the JVBS.

Profitability Position :

The profitability ratios of joint venture banks reveal that:

-) The mean ratio of return on working fund of SBI is considerably lower i.e. 0.618% among that of other JVBS. Similarly SCBL's return on working fund has been found more consistent than that of other banks.
-) The mean ratio of net profit to total deposit of SCBL has been found higher than other JVBS. Similarly the ratios of NABIL and NBBL have been second to be less consistent than other banks due to higher standard deviation.
-) The mean ratio of return on loan and advance of SBI and NBBL are lower than other JVBS. Likewise the ratio of NABIL is more variable than other banks due to higher standard deviation i.e.1.46%.
-) Similarly the mean ratio of total interest earned to working fund of NABIL and NBBL have been found higher than other JVBS. Like wise SCBL's ratios are found less consistent than other banks.
-) In conclusion SBI and NBBL have not been able to generate sufficient profit through the proper utilization of their resources in comparison to other joint venture banks.

Capital Adequacy Position :

The capital adequacy ratio of joint venture banks reveals that:

-) The mean ratio of shareholder's fund to total deposit of NBBL has been found significantly lower i.e. 6.24% than other banks. Similarly SBI's shareholders fund to total deposit has been found more homogenous than other JVBs.
-) Observing the shareholders fund to total assets ratio, it can be concluded that mean ratio of NABIL is higher i.e. 7.12% than other banks. Similarly Everest Bank's ratios are found more consistent than other banks because of lower standard deviation i.e.0.1%.
-) It can be concluded that NBBL have been unable to keep adequate capital fund in comparison to other JVBs.

Growth Position :

Growth ratios analysis of all selected JVBs reveal that :

-) Growth ratios of deposits of Everest is the highest i.e 27.44 percent in comparison to other banks. Similarly growth ratio of NABIL is lower i.e. 2.52 percent among all banks.
-) Similarly the growth ratios of loan and advances of NABIL is lower i.e. 2.8 percent whereas Everest has highest growth rate of loan and advances among all banks i.e. 26.88 percent.
-) The growth ratios of net profit of NBBL is negative i.e. – 62.88 percent whereas all other JVBs have position growth ratios of net profit.
-) Likewise the growth ratios of EPS of Everest are higher among all banks. Similarly growth ratio of EPS for SCBL and NBBL are negative.

) Similarly growth ratios of DPS of SBI, NBBL and Everest are zero. NABIL has maintained highest DPS i.e. 4.26 percent.

) From the above mentioned growth ratio, it can be concluded that NABIL and SCBL have not been successful to increase its sources of funds i.e. deposits, loan and advances and total investment. Similarly it seems to be failed to maintain high growth ratio of profitability position. But SBI and EVEREST have been successful to win the confidence of shareholders, depositor and customers.

Co-efficient of correlation Analysis :

Co-efficient of correlation analysis between different variables of selected joint venture banks reveals that :-

) Co-efficient of correlation between deposit and Investment of NABIL, NBBL has been found negative. But in case of SCBL, SBI and EVEREST it has been found positive relationship between deposit and investment.

) There is negative relationship between debt and return in case of NABIL, SBI and NBBL since their correlation between debt and return are negative.

) Likewise co-efficient of correlation between outside assets and Net – Profit of NBBL has been found negative therefore there is negative relationship between outside assets and net profit. But in case of other remaining JVBs. There is significant relationship between outside assets and net profit.

) From the above analysis, it can be concluded that there is significant relationship between deposit and investment and net profit and outside assets but not between debt and return.

Trend Analysis :

Trend analysis of interest paid on borrowing and deposit, interest earned on investment, and current assets for next 5 yrs of JVBs reveals that :-

-) Trend values of interest paid on borrowing and deposits of SBI and NBBL and EVEREST are found increasing trend. In case of NABIL, SCBL it is found decreasing trend.
-) Trend value of interest earned on investment of SBI, NBBL and EVEREST Banks have been found increasing. Were as trend values of other remaining JVBs have been found decreasing.
-) Trend value of current assets are found increasing trend for each JVBs. Except NABIL bank.

Finding from f- test :-

-) F statistics help us to conclude that net profit between all selected JVBs is significant difference at 5% level of significance.
-) F statistic reveals that net profit within each JVBs is not significant difference at 5 % significant difference between 5 yrs study period .

Finding from Primary Data Analysis :

From the analysis of primary data of all selected JVBs reveals the following conclusion: -

-) The most important decision taken by financial execution is investment decision.
-) Lack of knowledge with possible investor is the main causes for not using debt capital (debenture) by JVBs.

-) Equity capital only is the main long term capital instrument which is used by JVBs.
-) The major financial source of capital is to offer right share & bonus share in order to reach their paid up capital of Rs. 1000 Million upto 2011.
-) The main objective of capital structure decision of JVBs is to increase shareholder's wealth.
-) The main motive for investment in fixed assets is to help the banking transaction.

5.2. RECOMMENDATION :

On the basis of various analysis, findings following recommendations can be highlighted to put forward to improve present capital and assets structure management.

-) The current ratio of selected JVBs is not satisfactory. It is below the standard level of 2:1. Therefore all JVBs are suggested to improve current ratio.
-) The net worth of the JVBs was low as compared to the total deposit and total liabilities. So the bank needs to increase its net worth to reduce the risk. An increase in net worth will help to reduce the fluctuation on net profit.
-) Total deposit is the major source of JVB's fund. The trend of deposit collection of all joint venture banks are highly fluctuated over the study period. Therefore all joint venture banks are strongly recommended to provide incentive for attracting deposit.

-) Joint venture banks deal with big industries, corporate, houses, multinational companies large NGO and INGO. They neglect the small depositors. The minimum level bank balance needed to open an account in these banks is very high. So all JVBs are suggested to set a more convenient minimum balance requirement to open an account. JVBs should encourage the small depositors for promoting small investors.

-) Because of limited capital the bank is not able to serve the larger customers which will harm the bank's business ultimately. So It is necessary to increase the capital although bank is issuing the bonus shares in the very near future and offering the rights issue too.

-) Profitability ratios all JVBs such as return on investment, returns on total assets are not satisfactory. If resources held idle, banks have to bear more cost and result would be lower profit margin. Therefore to overcome from this problem it is recommended to utilize it's resources in more profitable sector.

-) All JVBs are recommended to adopt the liberal lending policy and invest more percentage amount of total deposits in loan and advances to earn interest which is the main sources of incomes.

-) The increasing trend of interest paid borrowing exceeded the increasing trend of interest earned. The bank needs to review the trend and it is possible only when the capital and asset management is improved. The net profit of the bank was fluctuating, so do the earnings per shares. To stabilize net profit and earning per share total expenditure and total income should be under control. To control total income and total expenditure, the bank in effect needs to control total deposits and total investment.

) Since capital and assets structure is the most important factor for overall success of JVBs. Therefore it is recommended to maintain effective and sound capital structure policy which requires efficient organizational structure, Motivation, training programmes and other coordinating programmes. Capital and assets structure plans and programmes should be developed keeping in view of socio – economic, political and legal environment.

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