A STUDY ON FINANCIAL PERFORMANCE

OF JOINT VENTURE BANKS IN NEPAL

(Study of Three Joint Venture Banks – Standard Chartered Bank Ltd., NABIL Bank Ltd. and Nepal Investment Bank Ltd.)

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RECOMMENDATION

This is to certify that the thesis

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has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**A Study on Financial Performance of Joint Venture Banks in Nepal (Study of Three Joint Venture Banks – Standard Chartered Bank Ltd., NABIL Bank Ltd. and Nepal Investment Bank Ltd.)"** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Asso. Prof. Achyut Raj Bhattarai** and **Lecturer Mikha Shrestha** of Shanker Dev Campus.

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Nepal is the developing country. So, the economic infrastructures are not well-developed here. Thus, the entire source of economy depends upon the government liberal policy regarding the business sector. After the restoration of the democracy, foreign joint banks play an important role in economic development of the country. Thus, this thesis is an important opportunity to explore the performance of joint venture banks (focus on Standard Chartered Bank Ltd., Nabil Bank Ltd. and Nepal Investment Bank Ltd.) of Nepal.

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Mistakes and errors are occurred in human activities. Therefore, if any, in course of writing up my work, heartly apologized.

Thank you,

Reedi Sthapit

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ABBREVIATIONS

A.D.	:	Anno Domini
B.S.	:	Bikram Sambat
C.V.	:	Coefficient of Variation
DPR	:	Dividend Payout Ratio Share
DPS	:	Dividend Per
EPS	:	Earning Per Share
etc	:	Etcetera
F/Y	:	Fiscal Year
HMG/N	:	His Majesty's Government, Nepal
i.e.	:	That is
JVBs	:	Joint Venture Banks
NABIL	:	Nepal Arab Bank Limited
NIBL	:	Nepal Investment Bank Limited
NPAT	:	Net Profit after Tax
NRB	:	Nepal Rastra Bank
P.E.	:	Probable Error
RBB	:	Rastra Banijya Bank
Rs.	:	Rupees
S.N.	:	Serial Number
SCBNL	:	Standard Chartered Bank Nepal Limited
SD	:	Standard Deviation

CHAPTER – I
INTRODUCTION

1.1 Background of the Study:

A 'Bank' is an institution, which deals with money, it receives deposit from customers, honoring customer's drawing against such deposits on demands, collecting cheques and lending or investing surplus deposits until they are required for repayment. In more easier way, a bank is a financial intermediary, that/which makes the flow of investment easier. A bank performs several financial, monetary and economic activities, which are very essential for the economic development of any country. Banking sector plays a vital role for the country's economic development. Bank is a resources mobilizing institution, which accepts deposits from various sources and invests such accumulated resources in the fields of agriculture, trade, commerce, industry, tourism; etc. "A banker or a bank is a person, firm or company, having a place of business where creditors are opened by the deposit or collection of money or currency subject to be paid or remitted upon draft, cheques or order or where money is advanced or loaned on stocks, bonds, bullion and bells of exchange and promising notes are received for discount and sale." Broadly speaking, bank draws surplus money from the people who are not using it at present and hoarding for future and supplies loan to those who are in position to use it for productive purpose by lending the resources in small scale industries under intensive banking program which enabled the banks to share in the economic growth of the country. Banks give different types of services to people. Basically, bank performs various types of services ie; collects deposit from the public, grant loan to those investors who want to invest in business, industry and other sectors, overdraft, guarantee against any disable of payment (guarantee services), letter of credit, discounting bills, promissory notes, selling of other share to general public, agencies function/task, limit of the storage commodities; etc.

Modern Commercial Banks make the economy always alive and smart to run and maintain day-to-day commercial, economic and banking transactions. In short, banking transactions help a country to develop its economy. If there were systematic scientific programs for economic development as with developed countries, this

country would have developed its economy as much as those countries which have developed the whole economy. Commercial banks provide a number of facilities and can serve an important contribution to develop different sectors of the economy by accumulating the money scattered to needy sector. In facts, the commercial banks are expected to run on the commercial principles. They are guided by the business motives. Earning of the profit is therefore, the primary objectives of these banks.

1.1.1 Development of Commercial Banks in Nepal:

In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual moneylenders has acted as fence to institutional credit in presence of unorganized money market. Though establishment of banking industry was very recent, some crude bank operations were in practice even in the ancient times. In the 11th century, during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money-lending business, particularly for financing the foreign trade with Tibet, became quite popular during regime of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced. The establishment of "TEJARATH ADDA" during the year 1877 A.D. was fully subscribed by the government of Kathmandu valley, which played a vital role in running smooth banking sector for flow decades. The main defects of this institutions sough as there was no other financial institutions set-up and there was no effort to expand the services. Above all of the defects, this institution did not accept any deposits from the public and thus faced financial problem, making it impossible to carter to the credit and service need of the general population throughout the country.

There was a political change in 2007 B.S. where an important event took place in 2012 B.S. ie; a central bank, "Nepal Rastra Bank" was established in Nepal in that year with one crore of authorized capital. Besides the central banking functions, it has heavy burden to develop the whole economy, such as giving timely direction to all the financial institutions on the country to help an industry by mobilizing its capital to

issue debentures and share to promote the banking, habit and transactions in the country and to fix the exchange with foreign currency.

The gradual development of commercial banks moved in parallel with the economic liberalization policy of the government that caused the operation of commercial banks in increasing number. The financial policy of the government welcomed the establishment of joint venture banks. Such sort of commercial banks are established under the commercial bank act 2031, and are registered with the recommendation of Nepal Rastra Bank and the same bank is capable legally to issue the patent for the financial transactions of the banks. In the year 1934 A.D., the establishment of Nepal Bank Ltd. with the imperial Bank of India came into existence under 'Nepal Bank Act, 1937' as the first commercial bank of Nepal, inaugurated by His Majesty King Tribhuwan on November 1937. Rastriya Banijya Bank, the second commercial bank was established in the year 1965.

With the opening of NABIL bank, (official name Nepal Arab Bank Ltd. till December 31,2001) the first joint venture bank of Nepal, started operation in July 1984 A.D. under a technical service agreement with Dubai Bank Ltd., the door of opening commercial banks was opened to the private sector. More commercial banks are in operation after the restoration of democracy and due to the liberal economic policy of the government. The foreign banks have the dominant role to manage the joint venture bank in Nepal. The banks have been found interested to invest their capital in manufacturing hotel, textile and medicine. The banks have their objectives to serve in financial sector with the margin of profit in spite of its main objectives of making profit and maximizing wealth. It bears some positive aspects if the positive dimensions of such banks are implied in Nepalese banking system, the related sides will be benefited.

1.1.2 Meaning of Joint Venture Banks:

"When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as a joint venture."

In global perspective joint venture banks are made of trading through the partnership among nations and also form of negotiation between the various groups of industrials, traders and mercantile to achieve mutual exchange of goods and services for sharing comparative advantage in their contribution. "A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation; industrial, or commercial investment, production and trade."

Firms within a country as well as operated indifferent countries may participate in a venture through instance of joint venture happen to be more common firm in different countries. As a strategy of joint venture may offer several advantages, a number of joint venture within the country were controlling influencing or reducing competition and or influencing suppliers. Generally, joint venture between two or more companies within a country may take place for one or more of these reasons enable new technology, reduce high risk into joint venture; smaller firms joining hands may be able to compute with large organization.

Some positive aspects of joint venture banks are:

- Increase in highly skilled personal with modern banking technology.
- Commercialization of domestic technologies.
- Efficient modern banking system.
- Advanced management skills.
- An international network of bank branches.
- Import of technology not available in the country.

After Nepal has adopted the policy of economic liberalization as in other developed countries, it has felt need of sound competition in banking sector for the economic upliftment. Keeping the aim in mind, His Majesty Government has followed the strategy to establish banking companies to joint venture with the foreign banks importing the high foreign banking techniques in the country.

1.2 Focus of the Study:

The study is focused on the relationship between banker and its client and overall performance of the concerned commercial banks and at which level the commercial

banks have been able to provide its service and obtain business and study about the sector of investment of commercial bank. Its focus is on the strict government rules and regulation that has limited the sector of expansion. The main focus of the study is to highlight the lending, investment and deposit policies of commercial banks expecting that the study can bridge the gap between deposits, lending policies and investment. On the other hand, the study would also provide information to the management of the bank that would help them to take collective action. The up-lifting development of a nation depends largely upon the development of its economic growth. Bank is an institution, which helps in collecting and mobilization of saving. The role of commercial banking uplifting of the economic growth of the country is very important. Internal management of the bank greatly influences in the development of the country.The general information of the commercial banks under study can be shown below:

1.2.1 Standard Chartered Bank Nepal Ltd.

Former, Nepal Grindlays Bank Ltd was established in 2043 B.S. (1987A.D.) under the commercial bank Act., 2031 and Company Act., 2021 – with the share pattern of 15% of General public, 35% of Nepal Bank Ltd and 50% of Grindlays Bank Ltd. It came into existence as third joint venture bank in Nepalese Banking sector. It started its business with Rs.30 Million paid up capital. It has completed 25 years of its operation in January 2012.

The Grindlays bank has been replaced by the Standard Chartered Bank Nepal Ltd. In July 2001. Today the bank is an integral part of Standard Chartered Group London under the following share pattern;

- 75% ownership in the company
- 25% Shares owned by the Nepalese public.

Having a history of 150 years in banking, Standard Chartered operates in many of the world's fastest growing markets with an extensive global network of over 50 countries in the Asia Pacific Region, South Asia, the middle East, Africa, the United kingdom and the America. Trusted across its network for its standard governance and corporate responsibility, Standard Chartered takes a long term view of the

consequences of its actions to ensure that the bank builds a sustainable business through social inclusions, environmental protection and good governance.

This bank truly facilitates in the expansion of international banking, enjoying the reputed status of the largest international bank currently operating in Nepal. Standard Chartered Bank Nepal Limited offers a full range of Banking products and services in wholesale and consumer banking, catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, airlines, hotels as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs.

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti Money Laundering policy and the 'Know Your Customer' procedure on all the customer accounts.

1.2.2 Nabil Bank Ltd. (NABIL)

Nabil Bank Limited (earlier known as Nepal Arab Bank Ltd.) is the first private commercial and foreign joint venture bank of Nepal, established in 2041 B.S. and started operations in July 1984 A.D. under the technical service agreement with Dubai Bank Ltd., Dubai, with a paid up equity of Rs. 30million along with authorized capital of Rs. 60million. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

The share ownership structure of Nabil Bank Ltd. holds:

- NB International (Foreign Partner) holding the 50% of the capital
- NIDC holding 10% of the capital
- NepSE (Nepal Stock Exchange) holding 0.33% of the capital
- Rastriya Beema Sansthan holding 9.67% of the capital

- The remaining 30% being held by the General Public (i.e; Nabil is a company listed on Nepal Stock Exchange).

Nabil is a full service bank providing an entire range of products and services through **"Your Bank at Your Service"** starting with deposit accounts in local and foreign currency, Visa and MasterCard (denominated in Rupees and Dollars), Visa Electron debit cards, Personal Lending products for Auto, Home and Personal loans, Trade Finance products, Treasury services and Corporate Financing. On the technological front, Nabil has earned a reputation in providing an array of card products and Internet/Telebanking facilities besides ATMs and Any Branch Banking Service. All its branches are interconnected on real time basis through V-SAT and radio links for customers' convenience in depositing and withdrawing cash. Nabil's recent privilege card holds customers attraction on personalized banking, discounts on shopping and lucky draw for high-value accounts.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. It is the sole banker to a multitude of International Aid Agencies, Non-Government Organizations, Embassies and Consulates in the kingdom. Today, Nabil is a leader in the financial industry and is committed to its mission, to be the **Bank of 1st Choice** to all its stakeholders. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. To achieve the mission, Nabil live by a set of core Values, **C.R.I.S.P.** (Customer Focused, Result Oriented, Innovative, Synergistic and Professional). Thus, by living these Values, individually as professionals and collectively as a Team, Nabil Bank Ltd. is committed to Surge Ahead to continue with the same spirit to be the Bank of 1st Choice in Nepal in future also.

1.2.3 Nepal Investment Bank Ltd. (NIBL)

Nepal Investment Bank Ltd.(NIBL), previously Nepal Indo-Suez Bank Ltd., was established in 1986 A.D. as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole

Indosuez, a subsidiary of one the largest banking groups in the world, 30% by Nepalese financial institution and the rest 20% by the general public and started its operation on 27 February, 1986. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure:

- A group of companies holding 50% of the capital
- Rastriya Banijya Bank holding 15% of the Capital.
- Rastriya Beema Sansthan holding 15% of the capitals.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

1.3 Financial Activities of Joint Venture Banks:

All the banks perform various types of financial activities, among them some are:

1.3.1 Deposit Collection:

A bank accepts deposit in three forms namely- saving, current and fixed deposits.

Saving Deposit:

Saving Deposit is one of the deposits collected from small depositors. The bank usually pays small interest to the depositors and low income depositors. The depositors are allowed to withdraw their money by cheques prescribed by the bank or by debit card issued by the bank.

Current Deposit:

Current Deposit is also known as demand deposits. Under this, any amount may be deposited into the account. Account is opened after making enquiries about the credit worthiness of the customer. The bank does not pay any interest on such accounts but charges a small amount on the customer having current account. Traders and businessmen keep their money with the bank under current account.

Fixed Deposit:

Fixed Deposit is the one where a customer is required to keep a fixed amount with bank for a specified period. Generally, the bank pays a higher interest on such deposits.

1.3.2 Advancing Loans:

The second major function of a commercial bank is to provide loans and advances from the money which it receives from deposits. Direct loans and advances are given to all types of person against the personal securities. Loans are granted by the bank in four forms which are explained below as;

Overdrafts:

An overdraft is an agreement by which the customer is allowed to overdraw his account against some collateral security. The customer is charged interest only on the amount by which his current account is actually over drawn and not by the full amount of the overdraft sanctioned to him by the bank.

Cash Credit:

Cash Credit is granted against the security of goods or personal security. The amount of loan is credited to the current account of the borrower who can withdraw money through cheques according to his requirement. But, he should pay interest on the full amount.

Loan against Security:

Direct loans are granted against security of movable or immovable assets. The borrower are required to pay interest on the entire amount of loan sanctioned from the date of taking the loan to the date of repayment. The loan is repayable in the lump sum of the due date.

Discounting Bills of Exchange:

If the creditor holding a bill of exchange wants money immediately, the bank provides him with money by discounting bill of exchange. It deposits the amount of the bill in the current account of the bill holder after deducting its rate of interest for the period of loan.

Agency Service:

A bank also performs number of services on behalf of its customers. A commercial bank undertakes the payment of subscriptions, insurance premium, rent; etc and collection of cheques, bills, salaries, pensions, dividends, interests; etc on behalf of the customer. The bank charges small amount of commission for these services.

Credit Creation:

Credit creation is one of the important functions of the commercial banks. In order to earn profits, they accept deposits and advance loans by keeping a small cash in reserve for day-to-day transactions.

1.3.3 General Utility Services:

Apart from agency services, the bank also renders some useful services known as general utility services. They can be explained as:

Safekeeping of Valuables:

During the middle ages, banks began the practice of holding gold, securities and other valuables by their customers in secure vaults. The bank acts as the custodian of the valuables; holding belongings of the customers and returns them back when demanded.

Assist in Foreign Trade:

The bank assists the traders engaged in foreign trade of the country. Bank discounts the bills of exchange drawn by Nepalese exporter on the foreign imports and enables the exporters to receive money in the home currency. Similarly, it also accepts the bills drawn by foreign exporters.

Making Venture Capital Loans:

Increasingly, banks have become active in financing the start-up costs of new companies, particularly in high-tech industries. Because of the added risk involved in such loans, this is generally through a venture capital firm that is a subsidiary of a bank holding company, and other investors are often brought into share the risk.

Financing Advising:

Bankers have long been asked for the financial advice by their customers, particularly when it comes to the use of credit and the saving or investing of funds. Many banks offer a wide range of financial advisory services, from helping financial planning to consulting to business managers and checking on the credit standing of the firms.

1.4 Significance of the Study:

Every business firm performs the economic activities that affects the economic condition of the country for which the government prospectus is to be kept under consideration. To formulate a state's minority and economic strategy, the overall comprehension is necessary where the role of such forms become dominant. It is pervasive to all interested sides including students, researchers and even the experts.

Different investors invest their funds in joint venture banks and simultaneously enjoys more accurate interest in economic condition of the institutions i.e; debtors for interest, shareholders and government for dividends, top management for remunerations and so on. Thus, the study will help as a literature in studying the relative topics of financial performance. It also suggests the firms to follow policy and strategy more practically and scientifically.

The study enlightens the shareholders about the financial aspects at their respective books, this allows them to have a comparative retrospect whether their funds are better authorized or not. Likewise, the study will help the management of respective banks for their self arrangement. The study further makes Nepal Rastra Bank easier in the formulation of further policies regarding economic development throughout banking institutions. It helps to identify better, the deal with in terms of profitability satisfaction and liquidity of commercial banks.

1.5 Statement of the Problem:

Establishment of private joint venture banks have continued in response to the economic liberalization policies of the government. In urban areas like Kathmandu, Biratnagar, Birgunj, Pokhara, Nepalgunj; etc has raised the certain questions like - This state of affairs cannot contribute much to the socio-economic development of the

country where 90% of population depends upon reluctant to extend their operation in rural area. Despite of the circular of Nepal Rastra Bank, the central bank of the country, regarding compulsory investment of 10% of their total investment in the rural areas, but these banks are inclined to pay fines in less profitable sector. This problem remains to be solved, so that even the small investor in the rural area will benefit from the services of such banks. Moreover, even the existing branches of the commercial banks in the rural area donot seem to have been able to mobilize the local resources effectively.

This study, basically, focuses our attention to reveal the struggle and success achieved by joint venture banks, namely SCBL, NABIL and NIBL (Standard Chartered Bank Ltd., NABIL Bank Ltd. and Nepal Investment Bank Ltd.). Being the reputed banking institution and having almost same organizational structure and objectives, the banks are not able to meet the return on cash basis on equal manner and also the financial performance of these banks are in far distance. Maybe the limited investment bound and low banking attitude of customer are quite serious problem of these banks as like as other commercial banks. Government rules and regulations with competitive behaviour of commercial bank is the barrier to meet their on going financial performances. Misuse of loan is the main problem of banking sectors in these days. Also, in Nepal, the profitability rate, operating expenses, dividend distribution among shareholders; etc have been found inconsistent. Thus, the study find out that, though the banks have employed same amount as authorized capital in the initial year but seems to have different earning capacity. The problem of the study focuses to find out the reasons about the differences in the financial performances among SCBL, NABIL and NIBL. Thus, the present study seeks to explore the efficiency and weaknesses of these three banks (SCBL, NABIL and NIBL). Attempts are also being made to explore the answers to the following questions like;

- How far have SCBL, NABIL and NIBL been able to convert the mobilized resources into investment?
- Why are the investment opportunities of these three banks differ from each other?
- How efficiently these three banks are managing their liquidity, assets, capital structure; etc?

- Based on the above questions, which bank has focused financial risk?

1.6 Objectives of the Study

The primary objective of this study is to make comparative analysis of the financial performances of mentioned three joint venture banks (SCBL, NABIL and NIBL). Suitable and important advices will be recommended on the basis of findings from the study to concerned authorities for their further enhancement and improvement of state of affairs. Thus, the study figured out some of the specific goals which are;

- To see the financial performances of the relative three joint venture banks.
- To see the trend of total deposits, total investments, total income, total expenses and total net income.
- To offer package of suggestions to improve the financial performance of the related three joint venture banks.

1.7 Scope and Limitation of the Study:

In the context of Nepal, data collection is the major problem for the study. There is considerable place for arguing about its accuracy and reliability. There are many limitations, which weakens the generalization e.g. periods taken and other variables being historical accounting basis rather than price level changes. Besides these, following specific limitations are also mentioned;

- This study is based on the financial report of the firm.
- Among the various joint venture banks, the study focuses only on the related three joint venture banks namely; SCBL, NABIL and NIBL.
- At most, secondary data are analyzed to interpret result emerging from decision. In only some of the cases, primary data are used.
- Time factor is major limitation of the study, because this study is completed within a short span of time.
- This study has not paid attention towards the funds flow and cash flow patterns.

1.8 Organization of the Study:

The analysis and study is presented in the following manner to make it more apparent and significant.

Chapter-I: Introduction:

This chapter is the introductory chapter, which includes background, development of banks, meaning of joint venture banks, statement of the problem and its focus, objectives, significance and limitation of the study.

Chapter-II: Review of Literature:

This chapter includes the main concept of the study and review of previous research works, articles and reports.

Chapter-III: Research Methodology:

This chapter includes the research design, data collection procedures, and tools and techniques employed for analysis of the data.

Chapter-IV: Presentation and Analysis of Data:

This chapter is one of the main chapters i.e; focus chapter of the study. It includes data and graphs interpreted in a way to match with its objectives. This chapter is mainly concerned with analysis of different financial ratios, statistical tools and trend analysis and also primary data.

Chapter-V: Summary, Conclusions and Recommendations:

Fifth chapter is associated with summary, recommendations and conclusions of the study. Reference books, magazines, newspaper. Previous dissertations are shown under bibliography. Documents compilation, calculation sheets, documentations; etc are separately shown under appendices.

CHAPTER – II
REVIEW OF LITERATURE

2.1 Conceptual Review:

Review of literature is the study of previous research or article or book in related field or topics for finding the past studies, conclusions and deficiencies that may be known for further research. This chapter will help to check the chances of duplication in the present study. Thus, the gap between the previous research and current research can be filled through the review of literature.

Review of literature is basically a stock taking of available literature in the field of research. The textual matter would help the researcher to support the area of research in order to explore the relevant and true facts for the reporting purpose. While conducting the research, study of previous studies cannot be ignored as those instructions would help to checkup the change of duplication in the present study. Thus, one can find what research studies have been conducted and what remains to go with, while studying the research. This part includes the review of previous studies, articles and conceptual framework for the related studies.

Review of literature is focused and directed towards specific purpose. It is a selective subject. A researcher has to select the kind of literature to be reviewed and determine the purpose. It starts with the selections of a problem for the research, continues through the various stages of the research process and ends with report writing. Reviewing different available literature from various sources are the major objectives of this chapter. Basically, the review of literature includes the following topics:

- Review of books
- Review of journals
- Review of articles
- Review of masters degree thesis

2.1.1 Concept of Financial Performance Analysis:

Financial analysis is defined as “The process of identifying the financial strengths and weaknesses between the items of the balance sheet and profit and loss account.

Management of the firm can undertake it or by parties outside the firm." The focus of the financial analysis is on the key figure contained in the financial statement and the relationship that exists between them. Management of the firm is generally interested in every aspect of financial analysis as, they are responsible for efficient and effective utilization of available resources and strengthen the financial position of the firm *(Pandey: 1997: 103)*. "Financial performance analysis involves the use of various financial statements. The financial statements contain summarized information of company's financial affairs, organized systematically by the top management. These statements are used by investors and financial analysis is to examine the company's performance in order to make investment decision" *(Pandey: 1999: 293).*

Every business organization is established with the view of earning profit. Profit is one of the indicators of sound performance, which indicates the result of sound business management. A bank is also established with the objective of maximizing profit. An investor always wants to invest in those sectors and organizations where there is maximum profit. Profit is the major indicators of a good-financial performance of the company. Financial performance reflects the financial position of a firm. It is the main indicator of success and failure of a firm. Financial analysis finds out the strength and weakness of a firm by computing and comparing different ratios. The main purpose of bank performance analysis is to evaluate its progress to meet the goals and objectives set forth by management and to compare the performance of the bank relative to that of similar other banks. Effective planning and control are central to enhancing enterprises value. Financial plans may take forms, but any good plan must be related to the firm's existing strength and weakness. The strengths must be understood if they are to be used to proper advantage and the weaknesses must be recognized if corrective action is to be taken. The financial manager can plan future financial requirements in accordance with the forecasting and budgeting procedures, but the plan must begin with the type of financial analysis. *(Van Horne: 2000 :254)*

Financial analysis is done in terms of either vertical or horizontal analysis. The vertical analysis consists of financial balance sheet, Profit and Loss account of a certain period of time only, which is known as static analysis. On the other hand, the horizontal analysis consists of series of statements relating to the number of years. It

is also known as dynamic analysis that measures the change over time or trend of the business. The steps involved in horizontal analysis are as follows:

- Selection of information relevant to the decision.
- Arrangement of selected information to highlight the significant relationship between various financial indicators.
- Drawing of inferences and conclusions.

According to Mayer "Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by the single set of statement and a study of trend of these factors as shown in a series of statement." *(Mayer: 1961:15)*

Hampton defines financial analysis as "The process of determining the significant operation and financial statements. The goal of such analysis is to determine the efficiency and performances of the firm's management, as reflected in the financial records and reports." *(Hampton: 1998:98)*

Factors Affecting Financial Performance Analysis:

There are various factors that affects the financial performance analysis and the efforts involved to analyze these factors should not be underestimated. In this section, several factors that affects the choice of financial performance are discussed. They are defined as;

- Risk, profit and control of the company are all closely related to the financial arrangements.
- It may be worth approaching companies that are involved in the operation of banking sectors and such companies are well qualified to judge the feasibility.
- Management of the company's risk is another important consideration. In general, a high level of debt means high management risk. So, the debt service will have first claim on the company's earnings.
- The shareholders will receive profit only when there is a surplus after interest and repayment.

- The size of the financial obligations is important if the company is a failure. If the company fails, the organizer, in case of in-house fundings or ordinary bank loans carries all the losses.
- There is direct influence of NRB's rules and regulations over the commercial banks that influences heavily, if in any of the cases the NRB's regulations changes.

Advantages of Financial Performance Analysis:

The financial performance analysis is used to evaluate the financial analysis and position of the business. Preparations of the financial statements are used by investor and financial analysis to examine the firm's performance in order to make investment decisions. There is no doubt that the financial performance are the powerful tools in analyzing the firm's financial statement. The advantage is financial performance is used to identify the financial strength and weakness of the company. It is used to identify the opportunity and threat of the company. Financial performance analysis is a process of evaluating the relationship between components of the financial statement to obtain a better understanding of a company's position and performance. *(Pandey: 1999: 308)*

Disadvantage of Financial Performance Analysis:

Globally, the financial performance is widely used to evaluate the financial structure analysis and position of a business. But there are certain disadvantages in using financial ratios. The analysis should be aware of these problems. The financial performance analysis of a firm cannot be determined if there is no basis of comparison to identify ratio for strength and weakness of the company in the market. If, we go for comparison between the financial situations of two companies, the result may not be valid. It is because the situation under which one company is being operated may differ from that of the other company. *(Pandey: 1999:310)*

Limitations of Financial Performance Analysis:

The financial performance is widely used to evaluate the financial analysis and position of a business. But there are certain problems in using the ratios. The analysis should be aware of these problems. There is no doubt of financial

performance being powerful tools in analyzing the firm's financial statement. However, they should be used with extreme care and the analyst must work with his/her judgement because they suffer from some serious limitations. The basic problem associated with financial performance is the lack of underlying theories to help us identify which quantities to look at and which standard to use. In addition, some specific limitations of financial performance is as follows;

- Require Basis of Comparison:

  The financial performance of a firm cannot be determined if there is no basis of comparison for the particular financial ratio, for example; we cannot say that the net profit margin of percent is good or bad. It has to be compared against the financial performance of a similar firm.

- Difference in the situation of two firms:

  When we go for comparison between the financial situations of two firms, the result may not be valid. It is because the situation under which one firm is being operated may differ from that of the other firms, the result may not be valid. Also, the situation of the firm itself may be different at different point of time.

- Change in price level:

  Generally, the different accounting figures collected from the financial analysis are expressed in terms of their monetary value, which also assumed to remind constant. But in practice, prices do not remain constant as they go on changing as per price level changes.

- Short-term changes:

  Ratios if not calculated frequently, may suffer from short-term changes. Ratios once calculated and analyzed may have to be adjusted as soon as the condition under which the firm is being operated changes. This creates problem for the analyst, as he has to frequently involve in ratio calculation and analysis.

- No identification of fact:

  The basis concern of any analyst is the future base of the financial analysis whether he/she has to determine the firm's financial position and performance in the future. But as ratios are calculated on the basis of past accounting information, it results into what happened in the past rather than what is going to happen in the future.

As a matter of fact, ratio merely services quantitive information, the user of the ratios need to understand certain quantitive aspects of the firm being analyzed. Therefore at the time of interpretation, the analyst need not to forget the quantitive aspects of raw financial data. *(Pandey:1999:312)*

Ratio Analysis:

The financial analysis is based in certain parameters of the company by which quantitive relationship and positions could not be established. The most widely used tool of the financial analysis is the Ratio Analysis. The financial ratio is the measurement of relationship between two accounting figures, expressed as (i) percentage, (ii) fraction or (iii) in proportion of numbers. It helps to summarize the large quantities of financial data and to make quantitive judgment about the firm's financial performance. According to Pradhan, "Financial ratio helps us to find the symptoms of the operational and financial problems of a corporation." *(Pradhan: 1986:1)*

According to J. Fred Weston, "Ratio analysis is the systematic use of financial information of the firm's strength and weaknesses as its historical performance, and current financial condition." *(Weston: 1990:93)*

Ratio analysis is a tool of scanning the financial statement of the firm. Through ratio analysis, one comes to know in which areas of the operation the organization is strong and in which area it is weak. There are various types of ratios, which are used to evaluate the performance of a company. Some of them are defined as follows:

a) Liquidity ratio:

Liquidity ratio refers to the ability of a business firm to pay its short-term obligation as and when they fall due for payment. In this regard, R. S. Pradhan expresses, "Liquidity refers to bareness to cash the lower is to its rate of return. The larger size of current assets is associated with high liquidity and low profitability and vice-versa. Inadequate liquidity may lead a corporation to delay payments, sell assets or obtain temporary financing on unfavorable terms." The liquidity ratio can be subdivided into current ratio and acid-test ratio.

b) Profitability Ratio:

It helps to find whether the company is getting satisfactory result on investment, good return on the capital invested in the business. This ratio is of two types;

- gross profit margin ratio
- net profit margin ratio

c) Efficiency Ratio:

This ratio shows the use of assets in terms of efficiency and is sub-divided into;

- The average collection period
- The credit period taken
- Sales to fixed assets

d) Capital Structure ratio:

This ratio shows the composition between equity and other long-term sources of finance and the relationship between this ratio is also of two types;

- Leverage
- Interest turnover

e) Employee Ratio:

This ratio finds out the efficiency of manpower employed in the banks and is sub-divided into;

- Average remuneration per employee
- Net profit per employee
- Director's efficiency

f) Investment Ratio:

This ratio is used to find and analyze then judge the financial performance compared to the investment of ordinary shares. The investment ratio is generally comprises of following;

- Return on Equity
- Dividend yield to return
- Dividend coverage ratio
- Earning per ordinary share

- The price earning ratio

After calculating various ratios, these are compared with the standard norms and drew the conclusions. The comparison can be made into six types as suggested by Weston and Brigham namely; (i) liquidity ratio, (ii) leverage ratio, (iii) activity ratio, (iv) profitability ratio, (v) growth ratio and (vi) valuation ratio. The initial four types of ratios are valuation ratios which are popularly used to analyze the financial position. The growth ratio is used to measure the firm's ability to maintain its economic position and the valuation ratio is used to measure the performance, which reflects the risk ratios.

2.1.2 Review of Articles:

Dr. Manohar K. Shrestha (2047BS), in his work, "*Commercial Banks Comparative Performance Evaluation*", stresses on a proper risk management. He belives in the appropriate classification of loans under performing and non-performing category. In this context he writes, "Adequate provisioning is surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear-cut criterion is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income." Regarding the risk management of the bank Dr. Shrestha's other suggestion includes:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio relating to overdue loans.
- All credits including overdrafts should be given a maturity date and subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

The study focuses on the commercial banking system in Nepal in respect of their performance and profitability as well as various aspect of the economic environment of the bank. The major findings of the study are that, 'The deposit collection of local

bank is very poor as compared to foreign joint venture banks. Also, the foreign joint venture banks are in better position in comparison with public sector banks in making profit.' A number of articles and research works have been published and conducted about commercial banks and joint venture banks. Thus, some related articles from among them have been mentioned here;

Shrestha (2047), in his article, "*Commercial Banks Comparative Performance Evaluation*" has revealed the financial performance of the commercial banks of Nepal. He concluded that JVBs are new, operationally more efficient and having superior performance while comparing with local banks. Better performance of JVB is due to their sophisticated technology, modern banking method and skill. Their better performance is also due to burden the local banks are facing due to the government banking policy in rural areas and financing public enterprises. Local banks are efficient and have expertise in rural sector. But having a number of deficiencies, local banks have to face growing spectrum and that of issues and challenges of JVB commanding significant banking business on the other sepectrum. He has further said that the government liberalization policy also encourages the traditionally run domestic banks to enhance their efficiency and competitiveness through modernization, mechanization via computerization and prompt customer service by setting them to the exposure of JVBs.

Bajracharya, Ratna R. (2047), in his article, "*Rastriya Banijya Bank, A Comperative Performance Study*" conclude that deposit growth at commercial bank is not consistent indigenous bank and better in mobility, but the are not efficient in credit expansion as their credit deposit ratio is better. Non-performing loan is greater in designer banks are forced to open and continue their branches at the rural areas but JVBs are relucantly ready to pay fines for not doing so. (Bajracharya: 2047: 125-133)

An article by B N Rimal (2047BS) entitled, "*Policy issues and development in Nepalese Banking system*" concluded that the central bank should instead deive for an approach towards indirect monetary control rather than loan on quantitative individual bank selling. Indirect monetary bill quotations and operative gross profit of inter bank market and tragetting brand financial variables like net foreign assets or for that matter, net domestic assets should even out small irritants in the banking system.

Small irritants might be seen, but its implications have been broad and fairly wide, as we have been in the forms of reluctance on the part of commercial bank in accepting his bread and basket ie; deposits and in the development of additional dose of productive capital.

Another article by Shrestha (2047) entitled, "*Lending operation of commercial banks of Nepal and its impact on GDP*" Dr. Sunity Shrestha has found that all the dependent variables (ie; agriculture, industrial, commercial general and social sector) except service sector, she found correlation between GDP and lending of commercial banks in various sector of economy except theough service sector investment.

Chopra, Sunil (2046 BS) in his article, "Role *of foreign Banks in Nepal*", concluded that JVBs are already playing an increasing dynamic and vital role in the economic development of the country. This will undoubtedly increase with time *(Chopra: 2046: 1-2)*

M. K. Shrestha (2047 BS), in his article, reveals that performances of the banks are satisfactory, liquidity is sufficient to meet the depositiors claims, profitability is sufficient to meet the interest on deposits and rate of return on share capital is favorable.

However, the bank is explicitly depending more on borrowed funds and has a highly geared capital structure. The banks have to improve operational efficiency to achieve its higher profit and to maintain the market share under the intense competitive environment.

Bodhi, B. Bajracharya (2047 BS), in his article, "*Money and deposit mobilization in Nepal*", has concluded that mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal and commercial banks are the most active financial intermediary for generating resources in the form of deposits of private sectors and providing credit to the investors in different sectors of the economy.

Nepal is developing country, so financial infrastructures are not developed. After the restoration of democracy, the JVB has opened due to liberal policy of government. When they were started there, operations mostly JVBs had foreign banks share but

late few years, they were not interested to operate JVBs in Nepal for e.g; Nepal Ceylon Bank Ltd, Nepal Indo-Suez Bank Ltd. Who were involved in this bank. They took their share return, now they changed their name also, thus why such events occurred. Whether, financial performance is running good or not. The reason behind those is due to the financial activities such events were created.

In present JVBs are increasing trends like what is the financial status, whether they are doing better or nit, they are succeeding their mission or not; Customers are satisfied or not; etc. Also, to look at the financial aspects of JVBs whether they are doing better performance in their business. It also helps to view public attitude being real or not. If they were not providing good service to customers, why the image is being positive and so on. So, these topics created awareness in me and hence helped me to find out actual performance of JVBs in Nepal.

2.1.3 Review of Thesis:

Joshi, (2004), has made a study on, "*Financial Analysis of Nepalese Commercial Banks*". The main objectives of the study is to find the comparative financial strength and weakness of various commercial banks. The other specific objectives are;

- To trace out the credit position of the commercial banks
- To analyze the earning capacity of the banks
- To measure the investors' degree of satisfaction on the banks

His major findings are;

- The lending condition of the commercial banks is in decreasing trend. However, the outstanding loan is in increasing trend.
- Strong banks are holding good customers and discoursing low rated and less amounted loans. Instead of that they are initiated towards remittance, bank guarantee and other commission generating activities.

- Many banks are showing aggressive and are spontaneously increasing loan loss provision. Deposit in the bank is also decreasing while some banks are holding enough funds.

- The earning capacity of SCBNL and NABIL is comparatively higher than that of other banks. Also, the dividend payout ratio of these banks is higher than other banks.

Kasaju, Pallava (2006), has conducted a study on, "*A Comparative Study on Performance Analysis of Top Five Commercial Banks of Nepal*". The main objective of the study is to analyze and compare liquidity, profitability, stability and market value position among the top five commercial banks. The other specific objectives are;

- To trace out the trend and loan and advances
- To find out the relationship between deposits and loans and advances, and deposits and net profit
- To analyze the trend of profit and dividend distribution.

Her major findings are;

- EBL and NIBL have been getting lower net profit out of total income with comparison to all the other five banks.
- EBL comparatively fails to maintain operating ratio on total assets whereas, NIBL did best. HBL, EBL and NIBL have been suffering from ineffectively using the total fund. So, they are getting lower return than SCBNL and NABIL.
- All the top five commercial banks have been earning sufficient interest income on loan and advances. It means they have been utilizing the loan and advances properly.
- NABIL has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NABIL have been providing lower cash dividend in inconsistency manner. SCBNL has been providing dividend on share comparatively greater than other banks in a consistency manner.

- NABIL has also been providing better dividend in a consistency manner to some extent too. As a lower average, NIBL has not provided dividend on share capital. NABIL shows greater inconsistency too.

Mall, Sweta (2004), has conducted a study on "*Financial Performance of Commercial Banks with special reference to Himalayan Bank Ltd. And Nabil Bank Ltd.".* The objective of the research is to examine the financial performance of Nabil and Himalayan Bank Ltd. The specific objective are to examine the financial position of the banks under study, to evaluate the liquidity, efficiency of assets management, and profitability position of the banks under study and to provide suggestions and recommendations based on findings.

The major findings on her reports are as follows:
The overall liquidity strength of HBL is better than NABIL. Similarly, the market is sensitive towards interest rates and since NABIL is offering low interest rates on deposits than other banks, the failure in liquidity in NABIL is most likely than HBL.

The lending strength of HBL is also strong than NABIL. The ratio of loans and advances to total assets, investment to loans and advances and loans and advances to shareholders equity indicate the superior performance of HBL as compared to NABIL, despite low volume of non-interest bearing deposits in its capital mix.
Ms. Malla has recommended the following findings for betterment of the banks;

- The liquidity position of both the banks are well, so they must seek area of lending and investment to utilize the idle fund.
- HBL has highest ratio of interest expenses to deposit because of non-interest bearing deposit is relatively lesser and rate of interest is also high thereat. Hence, HBL is suggested to decrease the interest rate.
- The increasing provision on loan loss and high volume of non-performing assets in HBL affects the profitability of the bank and is likely to attract the attention of the market. The bank should seek advices from Assets Management Company to collect the non-performing debts and in future, they must not lend any loans without being sure that they can get the proper return from it.
- As examined by the interest income to interest expenses ratio, the interest gap in NABIL is highly unfavorable for national development. As the total loans and advances to total deposit is not even 1:1, the reason behind this is high interest charged and low interest offering. The bank has not followed the NRB Directives to maintain overall 5% gap in interest charged and interest offered.

Hence, the bank is recommended to lower the interest in lending to cover low level of lending and to maintain the gap.

Gupta, R. (2007), has conducted a study on "*A Comparative Analysis of Financial Performance of Everest Bank Ltd., Bank of Kathmandu and Standard Chartered Bank Ltd.*". The main objectives of the study are:

- To evaluate the Liquidity ratio, Activity ratio, Profitability ratio and other market related ratios of these sample banks.
- To analyze relationship between deposit and investment, deposit and loan and advances, net profit and outside assets of EBL, BOK and SCBNL.
- To find out the trend analysis of deposit, investment, loan and advances and net profit.
- To provide suggestions for the improvement based on findings.

The main findings and recommendations of the study are as follows:

- The researcher had used the descriptive and analytical research design in writing the research study. The researcher had also used F-Test in testing the hypothesis.
- The study concluded that among three sample banks, BOK maintained the highest liquidity position during the research period. The study further added that SCBNL had the excellent assets utilization that means it has achieved the goal of maximizing the shareholder's wealth. In the same way, SCBNL generated the highest net profit and paid the highest dividend per share to shareholders.
- The ratio of loan and advances to total assets of EBL, BOK and SCBNL are fluctuating. The EBL, BOK and SCBNL have positive correlation between deposit and loan and advances, total assets and net profit. Trend value of deposit, investment and profit of EBL, BOK and SCBNL is in increasing trend.

Bhattarai, (2010), has conducted a study on "*A Comparative Analysis of Financial Performance of NABIL, NIBL and SCBNL*". The main objectives of the study is to analyze and compare liquidity position and stability of the mentioned three commercial banks. The other objectives mentioned are:

- To evaluate the activity and operation of the mentioned banks with reference to mobilization of the collected funds.
- To evaluate the earning and profitability position of the mentioned banks.

The major findings of the study are as follows:

- Among all the mentioned banks, NIBL has the lowest ratio of net profit to total assets. NABIL has been successful in earning more net profit by the proper use of available assets.
- NABIL's solvency position is better than NIBL and SCBNL.
- SCBNL with the highest DPR refers that the bank provides maximum amount of dividend to its shareholders.
- NABIL has been paying highest amount of staff expenses as salary, allowance and gratujity funds to its staffs.
- NIBL has the highest price earning ratio.

Gnawali, (2011), has conducted a study on "*Financial Performance Analysis of NABIL, Himalayan Bank, Everest Bank and SCBNL*". The specific objectives of the study are as follows:

- To identify and analyze the common variables to measure the performance of the selected commercial banks.
- To assess the financial performance of the selected commercial banks.
- To analyze the investment returns of the selected commercial banks.
- To trace the stock price movement with special reference to the performance of the company.

His major findings are:

- From the analysis of current ratio, it is found that the mean ratio of EBL is higher than that of SCBNL, NABIL and HBL. It means EBL has maintained the higher liquidity and lower risk as compared to other banks.
- The mean ratio of cash and bank balance to current assets and also cash and bank balance to total deposit of NABIL is lower which means the bank is not properly able to utilize its current assets and total deposit.

- Mean ratios of loan and advance to total deposit and loan and advance to total working fund of EBL is higher than that of NABIL, SCBNL and HBL.
- The average EPS of SCBNL is the highest and that of HBL is the lowest. Likewise, SCBNL has the highest DPS and EBL bears the lowest DPS while that of NABIL and HBL are highly fluctuating.
- From the correlation coefficient of MPS with EPS, it can be evaluated that there exists high degree of positive correlation in NABIL, SCBNL, HBL and EBL. Such an increasing value of MPS and EPS is healthy indicator of the financial activities of the banks in the least developed countries like Nepal but the value of 'r' is less than six times P.E. (probable error) in case of HBL which states there is no significance in correlation coefficient. In case of NABIL, SCBNL and EBL the value of 'r' is six times P.E. showing significant correlation coefficient.

Maharjan, (2011) has conducted a study on "*A Study on Financial Performance of Standard Chartered Bank Nepal Limited*". The specific objectives of the study are as follows:

- To analyze liquidity, leverage, profitability and ownership ratios of the bank.
- To examine the income and expenditure statements of the bank.
- To identify the deposit and loan and advances.
- To provide suggestions and recommendations based on the findings of the study.

Her major findings are:

- SCBNL has the highest current ratio of 1.08 in 2008/09 and lowest current ratio of 1.07 in the fiscal year 2005/06 with an average current ratio of 1.05 during the study period of five years from 2005/06 to 2009/10. The current ratio analysis of the bank over five years period indicates the bank is able to meet its short-term obligations.
- The cash and bank balance to current assets ratio of SCBNL varies from maximum ie; 7.76% in the fiscal year 2008/09 and minimum ie; 4.97% in the fiscal year 2006/07 with an average of 6.22% during the study period of five

years. The analysis indicates that the cash and bank balance proportion with respect to current assets is in erratic trend.

- The loan and advances to current assets ratio of SCBNL varies from maximum of 41.30% in the fiscal year 2007/08 and minimum of 33.82% in the fiscal year 2009/10 with an average of 38.68% during the study period of five years. The analysis indicates that the loan and advances disbursement respect to the current assets is fluctuating.
- Fixed deposit is high interest bearing deposit and can be withdrawn only after its maturity. The total deposit ratio of SCBNL varies from maximum of 19.80% in the fiscal year 2009/10 to minimum of 7.33% in the fiscal year 2006/07 with an average of 13.09% during the study period of five years. The analysis indicates that the share of fixed deposit is low in the total deposit. The low share of fixed deposit in the total deposit shows decreasing trend.
- The interest earned to total assets of SCBNL varies from maximum of 5.94% in the fiscal year 2006/07 to minimum of 3.62% in the fiscal year 2005/06 with an average of 4.76% during the study period of five years. The analysis indicates that the bank has the high debt equity ratio, which indicates the creditors have invested more in the bank than the owners.
- Net profit to total deposit ratio indicates the percentage of profit earned by using the total deposit. The net profit to total deposit of the bank varies from maximum of 3.09% in the fiscal year 2009/10 to minimum of 1.07% in the fiscal year 2007/08 with an average of 2.81% during the study period of five years.
- Correlation coefficient is one of the statistical tools to find out the relationship between two variables. The correlation coefficient between total deposit and loan and advances is 0.9804. It means, there is high degree of positive relation between deposit and loan and advance. By application of the coefficient of determination, it can be indicated that 96.00% of the variation in the loan and advances has been explained by the deposit. Moreover, by considering the probable errors, the value of 'r' being 0.9804 is greater than P.E. being 0.060, so it can be said that there is significant relationship between deposit and loan and advances.

Khanal, (2012), has conducted a study on "*A Comparative Study on Financial performance Analysis of Commercial Banks*". The specific objectives of his study are as follows:

- To analysis the financial performance of the sample banks in terms of liquidity, profitability, growth, leverage and capital adequacy.
- To explore the relationship of the financial performance of the commercial banks.
- To examine the trend of financial performance of the selected banks.
- To provide suggestions and possible guidelines to improve the performance based on the findings of the study.

His major findings are:

- The banks liquidity position (except current ratio and quick ratio which lies under the standard of 2:1 and 1:1 respectively) is good and in comparison NIBL has better liquidity position. But, NABIL has to improve the liquidity position as compared to NIBL and HBL.
- The mean ratio of total investment to total deposit of HBL is higher than NABIL and NIBL. The variability of ratios of NABIL is lower than HBL and NIBL because NABIL has lower CV than that of other two sampled banks.
- NABIL has the greater mean ratio of return on total assets that indicates the profitability of NABIL is better than that of other banks. However, the higher coefficient of variation of HBL reveals that the net profit of HBL is not consistent that might be a problem for bank.
- From the analysis of mean and CV of different Assests Quality Ratios, it can be concluded that the loan and advances granted by HBL is riskier. Similarly, Loan Loss Coverage ratio and Loan Loss provision to Total Deposit ratio are more consistent in NIBL than that of HBL and NABIL.
- The interest coverage ratio of NABIL, HBL and NIBL are 3.03, 2.01 and 1.97 respectively. The income of HBL is even less than the interest paid to its depositors hence, it has obtained the ratio less than unit. On this point, NABIL has generated a better level of earnings than NIBL and HBL.
- The average EPS and DPS of NABIL is higher than that of other sampled banks

- In correlation analysis, Karl Pearson's coefficient of correlation is used and also calculated the probable error of them. Total deposit and loan and advances, total deposit and net profit, loan and advance to net profit, performing assets and net profit, total deposit and performing assets, all are positively correlated at significant level in NABIL, NIBL and HBL.

Kandel, Shyam (2012), has conducted the study on "*A Comparative Financial Analysis of NABIL and NIBL*". The major objectives of the study are:

- To present the existing financial position of the sampled banks.
- To examine the relative financial performance of sampled banks in terms of different types of ratios.
- To find out the relationship and trend of deposit, investment, loans and advances and net profit.
- To provide suggestions and possible guideline according to the findings of the study.

His major findings are;

- The overall analysis of liquidity position;
- The current ratio of NABIL and NIBL are in decreasing trend. In average NABIL bears 1.04times of current ratio and NIBL bears 1.07 times of ratio. Comparing both banks it can be seen that the liquidity position of NIBL was better than NABIL, however, none of the banks have met the benchmark 2:1 and thus might have faced the problem while paying the debt.
- NABIL has the policy of keeping lowest cash reserve, whereas NIBL has the policy of keeping highest cash reserve to meet the daily obligations. Hence, NIBL has good liquidity position other than NABIL.
- NABIL is more efficient in utilizing the fixed deposit than NIBL in comparison to loan and advances to total fixed deposit ratio.
- The investment to total deposit ratio of both the banks seem fluctuating during the study period. NABIL having 31.50% of ratio seems more efficient in utilizing the investment to total deposit than NIBL with 21.21% ratio.
- The overall analysis of profitability;

- NABIL is more efficient in utilizing the assets effectively to generate the highest profit than NIBL as the ROA of NABIL is 2.56% and that of NIBL is 1.82%.
- NABIL remained more successful in efficiently generating net profit from the net worth of the bank because it has more uniformity in the ratio than that of NIBL.
- The EPS and DPS of both banks seem fluctuating while NABIL bears high EPS and DPS than NIBL. It can be considered that the shareholders of NABIL were more satisfied than those of NIBL as NABIL's shareholders got more percentage of EPS in the form of dividend.

2.2 Research Gap:

Though there are several researches performed under the topic "Financial Performance of the Joint Venture banks in Nepal" the analysis should express in the form of practical comparative analysis. The previous researchers have covered the liquidity position, assets management, Profitability, funds mobilization; as the main objectives. Some of the researchers have also explained loan loss provision and growth ratio of loan and advances and total investment.

This study covers top three joint venture banks from the sources of NEPSE, has tried to indicate the financial analysis of the banks using the tools like trend analysis and correlation coefficient. The study period is of seven years which no other researchers have ever taken yet. Finally, it includes various findings of research and recommendations. This study has covered the past fiscal year i.e; 2005/06 to 2011/12. Since, the financial reports of subsequent period were not prepared at the time of this study, data up to seven years have been taken into consideration in this study.

CHAPTER – III
RESEARCH METHODOLOGY

3.1 Introduction an overview:

The research methodology is the process of arriving to the solution of the problem through plans and systematic dealing, with the collection, analysis and interpretation of facts and figures. 'Research' is a systematic method of finding out solution to a problem whereas 'Research Methodology' refers to the various sequential steps to adopt the research by a researcher in studying a problem with certain objectives in view *(Kothari:1989:19).* To find out such solution of the problems, various statistical and financial tools and techniques are applied according to the nature of phenomena. In order to accomplish the objectives of this study, the financial statements of last seven years from the fiscal year 2005/06 to 2011/12 have been processed and analyzed comparatively. This study is exploratory as well as analytical one.

3.2 Research Design:

The task will be fulfilled by the collection of secondary data and various published information regarding this context, especially annual reports published so far will be used for the study. In this study, analytical type of research design will be followed. Analytical research design will be used for clearing the situation as the basis of presented data and facts.

The data is carefully studied and analyzed systematically under specific major reading to meet the objective of the study. On the other hand, the objective of the study is to accumulate the data to explore and tabulate it systematically.

3.3 Data Gathering Procedure

Secondary data are directly obtained from various source mentioned above specially to obtain the data from annual reports of the related banks. The researcher has to visit the firm frequently and get the information from the record or gather the data from the annual reports of the banks.

For the primary data with a view to collecting the additional required information (formal and informal) questionnaire has been applied. All the gathered data have been used according to the needs and requirements of this study. Graphical figures will be used to indicate the financial performance of SCBNL, NABIL and NIBL.

3.4 Source of Data:

This study is based on the both primary and secondary data. The various required data for the study has been collected from financial reports of the concerned banks and other publications of Ministry of Finance as well as the questionnaire distributed.

3.5 Period Covered:

The period covered by the study is seven years from the fiscal year 2005/06 to 2011/12. Data are taken from related banks and the analysis is made on the basis of these subsequent seven year's data.

The main motive behind taking seven year's data is to try out finding the financial performance of JVBs. Generally, seven years period is likely to cover the general understanding of working and servicing standard of the JVBs. We even can forecast more of the things by viewing seven years working and servicing i.e; performance activities of the banks, as such a period is usually a long time duration. So, seven years of data is very appropriate to analyze the financial performance of JVBs.

3.6 Population and Sample:

Population covers the whole or total of observations that have been selected for the study. Sample is the part of population which represents the population with regards of the study. Currently, there are thirty two commercial banks functioning all over the country and most of their stocks are actively traded in stock market and eight joint venture banks are operating in Nepal. In this study, three joint venture banks SCNBL, NABIL and NIBL have been taken for research work.

3.7 Method of Analysis:

This study basically uses the secondary data, which were firstly collected and tabulated into a separated subject. The financial ratios are also widely used for the

analysis and interpretation of the performance of the selected sample statistical analysis, such as average and percentage. Also, where necessary, these are presents and analyzed in the descriptive way. The graph and charts are also presented visually to interpret the findings of the study.

3.8 Tools and Techniques of Data Analysis:

The data collected and processed have been analyzed through financial and statistical tools and techniques using different ratios such as: simple average, standard deviation of correlation and problem error; etc.

3.8.1 Financial Tools

Financial tools are basically used to find out the strength and weakness of the banks. Among the different financial tools we have an extensively use of the following ratio analysis, into which the following ratios are used:

I. Liquidity Ratio:

Liquidity ratio refers to the ability of the business firm to pay its short-term obligations as and when they fall due for payment. It reflects the short-term financial solvency of a firm as a whole or it is employed as a measurement of a company's liquidity position. The firm should remain an appropriate liquidity neither excess nor less to meet its short-term obligations when they become due. Inadequate liquidity can lead to unexpected cash short falls. A very high degree of liquidity is also not good as ideal assets earn nothing, leading to fewer assets yield and contributing to poor earning performance. Important liquidity ratios that have been used in the study are listed;

a) Current Ratio:

The current ratio is the ratio of total current assets to total current liabilities. Current ratio measures the short-term solvency ie; its ability to meet short-term obligations or as a measure of creditors versus current assets. The current ratio is calculated by dividing current assets by current liabilities.

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

b) Cash and Bank Balance to Total Deposit Ratio:

Cash and Bank Balance to Total Deposit Ratio measures the capacity of the bank to meet unexpected demand made by depositors ie; current account holders, depositors, call and other depositors. This ratio is computed by using the following formula;

Cash and Bank Balance to Total Deposit Ratio = $\frac{Total\ Cash\ and\ Bank\ Baslance}{Total\ Deposit}$

c) Cash and Bank Balance to Total Deposit Ratio (excluding Fixed Deposit):

This ratio measures the availability of a bank's highly liquid funds to meet its unanticipated calls on current, saving and call deposits. Central bank (NRB) has directed all the banks to maintain the adequate cash and bank balance to total deposit ratio by the provisioning of 2 percent of total deposit. This ratio is calculated by the following formula;

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

II. Activity Ratio:

Activity Ratios are the indicators of a concern with regard to its efficiency in assets management. It is successful in mobilizing total deposits on the investments. In this section, some of the activity ratios are calculated to assess banks efficiency in utilizing available resources. Activity position of SCBNL, NABIL and NIBL is analyzed more deeply using the following relevant activity ratios;

a) Total Loan and Advances to Total Deposit Ratio:

This ratio measures the extent to which the banks are successful in mobilizing the depositor's funds for the purpose of profit generation. Loans and Advances refer to total sum of loans, advances, credit, overdraft, local and foreign bills purchased and discounted. Total deposits include total outsider's fund or all kinds of deposits.

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

b) Total Loan and Advances to Total Fixed Deposits Ratio:

This ratio indicates how much of loan and advances is generated against fixed deposit. It also figures how properly the fixed deposit is being utilized which has fixed time

period to maturity. Here a high ratio indicates greater flow of loans and advances and is formulated as follows:

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

c) Total Loans and Advances to Total Saving Deposit Ratio:

Total loan and advances to saving deposit ratio indicates about what proportion of total saving deposit is employed in loans and advances. Loans and advances to saving deposit ratio measures what proportion of saving deposit is utilized to invest in loans and advances. High ratio indicates saving deposits being mobilized effectively. It is calculated with the following formula;

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

d) Total Investment to Total Deposit Ratio:

This ratio measures the extent to which the banks are successful in mobilizing total deposit on investment i.e; this ratio is affected by the concerned financial policy which is based on implementation aspect of deposit and investment. This ratio is calculated by using the following formula;

Total Investment to Total Deposit Ratio = $\frac{Total\ Investment}{Total\ Deposit}$

Capital Structure/Leverage Ratio:

An institution should have short-term liquidity as well as long-term solvency. Since the liquidity relates to the short-term solvency alone, capital structure term solvency indicates the bank's ability to meet its short-term as well as long-term obligations. It measures the extent of the bank's total debt servicing capacity ie; debt burden. The capital structure ratio of the JVBs can be measured using the following ratios:

a)Total Debt to Total Assets Ratio

The ratio of total debt assets to total assets ratio signifies the extent of debt financing on the total assets and measure the security to the outsiders. This ratio is calculated by dividing total debt by total assets.

Total Debt to Total Assets Ratio = $\frac{Total\ Debt}{Total\ Assets}$

b) Total Debt to Total Equity Ratio:

The debt to equity ratio indicates the relative contribution of debt capital and equity capital fund of the total investment. A high ratio shows the larger share of financing by the creditors as compared to that of owners. Creditors preferring low debt equity ratio is calculated by using the following formula;

Total Debt to Total Equity Ratio = $\frac{Total\ Debt}{Total\ Sharehjolders\ Equity}$

c) Interest Coverage Ratio:

The interest coverage ratio is one of the most conventional coverage ratios, which measures the debt servicing capacity of an institution. The larger the coverage ratio, the greater will be the ability of the firm to make the payment of interest to the creditors.

Interest Coverage Ratio = $\frac{Total\ EBIT}{Total\ InterestExpenses}$

III. Profitability ratio:

Profit is the ultimate output of a company and its existence is not justified if it fails to make sufficient profit. Therefore, the company should continuously evaluate the efficiency of the company in terms of profit. The profitability ratio is calculated to measure the operating efficiency of the company. Generally, two major types of profitability ratios are calculated;

- Profitability in relation to sales
- Profitability in relation to investment

a)Return on Total Assets Ratio (ROA):

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards assets mobilization. In other words, ROA is an overall profitability rate, which measures earning power and overall operation efficiency of the firm. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm.

Return on Total Assets = $\frac{NPAT}{Total\ Assets}$

b) Return on Shareholders Equity Ratio (ROSE):

Return on net worth reflects how well the firm has used the resource of the owner. The earning of satisfactory return is the most desirable objective of business as common or ordinary shareholders are entitled to the residual profits. It is calculated by dividing profit after tax by net worth.

Return on Equity = $\frac{NPAT}{Total\ Sharholders\ Equity}$

c)Return on Total Deposit Ratio:

Return on total deposit ratio measures how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits. An explanation of the ability of management is efficient utilization of the deposits. The ratio is calculated as;

Return on Total Deposit = $\frac{NPAT}{Total\ Deposit}$

d) Interest Earned to Total Assets Ratio:

Interest earned to total assets ratio shows how much interest has been generated by mobilizing the assets in the bank. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa. The following formula is used to calculate this ratio;

Interest Earned to Total Assets = $\frac{Total\ Interest\ Earned}{Total\ Assets}$

Inevitability Ratio:

Investors contempt to invest potentiality of the bank before taking final decision. Analysis of inevitability ratio helps the investors to know the invisibility of the bank. Under this topic the following ratios are calculated;

a)Earning Per Share (EPS):

Earning per share itself implied generated income which reduces even tax, must be allocated to its real owners. It is calculated by using the following formula;

Earning Per Share = $\frac{Total\ NPAT}{Total\ no.of\ common\ share\ outstanding}$

b)Dividend Per Share (DPS):

The net profit after taxes belong to the shareholders. But the income, which they really receive, is the amount of earnings distributed as dividends. Therefore, a large number of present and potential investors may be interested in dividend per share, rather than earning per share. DPS is the earning distributed to ordinary shareholders divided by the number of ordinary share outstanding.

Dividend Per Share = $\frac{Dividend\ Paid}{No.of\ common\ shares}$

c)Dividend Payout Ratio (DPS):

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earning per share i.e; this ratio reflects at what percentage of net profit is to be distributed in terms of dividend and what percentage is to be retained in company as retained earning. This ratio is calculated by dividing the dividend per share by earning per share.

Dividend Payout Ratio = $\frac{Dividend\ Per\ Share}{Earning\ Per\ Share}$

IV. Other Ratios:

In addition to the above ratios, there are other widely used ratios related to the financial aspects of the company, some of which have been discussed here in this section to supplement the analysis;

a)Total Interest Expenses to Total Interest Income Ratio (TIE to TIR):

This ratio measures the percentage of total interest expenses against total interest income. This ratio is calculated by dividing total interest expenses by total interest income.

TIE to TIR = $\frac{Total\ Interest\ Expenses}{Total\ Interest\ Income}$

b)Commission and Discount to Total Income Ratio:

This ratio reflects the proportion of commission and discount earned to total income. Thus, it is calculated by dividing income from commission and discount by the total income of the bank.

Commission and Discount to Total Income = $\frac{Total\ Commission\ and\ Discount}{Total\ Interest\ Income}$

c)Total Staff Expenses to Total Income Ratio (TSE to TIR):

This ratio measures the percentage of staff expenses against total income of the bank. It can be calculated using the following formula;

Total staff Expenses to Total Income Ratio = $\frac{Total\ Staff\ Expenses}{Total\ Income}$

d)Total Exchange Gain to Total Income Ratio:

This ratio reflects the proportion of exchange fluctuation income to total income. Thus, it is calculated by dividing net exchange gain by total income.

Total Exchange Gain to Total Income Ratio = $\frac{Total\ Exchange\ Gain/Income}{Total\ Income}$

3.8.2 Statistical Tools

The following simple statistical tools are selected for the comparative financial study of SCNBL, NABIL and NIBL:

I. Arithmetic Mean ($\bar{X}$)

Arithmetic Mean of a given set of observations is their sum divided by the number of observations. In general $x_1 + x_2 + \ldots\ldots + x_n$ are the given observations, then arithmetic mean usually denoted by **X** is formulated as;

$$\bar{X} = \frac{x_1 + x_2 + x_3 + \cdots\ldots\ldots\ldots\ldots x_n}{n}$$

or,

$$\bar{X} = \frac{\sum x}{n}$$

Where,

Σx = Sum of all values of the observations

n = Number of observations

x = value of variables

II. Standard Deviation (S.D.)

Standard Deviation usually denoted by the letter **σ** (small sigma) of the Greek letter, it is defined as the positive square root of the arithmetic mean of the squares of the deviation of the given observation for their arithmetic mean.

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

III. Coefficient of Variation (C.V.)

The Coefficient of Variation is the relative measure of dispersion. Comparable across distribution, it is defined as the ratio of the standard deviation to the mean. It is formulated as;

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

Or,

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

Where,

σ = Standard Deviation

$\bar{X}$ = Mean value of variables

The distribution having less C.V. is said to be less variable or more consistent.

The distribution having more C.V. is said to be more variable or less consistent.

IV. Karl Pearson's Coefficient of Correlation (r)

Karl Pearson's Coefficient of Correlation is most widely used in practice. It is denoted by '**r**' and measures the relationship between two variables. In the present context, the coefficient of correlation is calculated in order to examine the relationship between debt and return of the banks. It is formulated as;

$$\text{Correlation coefficient}(r) = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

N = number of pairs of X and Y observed

X = values of investment, Loan and Advance

Y = values of Total Deposit

r = coefficient of correlation

Interpretation of Correlation Coefficient:

- The coefficient of correlation as obtained by the above formula shall always lie between ±1.
- When r is +1, there is perfect positive correlation between the variables.
- When r is -1, there is perfect negative correlation between the variables.
- When r is between 0.7 to 0.999, there is moderate degree of correlation between the variable.
- When r is less than 0.5, there is low degree of correlation between the variable.
- When r is 0, there is no correlation between the variable.

V. Coefficient of determination:

The coefficient of determination is the measure of the degree of linear association or correlation between two or more independent variables. It measures the percentage of total variation in dependent variables explained by independent variables. If r^2 has zero value then, it indicates that there is no correlation which means all the data points in scatter diagram fall exactly on the regression line. If it has the value equal to one then it indicates that there is perfect correlation and as such the regression line is the perfect estimator. But in most of the causes the value of r^2 will lie somewhere between these two extremes of 1 and 0. One should remember that r^2 close to one indicates a strong correlation between two variables and r^2 near to zero means is little correlation.

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

Or,

$$r^2 = 1 - \frac{Unexplained\ variation}{Total\ variation}$$

VI. Probable Error (P.E.)

After computing the value of the correlation coefficient, the next step is to find the extent to which it is dependable. Probable Error of correlation coefficient, usually denoted by P.E. (r), is an old measure of testing the reliability of an observed value of correlation coefficient.

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

P.E. is used in interpretation whether the calculated value of r is significant or not

- If r<PE, it is insignificant or there is no evidence of correlation.
- If r>6PE, it is significant.
- If PE<r<6PE, nothing can be concluded.

3.8.3 Trend Analysis

The arrangement of statistical data chronologically (according to occurance of time) is known as time series and the statistical analysis of this chronological variation is termed as 'Trend Analysis". It helps to know the past behavior of data in certain span of time interval. On the basis of these past trends, one can make plan in forthcoming days. This Least square method is the most popular and widelyused mathematical method of measuring trend. This is frequently used for the future prediction. There are various types of curves that may be used to describe the given data but in this text, an attempt has been made to discuss only the fitting of linear trend by the least square method.

Let, the equation of Trend Analysis be;

$Y = a + bx$

Where,

Y = the given value of the variable in time series (it is a dependent variable).

a = intercept of trend line or y-intercept

b = slope of trend line

x = time variable

3.8.4 Diagrammatic Representation

Diagrams and graphs are visual aids that give bird's eye view of a given set of numerical data. They represent the data in simple, comprehensive and readily understandable form. Multiple bar diagram or line diagram is used for presenting a comprehensive picture of the banks selected for the research study. Line graph is used to represent the trend of financial indicator variables of private and government banks.

CHAPTER – IV
PRESENTATION AND ANALYSIS OF DATA

In the present chapters, 'comparative analysis of related JVBs' have been done by using research methodology. Now, to solve the in depth purpose of my study, presentation analysis and interpretation of data will be performed by employing various tools and techniques relevant ratios such as; liquidity ratios, capital structure ratios, activity ratios, profitability ratios and other ratios and tabulations with demonstrated charts and graph which have been analyzed as follows;

4.1 Liquidity Ratios:

Satisfactory liquidity position is one of the distinguishing characteristics of a sound banking system. As a critical factor of evaluation, 'liquidity' is the ability of bank to satisfy the credit needs of the community, to meet demands for deposit and deposit's substitutes, to oblige maturing obligation on time without loss to the bank, and without unfavorable input on longer projections on profitability.

Liquidity position of SCBNL, NABIL and NIBL is analyzed more deeply using the following relevant liquidity ratios;

- Current Ratio
- Cash and Bank Balance to Current Ratio
- Cash and Bank Balance to Total Deposit

4.1.1 Current Ratio

Current ratio indicates the degree of short-term solvency and the strength of a firm. A high current ratio indicates efficiency to meet short-term obligation and excessive in investment in current assets and vice-versa. Current assets normally includes cash in hand or bank and those assets which can be converted into cash within a year such as account receivable, bills purchased and discounted, investment in government securities, money at short call, loans and advances, overdraft; etc. Current liabilities includes borrowing from bank, deposit, provision, accured expenses, bills for collection (being payable), other liabilities; etc. It is computed as dividing current assets by current liabilities.

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

The current ratio is the most commonly employed ratio for carrying out short-term solvency. Since, it shows the limit to which assets that are expected to be converted into cash within a year cover the claims of short-term creditors. A high current ratio indicates excessive investment in current assets leading to underutilization of firm's resources and hence low profitability. On the other hand, a low current ratio indicates that the firm may not be able to meet its short-term obligations, hence the low margin of safety that may lead to loss of goodwill. Thus, current ratio 2:1 is assumed to be an appropriate ratio. In the following table we have presented in data relating to the current ratio of related three JVBs.

Table : 4.1
Current Ratio

(Rs. 000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Current Assets	Current Liabilities	Ratio (in Times)	Current Assets	Current Liabilities	Ratio (in Times)	Current Assets	Current Liabilities	Ratio (in Times)
2005/06	24,389,809	24,013,213	**1.02**	21,380,646	19,872,681	**1.08**	29,052,109	19,914,698	**1.46**
2006/07	26,735,399	26,480,336	**1.01**	25,566,673	24,603,411	**1.04**	24,872,547	25,712,722	**1.35**
2007/08	31,168,273	30,843,241	**1.01**	33,863,579	33,740,988	**1.00**	34,680,926	36,186,220	**0.96**
2008/09	36,792,114	37,014,101	**0.99**	39,833,896	39,532,461	**1.01**	44,617,997	49,102,963	**0.91**
2009/10	38,165,473	36,843,610	**1.04**	49,898,148	47,060,415	**1.06**	49,353,276	50,992,407	**0.97**
2010/11	40,728,652	40,132,743	**1.01**	54,699,812	52,127,418	**1.05**	49,108,010	51,536,543	**0.95**
2011/12	35,221,186	37,554,883	**0.88**	58,068,832	56,424,355	**1.03**	52,896,042	58,502,667	**0.90**
Mean ($\bar{X}$)			**0.99**			**1.04**			**1.07**
Standard Deviation (S.D.)			**0.05**			**0.03**			**0.21**
Coefficient of Variation (C.V.)			**4.53**			**2.89**			**19.60**

Source: Annual Reports of SCBNL, NABIL and NIBL

The table 4.1 shows the current ratios of sampled JVBs, viz, SCBNL, NABIL and NIBL. The table shows that the current ratios of sampled banks in none of the years taken for research have met the benchmark 2:1.

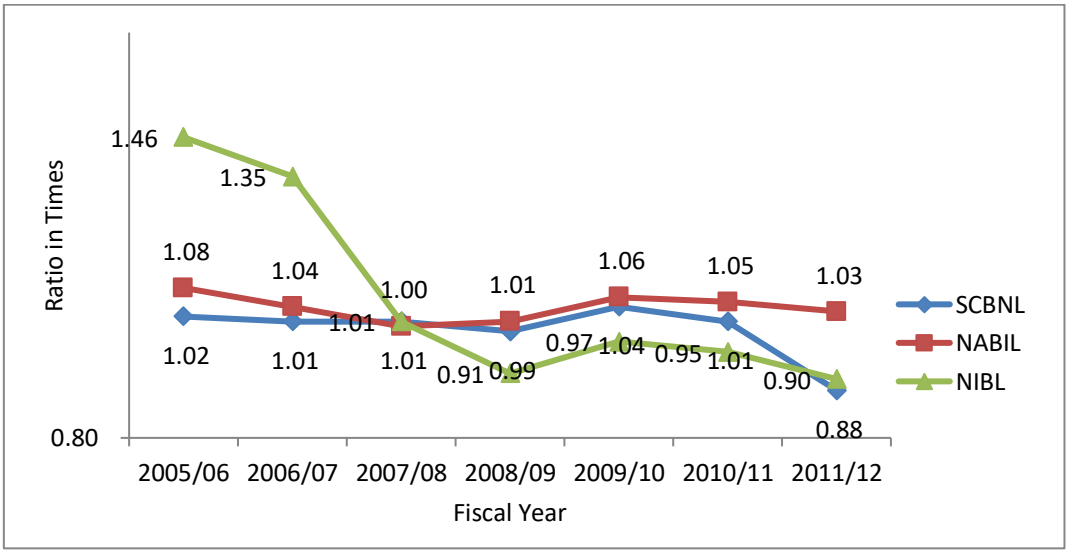
The current ratio of SCBNL ranged from 1.02:1 in the fiscal year 2005/06 to 0.88:1 in the fiscal year 2011/12. In average, the ratio was 0.99 times and the standard deviation and coefficient of variation were 0.05 times and 4.53 times respectively.

Similarly, the current ratio of NABIL ranged from 1.08:1 in the fiscal year 2005/06 to 1.00:1 in the fiscal year 2007/08 to 1.03 in the fiscal year 2011/12. In average, the ratio was 1.04 times and the standard deviation and coefficient of variation were 0.03 times and 2.89 times respectively.

Likewise, the current ratio of NIBL ranged from 1.46:1 in the fiscal year 2005/06. It maintained 1.35:1 and 0.96:1in the fiscal year 2006/07 and 2007/2008. In average, the ratio was 1.07 times and the standard deviation and coefficient of variation were 0.21 times and 19.60 times respectively.

Figure: 4.1

Current Ratio



Comparing three sampled banks on the basis of current ratio, it can be concluded that the liquidity position of NIBL was more better than that of SCBNL and NABIL, as the current ratio of NIBL was highest (1.07:1) than SCBNL (0.99:1) and NABIL (1.04:1). However, none of the banks have met the benchmark 2:1 and thus, all the banks might have faced problem while paying the debt.

4.1.2 Cash and Bank Balance to Current Ratio

Cash and Bank Balance to Current deposit ratio measures the banks' ability in paying that to current depositors as well as other depositors. Current depositors must be paid whenever they demand their deposits. If it is not paid on their demand, it will have

the advance negative impact on the bank's reputation. For keeping their professional reputation and duty, the institutions are expected to maintain the ratio.

Adequate liquidity is also must in banking sector in order to protect its solvency and to honor its short-term obligations and liabilities. Failing to do so, banks might have gone for liquidation and hence to protect the creditor's interest, Central Bank (NRB) has directed all the banks to maintain the adequate cash and bank ratio by the provisioning of 2 percent of total deposits. It is calculated by the following formula;

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

Table : 4.2

Cash and Bank Balance to Current Deposit Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Cash & Bank	Current Deposit	Ratio (in %)	Cash & Bank	Current Deposit	Ratio (in %)	Cash & Bank	Current Deposit	Ratio (in %)
2005/2006	1,276,241	4,681,937	**27.26**	630,239	2,910,590	**21.65**	2,336,521	1,705,668	**136.99**
2006/07	2,021,027	4,794,534	**42.15**	1,399,825	3,395,245	**41.23**	2,441,514	2,175,030	**112.25**
2007/08	2,050,243	6,174,561	**33.20**	2,671,141	5,284,368	**50.55**	3,754,942	3,138,669	**119.63**
2008/09	3,137,164	5,752,097	**54.54**	3,372,512	5,480,533	**61.54**	7,918,003	3,756,570	**210.78**
2009/10	1,929,306	9,763,155	**19.76**	1,400,097	7,904,620	**17.71**	6,815,890	4,025,820	**169.30**
2010/11	2,975,796	11,545,604	**25.77**	2,458,549	5,456,895	**45.05**	8,140,371	4,042,693	**201.36**
2011/12	6,365,233	11,317,217	**56.24**	2,436,549	6,572,215	**37.07**	11,803,751	6,611,306	**178.54**
Mean ($\bar{X}$)			**36.99**			**39.26**			**161.26**
Standard Deviation (S.D.)			**13.29**			**14.35**			**36.15**
Coefficient of Variation (C.V.)			**35.93%**			**36.55%**			**22.42%**

Source: Annual Reports of SCBNL, NABIL and NIBL

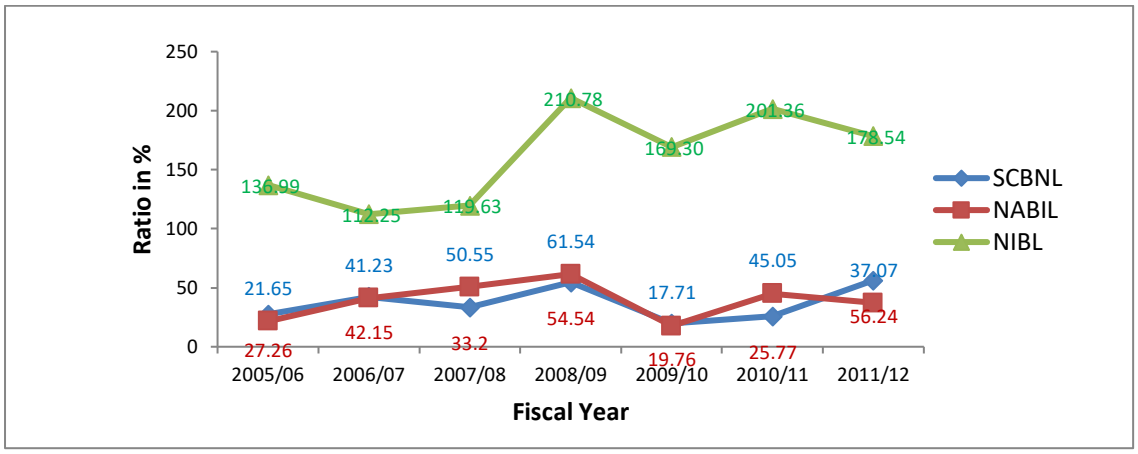
Table 4.2 shows cash and bank balance to current deposits of the three sampled JVBs, viz, SCBNL, NABIL and NIBL. Generally, this ratio shows the ability of cash payment when depositors demand the fund. It indicates, what is the status in the last seven years in regards of cash and bank balance to current deposit. The cash and bank balance to current deposit ratios follows the increasing and decreasing pattern throughout the year.

In the fiscal year 2011/12, SCBNL has its highest ratio of 56.24% which slightly meets the CRR provisioning of 2 percent of total mean deposit ratio. Similarly, NIBL has maintained the standard above 100% in every years and has also maintained average 161.26% (ie; above 100%) as current deposit ratio in the seven years period. Likewise, NABIL is fluctuating every year with 39.26% as the current deposit ratio to cash and bank balance.

Comparing three sampled banks on the basis of cash balance to current deposit, it can be concluded that the liquidity position of NIBL was more better than that of SCBNL and NABIL, as the average current deposit ratio of NIBL was highest 161.26% than NABIL which is 39.26% and SCBNL which is 36.99%. However, depriving themselves from profitable opportunities whenever invested, SCNBL and NABIL should maintain sound ratio as this may create the problem of payment when current depositors demand their lumpsum amount.

Figure: 4.2

Cash and Bank Balance to Current Deposit



4.1.3 Cash and Bank Balance to Total Deposit Ratio (Excluding Fixed Deposit)

This ratio measures the availability of a bank's highly liquid funds to meet its unanticipated calls on current, saving, calls, deposits and other deposits. A high ratio represents the greater ability to cover their deposits (excluding fixed) and vice-versa. A higher ratio is advantageous as it provides caution for fixed deposits. However, too high ratio is not advantageous as capital is tied up in the unproductive assets. Adequate liquidity is also must in banking sector in order to protect its solvency and

to honor its short-term obligations and liabilities. Failing to do so, banks might have gone for liquidation and hence to protect the creditor's interest, Central Bank (NRB) has directed all the banks to maintain the adequate cash and bank balance to total deposit ratio by the provisioning of 2 percent of total deposits. This ratio is calculated as;

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

Table : 4.3

Cash and Bank to Total Deposit Ratio (excluding Fixed Deposit)

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Cash & Bank	Total Deposits	Ratio (in %)	Cash & Bank	Total Deposits	Ratio (in %)	Cash & Bank	Total Deposits	Ratio (in %)
2005/2006	**1,276,241**	23,061,032	**5.53**	**630,239**	15,898,310	**3.96**	**2,336,521**	13,514,336	**17.29**
2006/07	2,021,027	24,647,021	**8.20**	1,399,825	17,907,100	**7.82**	2,441,514	16,972,169	**14.39**
2007/08	2,050,243	29,743,999	**6.89**	2,671,141	23,450,961	**11.39**	3,754,942	26,507,493	**14.17**
2008/09	3,137,164	32,871,721	**9.54**	3,372,512	29,037,548	**11.61**	7,918,003	35,064,720	**22.58**
2009/10	1,929,306	35,188,721	**5.48**	1,400,097	31,699,543	**4.42**	6,815,890	33,269,577	**20.49**
2010/11	2,975,796	37,999,242	**7.83**	2,458,549	32,855,282	**7.48**	8,140,371	31,759,822	**25.63**
2011/12	6,365,233	31,304,370	**20.33**	2,436,549	40,978,807	**5.95**	11,803,751	36,953,127	**31.94**
Mean ($\bar{X}$)			9.11			7.52			20.93
Standard Deviation (S.D.)			4.77			2.84			5.95
Coefficient of Variation (C.V.)			52.34			37.77			28.43

Source: Annual Reports of SCBNL, NABIL and NIBL

The table 4.3 showed the cash and bank balance to total deposit ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL fluctuated during the seven years period. The ratio was 5.53% in the fiscal year 2005/06 which increased to 8.20% in the fiscal year 2006/07, then decreased to 6.89% in the fiscal year 2007/08 and the trend continues. In average, the cash and bank balance occupied 9.11% of the total deposit collected by the bank.

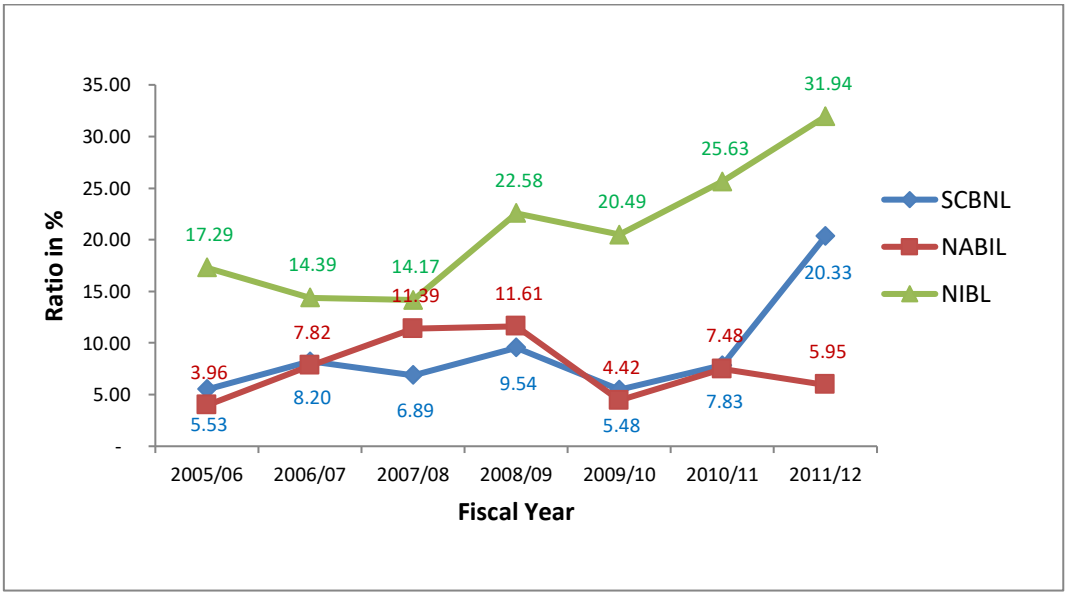
Similarly, 3.96%, 7.82%, 11.39%,11.61%, 4.42%, 7.48% and 5.95% of the total collection of NABIL remained immobilized as cash reserve in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, NABIL kept 7.52% of the total deposit as cash reserve to meet the daily obligations.

Likewise, the cash and bank balance to total deposit ratio of NIBL followed fluctuating trend in the seven years period taken for research. Initially, the ratio was 31.94% in the fiscal year 2011/12 which was the highest. In average, NIBL kept 20.93% of the total deposit as cash reserve to meet the daily obligations.

Comparing three banks on the basis of cash and bank balance to total deposit ratio, it can be considered that NABIL has the policy of keeping lowest cash reserve, whereas NIBL has the policy of keeping highest cash reserve to meet the daily obligations. Hence, NIBL has good liquidity position than other two banks, SCBNL and NABIL.

Figure: 4.3

Cash and Bank to Total Deposit



4.2 Activity Ratio:

Activity Ratios are the indicators of a concern with regard to its efficiency in assets management. It is successful in mobilizing total deposits on the investments. In this section, some of the activity ratios are calculated to assess banks efficiency in utilizing available resources. Activity position of SCBNL, NABIL and NIBL is analyzed more deeply using the following relevant activity ratios;

- Total Loan and Advances to Total Deposits Ratio
- Total Loan and Advances to Total Fixed Deposits Ratio
- Total Loan and Advances to Total Saving Deposits Ratio
- Total Investment to Total Deposits Ratio

4.2.1 Total Loan and Advances to Total Deposits Ratio

This ratio measures the extent to which the banks are successful in mobilizing the depositor's funds for the purpose of profit generation. A high ratio represents the greater efficiency to utilize funds provided by outsiders (i.e. ratio is computed by dividing loans and advances by total deposits). Loans and Advances refer to total sum of loans, advances, credit, overdraft, local and foreign bills purchased and discounted. Total deposits include total outsider's fund or all kinds of deposits.

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

Table : 4.4
Loan and Advances to Total Deposit Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Loan & Advances	Total Deposits	Ratio (in %)	Loan & Advances	Total Deposits	Ratio (in %)	Loan & Advances	Total Deposits	Ratio (in %)
2005/2006	8,935,418	23,061,032	38.75	12,922,543	19,347,399	66.79	12,776,208	18,927,306	67.50
2006/07	10,502,637	24,647,021	42.61	15,545,779	23,342,285	66.60	17,286,428	24,488,856	70.59
2007/08	13,718,597	29,743,999	46.12	21,365,053	31,915,047	66.94	26,996,652	34,451,726	78.36
2008/09	13,679,757	35,182,721	38.88	27,589,933	37,348,256	73.87	36,241,207	46,698,100	77.61
2009/10	15,956,955	35,350,824	45.14	32,268,873	46,340,701	69.63	40,318,308	50,094,725	80.48
2010/11	18,427,270	35,965,631	51.24	38,034,097	49,608,376	76.67	41,095,515	50,138,122	81.96
2011/12	19,575,968	37,999,242	51.52	41,605,683	55,023,695	75.61	41,636,999	57,010,604	73.03
Mean ($\bar{X}$)			44.89			70.87			75.65
Standard Deviation (S.D.)			4.85			4.89			4.97
Coefficient of Variation (C.V.)			10.80			6.90			6.57

Source: Annual Reports of SCBNL, NABIL and NIBL

The Table 4.4 demonstrated loan and advances to total deposit ratio of three selected JVBs viz, SCBNL, NABIL and NIBL. The table showed that the ratio of loan and advances to total deposit of SCBNL increased from 38.75% in the fiscal year 2005/06 to 42.61% and 46.12% in the fiscal year 2006/07 and 2007/08 and again decreased next two years showing continuous fluctuation during the seven periods taken for the study. In average, SCBNL mobilized 38.27% of the total deposit in disbursing loans and advances.

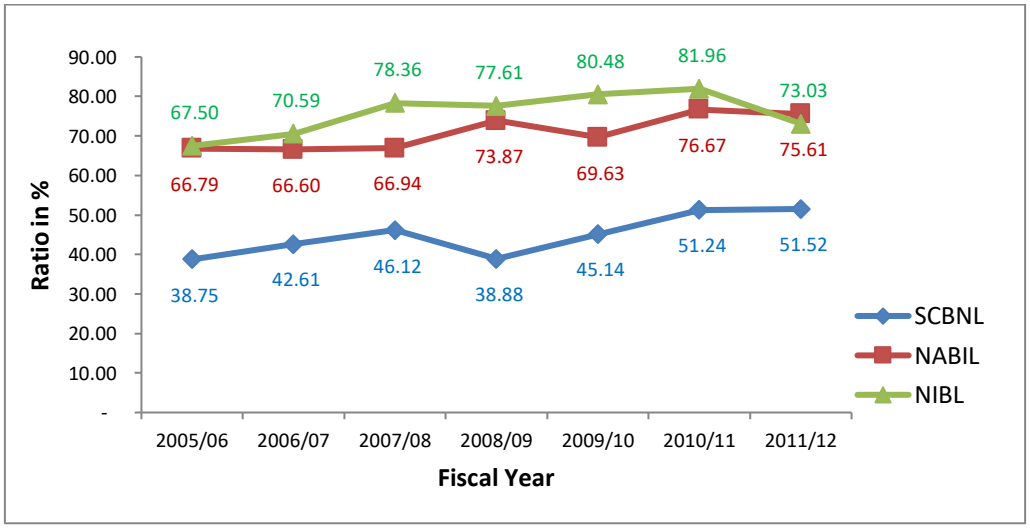
Similarly, the loan and advances to total deposit of NABIL showed quite stable for the first three years being 66.79% in the fiscal year 2005/06, 66.60% in the fiscal year 2006/07 and 66.94% in the fiscal year 2007/08. Then it increased to 73.87% in the fiscal year 2008/09 after then it has been in an increasing trend. In average, NABIL mobilized 70.87% of the total deposit in disbursing loans and advances.

The loan and advances to total deposit of NIBL is in increasing trend being 67.50% in the fiscal year 2005/07 to 78.36% in the fiscal year 2007/08. But, there was a slight decrease in the fiscal year 2008/09 being 77.61% and again it has maintained its trend to increase thereafter. In average, NIBL mobilized 75.65% of the total deposit in disbursing loans and advances.

Comparing three banks, it can be concluded that NIBL followed aggressive policy, NABIL followed moderate policy and SCBNL followed conservative policy in mobilizing the total deposit in loans and advances.

Figure: 4.4

Loan and Advances to Total Deposit Ratio



4.2.2 Total Loans and Advances to Total Fixed Deposit Ratio

This ratio indicates how much of loan and advances is generated against fixed deposit. It also figures how properly the fixed deposit is being utilized which has fixed time period to maturity. Here a high ratio indicates greater flow of loans and advances and is formulated as follows:

Table : 4.5
Loan and Advances to Total Fixed Deposit Ratio

(Rs.000)

Fiscal Year	Loan & Advances	Total FD	Ratio (in Times)	Loan & Advances	Total FD	Ratio (in Times)	Loan & Advances	Total FD	Ratio (in Times)
2005/2006	8,935,418	**2,136,307**	**4.18**	12,922,543	**3,449,090**	**3.75**	12,776,208	**5,412,970**	**2.36**
2006/07	10,502,637	3,196,490	**3.29**	15,545,779	5,435,095	**2.86**	17,286,428	7,516,687	**2.30**
2007/08	13,718,597	3,301,014	**4.16**	21,365,053	8,464,086	**2.52**	26,996,652	7,944,233	**3.40**
2008/09	13,679,757	7,101,698	**1.93**	27,589,933	8,310,708	**3.32**	36,241,207	11,633,380	**3.12**
2009/10	15,956,955	9,175,070	**1.74**	32,268,873	14,711,158	**2.19**	40,318,308	16,825,148	**2.40**
2010/11	18,427,270	10,136,244	**1.82**	38,034,097	16,840,831	**2.26**	41,095,515	18,378,300	**2.24**
2011/12	19,575,968	4,661,261	**4.20**	41,605,683	14,044,888	**2.96**	41,636,999	20,057,477	**2.08**
Mean ($\bar{X}$)			3.05			2.84			2.56
Standard Deviation (S.D.)			1.10			0.53			0.46
Coefficient of Variation (C.V.)			36.12			18.68			17.99

Source: Annual Reports of SCBNL, NABIL and NIBL

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

The Table 4.5 demonstrated loan and advances to total fixed deposit ratio of three JVBs viz, SCBNL, NABIL and NIBL. The table showed that the ratio of loan and advances to total fixed deposit of SCBNL is highly decreasing in the fiscal years 2008/09 being 1.93 times to 1.74 times in f/y 2009/10 and 1.82 times in the fiscal year 2010/11 while in the current year 2011/12 it has maintained highest ratio being 4.20 times. In average SCBNL mobilized 3.05 times of loans and advances to total fixed deposit with 36.12% of the coefficient of variation and 1.10 times of standard deviation respectively.

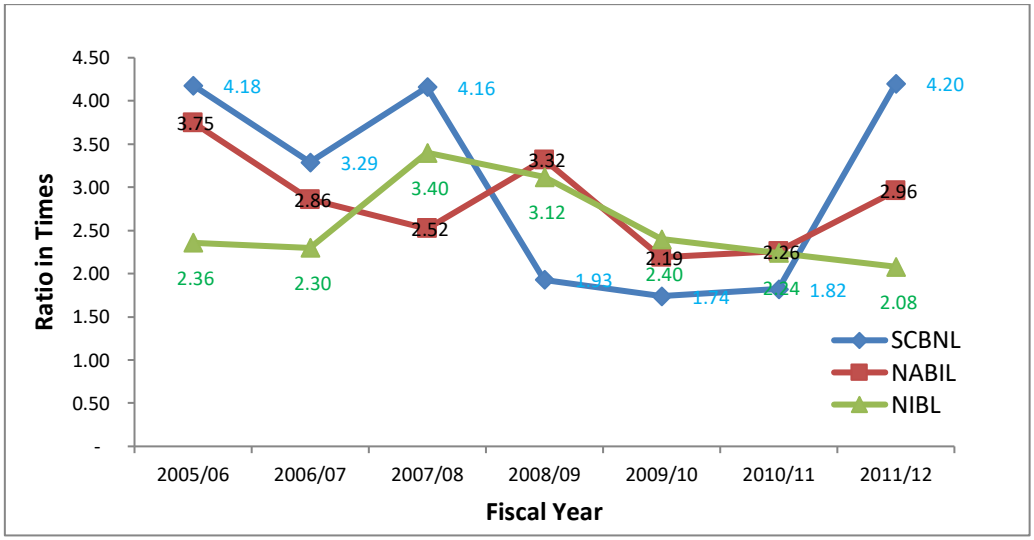
Similarly, the loan and advances to total fixed of NABIL shows highest range in the fiscal year 2005/06 being 3.75 times. Then for the further two years it has decreasing trend to 2.86 times in the fiscal year 2006/07 and 2.52 times in the fiscal year 2007/08. In the fiscal year 2008/09 it shows increasing trend being 3.32 times and since then NABIL is at decreasing trend.

The loan and advances to total fixed deposit of NIBL is in the peak in the fiscal year 2007/08 and 2008/09 being 3.40 and 3.12 times respectively. But it is decreasing after then and in the f/y 2010/11 it is 2.08 times. In average, NIBL mobilized 2.55 times of loans and advances to fixed deposit.

Comparing three banks, it can be concluded that SCBNL is more efficient in utilizing the fixed deposit than NABIL and NIBL, as the ratio in SCBNL was highest (3.04 times) than that of NABIL (2.84 times) and NIBL (2.55 times).

Figure: 4.5

Total Loan and Advances to Total Fixed Deposit



4.2.3 Total Loans and Advances to Total Saving Deposit Ratio

Total Loan and Advances to saving deposit ratio indicates about what proportion of total saving deposit is employed in loans and advances. Saving deposit is also an interest payable fund. So, the banks must earn so much interest from investment as required to pay the interest on such deposit. Loans and advances to saving deposit ratio measures what proportion of saving deposit is utilized to invest in loans and advances. High ratio indicates saving deposits being mobilized effectively. It is calculated with the following formula;

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

Table 4.6

Loan and Advances to Total Saving Deposit Ratio

(Rs. 000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Loan & Advances	Total SD	Ratio	Loan & Advances	Total SD	Ratio	Loan & Advances	Total SD	Ratio
2005/2006	8,935,418	14,597,674	61.21	12,922,543	8,770,760	147.34	12,776,208	8,081,980	158.08
2006/07	10,502,637	15,244,385	68.90	15,545,779	10,187,355	152.60	17,286,428	10,742,331	160.92
2007/08	13,718,597	17,856,134	76.83	21,365,053	12,159,966	175.70	26,996,652	13,688,767	197.22
2008/09	13,679,757	19,146,004	71.45	27,589,933	14,620,407	188.71	36,241,207	17,066,252	212.36
2009/10	15,956,955	12,430,009	128.37	32,268,873	13,783,586	234.11	40,318,308	14,324,256	281.47
2010/11	18,427,270	11,619,815	158.58	38,034,097	14,288,520	266.19	41,095,515	13,490,307	304.63
2011/12	19,575,968	15,502,306	126.28	41,605,683	17,994,747	231.21	41,636,999	17,276,028	241.01
Mean ($\bar{X}$)			98.80			199.41			222.24
Standard Deviation (S.D.)			35.34			41.84			52.44
Coefficient of Variation (C.V.)			35.77			20.98			23.60

Source: Annual Reports of SCBNL, NABIL and NIBL

The Table 4.6 demonstrated loan and advances to total saving deposit ratio of three selected JVBs viz, SCBNL, NABIL and NIBL. The table showed that the ratio of loan and advances to total saving deposit of SCBNL increased in every years being 61.21%, 68.90%, 76.83%, 71.%, 128.37% and 158.58% in the fiscal years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 taken for the study. It shows gradual decrease in the current year 2011/12 being 126.28%. In average, SCBNL mobilized 98.80% of the total saving deposit in disbursing loans and advances.

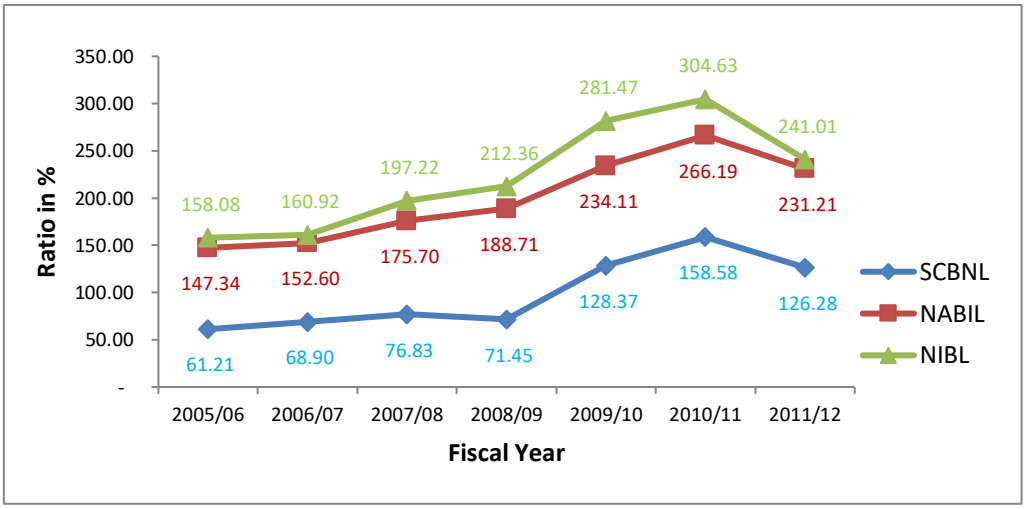
Similarly, the loans and advances to total saving deposit of NABIL increased in every years being 147.34% in the fiscal year 2005/06 to 175.70% in the fiscal year 2007/08 and 266.19% in the fiscal year 2010/11. It shows gradual decrease in the current year 2011/12 being 199.41%. In average, NABIL mobilized 199.41% of the total saving deposit in disbursing loans and advances.

Likewise, the loans and advances to total saving deposit of NIBL increased in every years being 158.08% in the fiscal year 2005/06 to 160.92% in the fiscal year 2006/07 and 304.63% in the fiscal year 2010/11. It also shows gradual decrease in the current

year 2011/12 being 241.01%. In average, NIBL mobilized 222.24% of the total saving deposit in disbursing loans and advances.

Figure: 4.6

Loan and Advances to Total Saving Deposit Ratio



Comparing three banks, it can be concluded that all the three banks have been able to handle saving deposits to loans and advances apart from gradual decrease in the ratio of all the three banks in the current year. Also, it can be concluded that NIBL is more efficient in utilizing the saving deposit than SCBNL and NABIL as the average ratio of NIBL was highest ie; 222.24% in comparison to SCBNL being 98.80% and NABIL being 199.41%.

4.2.4 Total Investment to Total Deposit Ratio

This ratio measures the extent to which the banks are successful in mobilizing total deposits on investment, that is, this ratio is affected by the concerned financial policy which is based on implementation aspect of deposits and investments. This ratio is calculated by using the following formula;

Total Investment to total Deposit Ratio = $\frac{Total\ Investment}{Total\ Deposit}$

Table : 4.7

Total Investment to Total Deposit Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Total Investment	Total Deposit	Ratio (in %)	Total Investment	Total Deposit	Ratio (in %)	Total Investment	Total Deposit	Ratio (in %)
2005/2006	12,847,536	23,061,032	**55.71**	7,913,430	19,347,399	**40.90**	5,672,870	18,927,306	**29.97**
2006/07	13,553,233	24,647,021	**54.99**	8,945,311	23,342,285	**38.32**	6,505,680	24,488,856	**26.57**
2007/08	13,902,819	29,743,999	**46.74**	9,939,771	31,915,047	**31.14**	8,874,024	34,451,726	**25.76**
2008/09	20,236,121	35,871,721	**56.41**	10,826,379	37,348,256	**28.99**	7,399,812	46,698,100	**15.85**
2009/10	19,847,511	35,182,721	**56.41**	13,600,917	46,340,701	**29.35**	8,635,530	50,094,725	**17.24**
2010/11	17,258,882	37,999,242	**45.42**	13,003,205	49,608,376	**26.21**	7,423,107	50,138,122	**14.81**
2011/12	12,938,216	37,999,242	**34.05**	14,076,850	55,023,695	**25.58**	10,438,487	57,010,604	**18.31**
Mean ($\bar{X}$)			49.96			31.50			21.22
Standard Deviation (S.D.)			7.80			5.46			5.61
Coefficient of Variation (C.V.)			15.61			17.33			26.44

Source: Annual Reports of SCBNL, NABIL and NIBL

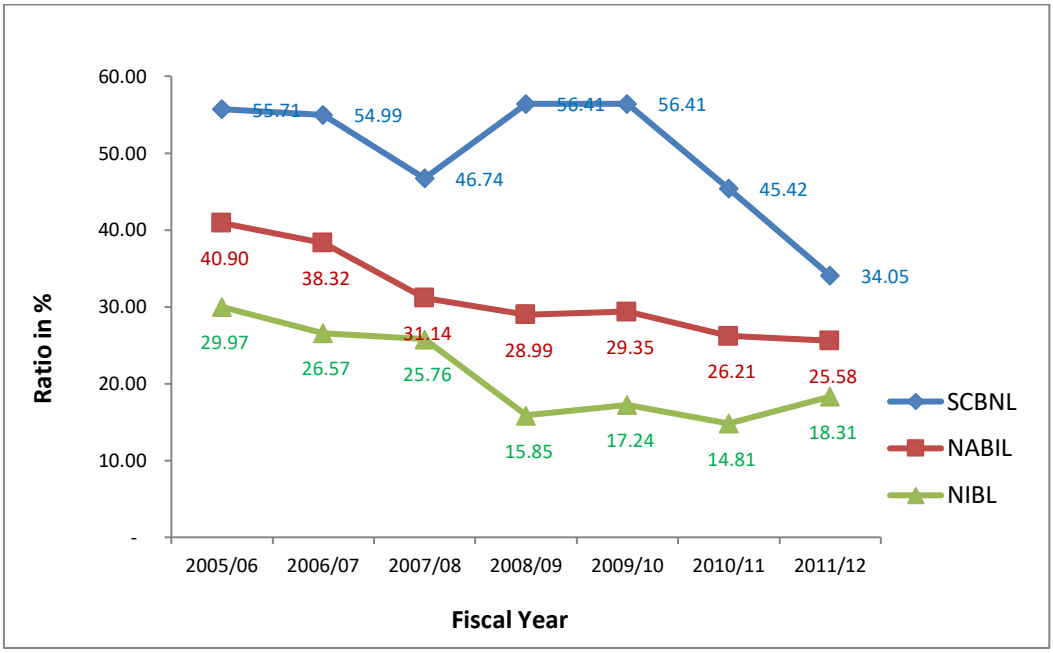
The table 4.7 showed the total investment to the total deposit ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL fluctuated during the seven years period. The ratio was 55.71% in the fiscal year 2005/06 which decreased to 54.99% in the fiscal year 2006/07, then decreased to 46.74% in the fiscal year 2007/08. It maintained stable ratio of 56.41% in the fiscal years 2008/09 and 2009/2010 and occupied 45.42% in the fiscal year 2011/12. In average, the total deposit occupied 49.96% of the total investment of the bank.

Similarly, 40.90%, 38.32%, 31.14%, 28.99%, 29.35%, 26.21% and 25.58% of the total deposits of NABIL remained mobilized as investments in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, NABIL kept 31.50% of investment to the total deposit to meet the daily obligations.

Likewise, the table showed that the ratio in NIBL fluctuated during the seven years period. The ratio was 29.97% in the fiscal year 2005/06 which decreased to 26.57% in the fiscal year 2006/07, then decreased to 25.76% in the fiscal year 2007/08 and again to 15.85% in the fiscal year 2008/09 and reached to 18.31% in the fiscal year 2011/12 respectively. In average, the total deposit occupied 21.21% of the total investment of the bank.

Figure: 4.7

Total Investment to Total Deposit Ratio



Comparing three banks, it can be concluded that SCBNL is more efficient in utilizing the investments to total deposit than NABIL and NIBL, as the ratio in SCBNL was highest ie; 49.96% than that of NABIL 31.50% and NIBL 21.21%.

4.3 Capital Structure/Leverage Ratios:

An institution should have short-term liquidity as well as long-term solvency. Since the liquidity relates to the short-term solvency alone, capital structure term solvency indicates the bank's ability to meet its short-term as well as long-term obligations. It measures the extent of the bank's total debt servicing capacity ie; debt burden. The capital structure ratio of the JVBs can be measured using these ratios:

- Total Debt to Total Assets Ratio
- Total Debt to Total Equity Ratio
- Interest Coverage Ratio

4.3.1 Total Debt to Total Assets Ratio

The ratio of total debt assets to total assets ratio signifies the extent of debt financing on the total assets and measure the security to the outsiders. This ratio shows that

what portion of the capital assets are financing by the outsider funds. A high debt ratio implies a bank's success in exploiting debt to be more profitable as well as its riskier capital structure. This ratio is calculated by dividing total debt by total assets.

Total Debt to Total Assets Ratio = $\frac{Total\ Debt}{Total\ Assets}$

Total debt includes short-term and long-term deposits. Similarly, total assets includes all the assets of right hand side of the balance sheet.

Table : 4.8

Total Debt to Total Assets Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Total Debt	Total Assets	Ratio (in %)	Total Debt	Total Assets	Ratio (in %)	Total Debt	Total Assets	Ratio (in %)
2005/2006	26,008,337	25,776,332	**93.19**	20,454,970	22,329,970	**91.60**	24,912,725	21,330,145	**93.36**
2006/07	29,995,376	28,596,689	**92.60**	25,196,345	27,253,393	**92.45**	25,109,654	27,590,845	**93.19**
2007/08	33,864,420	33,335,788	**92.52**	34,696,107	37,132,759	**93.43**	25,880,670	38,873,306	**93.08**
2008/09	32,865,377	40,058,468	**82.04**	40,398,627	43,867,398	**92.09**	26,975,238	53,010,803	**50.89**
2009/10	33,763,921	40,213,319	**83.96**	40,039,000	52,079,725	**76.88**	29,809,782	57,305,413	**52.02**
2010/11	39,766,329	43,810,519	**90.77**	45,887,395	58,099,619	**78.98**	32,775,890	58,356,828	**56.16**
2011/12	40,387,552	41,677,052	**96.91**	49,557,352	63,257,372	**78.34**	42,997,568	65,756,232	**65.39**
Mean ($\bar{X}$)			**90.21**			**86.25**			**72.01**
Standard Deviation (S.D.)			**4.91**			**7.13**			**18.86**
Coefficient of Variation (C.V.)			**5.44**			**8.27**			**26.19**

Source: Annual Reports of SCBNL, NABIL and NIBL

The Table 4.8 demonstrated total debt to total assets ratio of three selected JVBs viz, SCBNL, NABIL and NIBL. The table showed that the ratio of total debt to total assets of SCBNL increased in every years being 93.19%, 92.60%, 92.52%, 82.04%, 83.96% and 90.77% in the fiscal years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 taken for the study. In average, SCBNL mobilized 90.21% of the total debt in disbursing total assets.

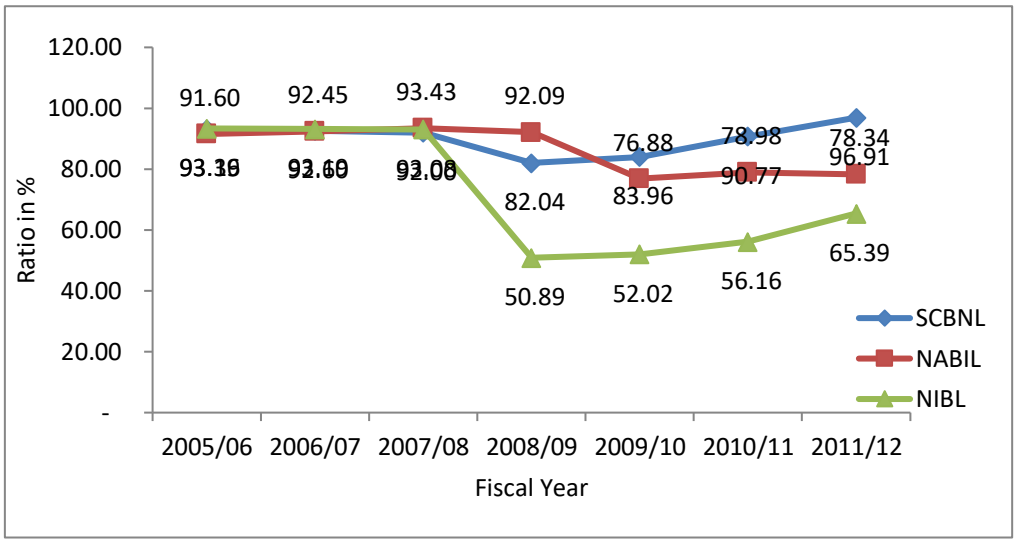
Similarly, the total debt to total assets of NABIL increased in every years being 91.60% in the fiscal year 2005/06 to 92.09% in the fiscal year 2008/09 and 78.98% in the fiscal year 2010/11. It shows gradual decrease in the fiscal year 2009/10 being

76.88%. In average, NABIL mobilized 86.25% of the total debt in disbursing total assets.

Likewise, the total debt to total assets of NIBL increased in every years being 93.36% in the fiscal year 2005/06 to 93.08% in the fiscal year 2007/08 and 56.39% in the fiscal year 2010/11. It shows gradual decrease in the fiscal year 2008/09 being 50.89% and increasing after then. In average, NABIL mobilized 72.01% of the total debt in disbursing total assets.

Figure: 4.8

Total Debt to Total Assets Ratio



All of the sampled banks followed agressive policy of financing total assets through outside fund. However, comparing three sampled banks on the basis of average debt-assets ratio, it can be concluded that the total assets of SCBNL was much more risky than that of NABIL and NIBL.

4.3.2 Total Debt to Total Equity Ratio

This ratio measures the relative claims of the outsiders and owners over the firm's assets. Indicating the extent of debt financing in the firm compared to shareholders equity financing in other word, the debt to equity ratio indicates the relative contribution of debt capital and equity capital fund of the total investment. A high ratio shows the larger share of financing by the creditors as compared to that of owners. Creditors preferring low debt equity ratio is calculated by using the following formula;

Total Debt to Total Equity Ratio = $\frac{Total\ Debts}{Total\ shareholders\ equity}$

The total debt includes current account, saving account, call and short deposits. Overdraft, fixed deposits, loan and advances and borrowing from other bank's shareholders equity includes paid-up capital, reserve and surplus and also undistributed profit.

Table : 4.9
Total Debt to Total Equity Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Total Debt	Total Equity	Ratio (in %)	Total Debt	Total Equity	Ratio (in %)	Total Debt	Total Equity	Ratio (in %)
2005/2006	26,008,337	1,754,000	**13.69**	20,454,970	1,841,550	**10.90**	24,912,725	1,415,000	**14.35**
2006/07	29,995,376	2,116,000	**12.51**	25,196,345	2,057,050	**12.24**	25,109,654	1,878,000	**13.95**
2007/08	33,864,420	2,493,000	**12.37**	34,696,107	2,437,000	**14.23**	25,880,670	2,687,000	**13.67**
2008/09	32,865,377	3,052,000	**10.77**	40,398,627	3,130,000	**12.91**	26,975,238	3,908,000	**12.72**
2009/10	33,763,921	3,370,000	**10.02**	40,039,000	3,837,000	**10.43**	42,997,568	4,521,250	**9.51**
2010/11	49,766,329	3,678,000	**13.53**	45,887,395	4,567,000	**10.05**	60,387,552	8,823,280	**6.84**
2011/12	80,387,552	4,122,000	**19.50**	89,557,352	5,450,885	**16.43**	72,997,568	4,241,110	**17.21**
Mean ($\bar{X}$)			**13.20**			**12.46**			**12.61**
Standard Deviation (S.D.)			**2.86**			**2.12**			**3.16**
Coefficient of Variation (C.V.)			**21.67**			**17.02**			**25.07**

Source: Annual Reports of SCBNL, NABIL and NIBL

The table 4.9 showed the total debt to total equity ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed debt capacity of SCBNL which seems to be in the decreasing trend every sampled years from 12.51% in the fiscal year 2006/07 to 12.37% in the fiscal year 2007/08 and reached to 10.02% in the fiscal year 2009/10 respectively. But it seems to be slight increasing in the fiscal year 2010/11 being 13.53%. But in the current year ie; in 2011/12 it seems increased to 19.50%. In average, the debt to equity ratio was 13.20%.

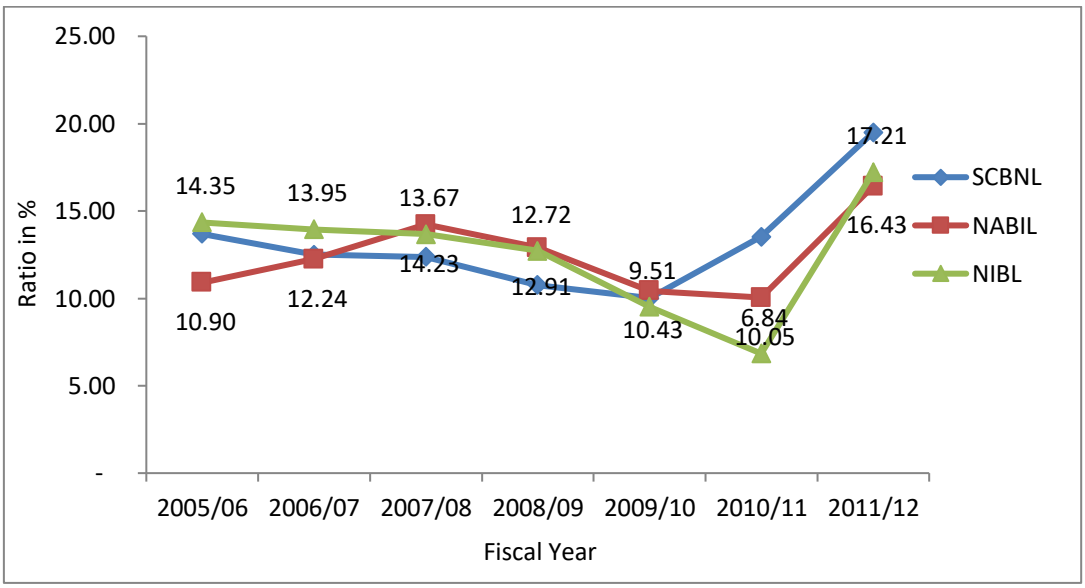
Similarly, the debt capacity of NABIL which seems to be in the decreasing trend every sampled years from 12.24% in the fiscal year 2006/07 to 14.23% in the fiscal year 2007/08 and reached to 10.43% in the fiscal year 2009/10 respectively. But in the current year ie; in 2011/12 it seems increased to 16.46%. In average, the debt to equity ratio was 12.46%.

Likewise, the debt capacity of NIBL also seems to be in the decreasing trend every sampled years from 13.95% in the fiscal year 2006/07 to 13.67% in the fiscal year 2007/08 and reached to 9.51% in the fiscal year 2009/10 respectively. But in the current year ie; in 2011/12 it seems increased to 17.21%. In average, the debt to equity ratio was 12.61% and the standard deviation was 3.16% also the coefficient of variation was 25.07% respectively.

Comparing three banks on the basis of average debt to equity ratio, it can be concluded that the total debt of SCBNL is more risky than that of other banks as higher portion of total equity of SCBNL was financed through debt.

Figure: 4.9

Total Debt to Total Equity Ratio



4.3.3 Interest Coverage Ratio

The interest coverage ratio is one of the most conventional coverage ratios, which measures the debt servicing capacity of an institution. This ratio reveals how many times the interest changes are covered by the EBIT out of which they will be paid. High ratio may imply unused debt capacity. In contrast a low ratio is a danger signal that the firm is using excessive debt and does not have the ability to offer ensured payment of interest to the creditors from the viewpoint of the creditors. The larger the coverage ratio, the greater will be the ability of the firm to make the payment of interest to the creditors.

Interest Coverage Ratio = $\frac{Total\ EBIT}{Total\ Interest\ Expenses}$

Table : 4.10
Interest Coverage Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Total EBIT	Interest Expenses	Ratio (in Times)	Total EBIT	Interest Expenses	Ratio (in Times)	Total EBIT	Interest Expenses	Ratio (in Times)
2005/2006	1,033,312	303,138	3.41	987,805	357,160	2.77	608,722	490,950	1.24
2006/07	1,117,705	413,055	2.71	1,094,550	555,710	1.97	853,094	685,530	1.24
2007/08	1,312,710	471,730	2.78	1,197,889	758,436	1.58	1,155,950	992,158	1.17
2008/09	1,613,926	543,787	2.97	1,626,534	1,153,280	1.41	1,464,802	1,686,973	0.87
2009/10	1,690,003	575,740	2.94	1,786,996	1,960,108	0.91	1,989,032	2,553,847	0.78
2010/11	1,758,156	1,003,100	1.75	2,110,133	2,946,691	0.72	1,845,832	3,620,337	0.51
2011/12	1,843,059	1,007,199	1.83	2,669,917	3,152,940	0.85	1,637,216	3,814,411	0.43
Mean ($\bar{X}$)			2.63			1.46			0.89
Standard Deviation (S.D.)			0.57			0.68			0.32
Coefficient of Variation (C.V.)			21.70			46.62			35.90

Source: Annual Reports of SCBNL, NABIL and NIBL

The table 4.10 showed the interest coverage ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed earning before interest and taxes to interest expenses of SCBNL which seems to be in the decreasing trend every sampled years from 2.71times in the fiscal year 2006/07 to 2.78times in the fiscal year 2007/08 and reached to 1.75times in the fiscal year 2010/11 respectively. But it seems to be slight increasing in the fiscal year 2008/09 being 2.94times. And in the current year ie; in 2011/12 it seems increased to 1.83times. In average, the interest coverage ratio was 2.63 times of interest expenses.

Similarly, the table showed earning before interest and taxes to interest expenses of NABIL which seems to be in the decreasing trend every sampled years from 1.97times in the fiscal year 2006/07 to 1.58times in the fiscal year 2007/08 and reached to 0.72times in the fiscal year 2010/11 respectively. And in the current year ie; in 2011/12 it seems slightly increased to 0.85times. In average, the interest coverage ratio was 1.46 times of interest expenses.

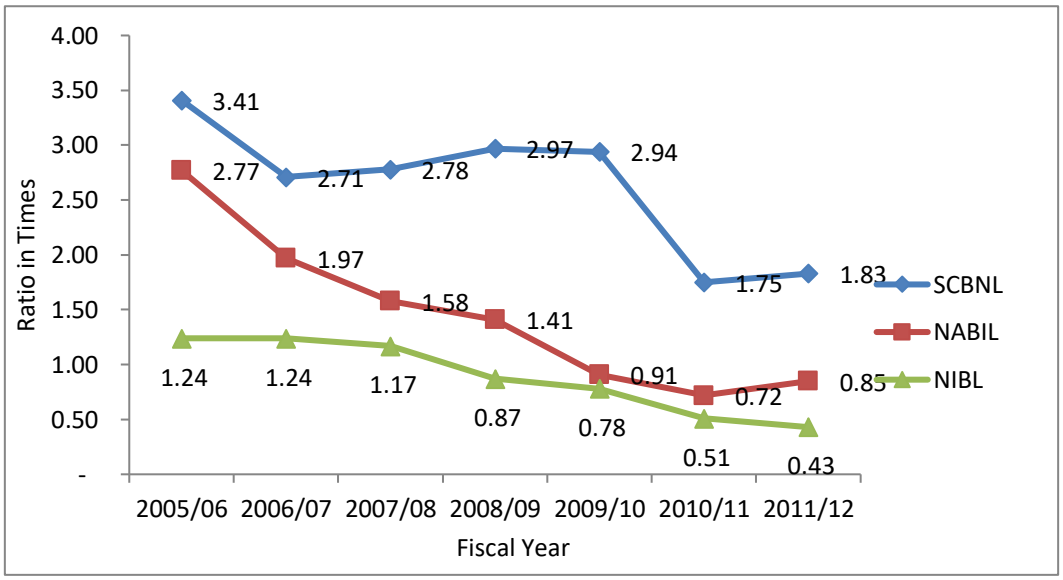
Likewise, the table showed earning before interest and taxes to interest expenses of NIBL which also seems to be in the decreasing trend every sampled years from 1.24

times in the fiscal year 2006/07 to 1.17 times in the fiscal year 2007/08 and reached to 0.51times in the fiscal year 2010/11 respectively. But it seems to be slight increasing in the fiscal year 2008/09 being 2.94times. In average, the interest coverage ratio was 0.89 times of interest expenses.

Comparing three banks on the basis of interest coverage ratio, it can be concluded that the total interest to earning of SCBNL is more risky than that of other banks as higher portion of average ratio is covered by SCBNL.

Figure: 4.10

Interest Coverage Ratio



4.4 Profitability Ratios:

Profit is essential for a firm's survival and future growth. Hence, management of the firm is interested in operating efficiency of the firm's profitability ratio, being one of the important indicators of operating efficiency. One of the focus of the commercial banks is to be profitable enough so as to meet the variety of the objectives like achieving a desirable liquidity position to meet fixed interest obligations. Other focuses are to overcome the future contingencies, explicit hidden investment opportunities, encouraged branch expansion, financed by the government to need of the development funds etc. This is done comparing return of value over values put into business with the help of assets employed. Profitability position of three joint venture banks can be measured further through analyzing the following ratios:

- Return on Total Assets Ratio

- Return on Shareholders Equity Ratio
- Return on Total Deposit Ratio
- Interest Earned to Total Assets Ratio

4.4.1 Return on Total Assets Ratio

Assets management is very important because of the return on the assets that will rise if fewer assets are employed and all the measures of the effective management working capital minimizing taxes within the legal options available will also improve the return. Return on total assets ratio measures the profitability with respect to the total assets. In the present studies, this ratio is examined to measure the profitability of all the financial resources in respect of the bank's assets. It is also vital ratio for measuring the financial performance. Higher ratio means better financing position as compared to other banks. The ratio of return to assets is calculated by dividing net profit after tax (NPAT) by total assets.

Return on Total Assets Ratio = $\frac{Total\ NPAT}{Total\ Assets}$

The table 4.11 showed the return on the total assets ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL was 2.56% in the fiscal year 2005/06 which decreased to 2.42% in the fiscal year 2006/07, then increased to2.46% in the fiscal year 2007/08 and 2.56% in the fiscal year 2008/09 also 2.70% in the fiscal year 2009/10. In average, the total return on assets occupied2.58% which indicated that SCBNL earned Rs.2.58 as net profit for Rs.100 investment in total assets. The coefficient of variation of 3.88% also indicated higher uniformity in the ratio.

Table : 4.11
Return on Total Assets Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Total NPAT	Total Assets	Ratio (in %)	Total NPAT	Total Assets	Ratio (in %)	Total NPAT	Total Assets	Ratio (in %)
2005/2006	658,756	25,776,332	2.56	635,264	22,329,970	2.84	350,536	21,330,145	1.64
2006/07	691,668	28,596,689	2.42	673,959	27,253,393	2.72	501,398	27,590,845	1.82
2007/08	318,921	33,335,788	2.46	746,468	37,132,759	2.32	696,732	38,873,306	1.79
2008/09	1,025,115	4,058,468	2.56	1,031,053	43,867,398	2.55	900,619	53,010,803	1.70
2009/10	1,085,872	40,213,319	2.70	1,138,571	52,079,725	2.38	1,265,950	57,305,413	2.20
2010/11	1,119,171	43,810,519	2.55	1,344,179	58,099,619	2.43	1,176,641	58,356,828	2.02
2011/12	1,168,967	41,677,052	2.80	1,700,376	63,257,372	2.69	1,039,276	65,756,232	1.60
Mean ($\bar{X}$)			2.58			2.56			1.82
Standard Deviation (S.D.)			0.10			0.32			0.20
Coefficient of Variation (C.V.)			3.88			12.49			10.96

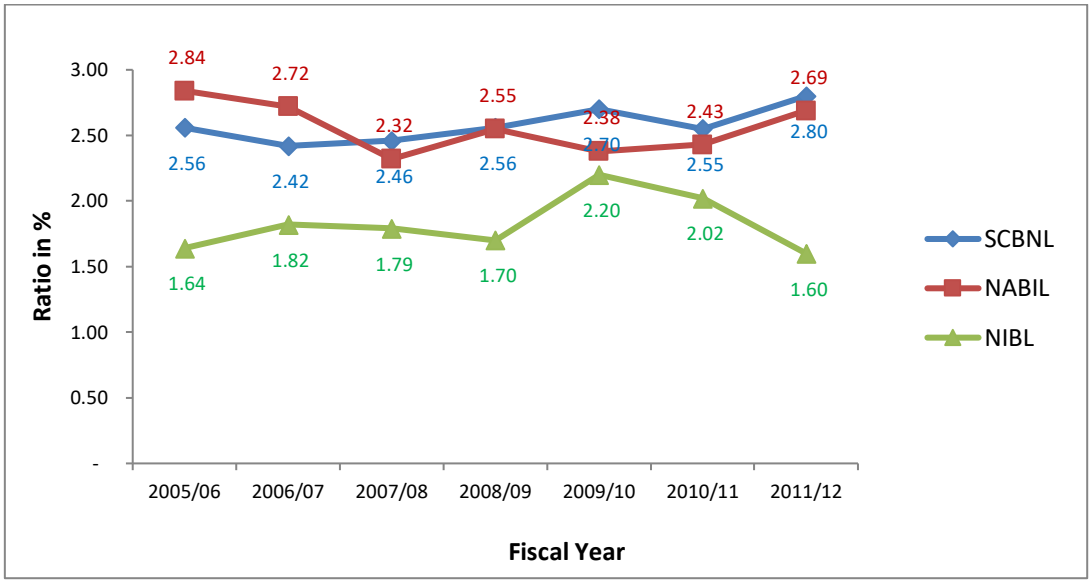
Source: Annual Reports of SCBNL, NABIL and NIBL

Similarly, 2.84%, 2.72%, 2.32%, 2.55%, 2.38%, 2.43% and 2.69% of the total return of NABIL remained mobilized as total assets in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, NABIL kept ROA of 2.56% which indicated that NABIL earned Rs.2.56 as net profit for Rs.100 investment in total assets.

Likewise, the table showed that the ratio in NIBL fluctuated during the seven years period. The ratio was 1.64% in the fiscal year 2005/06 which increased to 1.82% and 1.79% in the fiscal year 2006/07 and 2007/08, then decreased to 1.70% in the fiscal year 2008/09 and again to 2.02% in the fiscal year 2010/11 and reached to 1.60% in the fiscal year 2011/12 respectively. In average, the return on assets of 1.82% indicated that NIBL earned Rs.1.82 as net profit for Rs.100 investment in total assets.

Figure: 4.11

Return on Total Assets



Comparing three banks, it can be concluded that SCBNL is more efficient in utilizing the assets more effectively to generate highest profit than NABIL and NIBL, as the ratio in SCBNL was highest ie; 2.58% than that of NABIL 2.56% and NIBL 1.82%.

4.4.2 Return on Shareholders Equity Ratio (ROSE)

Return on Shareholder's fund is another effective measure of the profitability of the bank. This ratio measures the productivity of the shareholders' fund. Return measures the funds after subtraction of all the expenses including taxes (NPAT), which actually belongs to the owners. It reveals how well the company uses the resources of the owners and is computed as follows;

$$\text{Return on Shareholders Equity Ratio} = \frac{Total\ NPAT}{Total\ shareholders\ equity}$$

Table : 4.12
Return on Shareholders Equity Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Total NPAT	Equity	Ratio (in %)	Total NPAT	Equity	Ratio (in %)	Total NPAT	Equity	Ratio (in %)
2005/2006	658,756	1,754,000	37.56	635,264	1,841,550	34.50	350,536	1,415,000	24.77
2006/07	691,668	2,116,000	32.69	673,959	2,057,050	30.50	501,398	1,878,000	26.68
2007/08	318,921	2,493,000	12.79	746,468	2,437,000	30.70	696,732	2,687,000	25.93
2008/09	1,025,115	3,052,000	33.59	1,031,053	3,130,000	42.22	900,619	3,908,000	23.05
2009/10	1,085,872	3,370,000	32.22	1,138,571	3,837,000	36.39	1,265,950	4,521,250	28.00
2010/11	1,119,171	3,678,000	30.43	1,344,179	4,567,000	29.72	1,176,641	48,823,280	24.10
2011/12	1,168,967	4,122,000	28.36	1,700,376	5,450,885	31.19	1,039,276	41,241,110	25.20
Mean ($\bar{X}$)			29.66			33.60			25.39
Standard Deviation (S.D.)			7.37			4.17			1.53
Coefficient of Variation (C.V.)			24.85			12.41			6.03

Source: Annual Reports of SCBNL, NABIL and NIBL

The table 4.12 showed the return on shareholders equity ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL fluctuated during the seven years period. The ratio was 37.56% in the fiscal year 2005/06 which decreased to 32.69% in the fiscal year 2006/07, then decreased tremendously to 12.79% in the fiscal year 2007/08. It maintained highest ratio of 33.85% in the fiscal years 2008/09, the very next year and occupied 28.36% in the fiscal year 2011/12. In average, return on shareholders equity occupied 29.66% of the total net profit from the net worth.

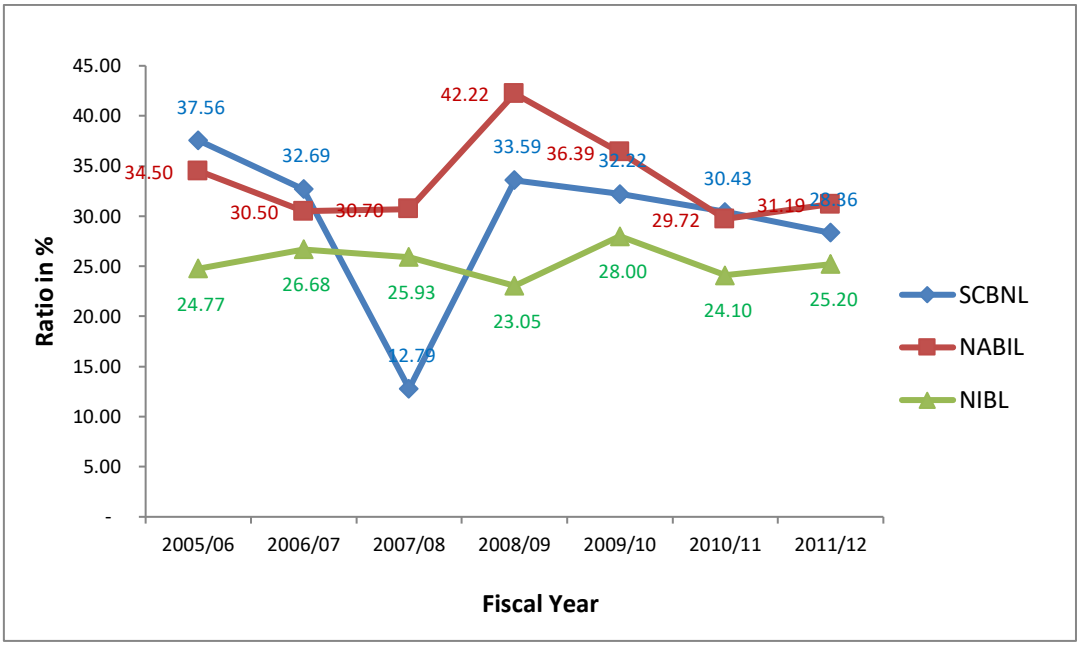
Similarly, 34.50%, 30.50%, 30.70%, 42.22%, 36.39%, 29.72% and 31.19% of the total net profit of NABIL remained mobilized as equity in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, NABIL kept 33.60% of total equity as return on shareholders equity.

Likewise, the table showed that the ratio in NIBL fluctuated during the seven years period. The ratio was 24.77% in the fiscal year 2005/06 which increased to 26.68% in the fiscal year 2006/07, then decreased to 25.93% in the fiscal year 2007/08 and again to 23.05% in the fiscal year 2008/09 and reached to 25.20% in the fiscal year 2011/12

respectively. In average, the total equity occupied 25.39% of the total net profit as return on shareholders equity.

Figure: 4.12

Return on Shareholders Equity



Comparing three banks, it can be concluded that NABIL remained more successful in efficiently generating net profit from the net worth of the bank. However, there was more uniformity in the ratio in NABIL than SCBNL and NIBL, as the ratio in NABIL was highest ie; 33.60% than that of SCBNL being 29.66% and NIBL being 25.39% respectively.

4.4.3 Return on Total Deposit Ratio

Net profit to total ratio measures the return on deposits. Here, total deposits means those total amount deposited in the various accounts i.e; current, saving, fixed, other (margin) and call and short deposits. Generally, higher ratio signifies better utilization of deposits and vice-versa. Since, the capital structure of the firm strongly affects its profitability and major functions in mobilizing deposits, this ratio enables to measure its efficiency towards its deposit mobilization. Net profit to total deposit ratio is calculated as shown in the following formula;

Return on Total Deposit Ratio = $\frac{Total\ NPAT}{Total\ Deposit}$

Table : 4.13

Return on Total Deposit Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Total NPAT	Total Deposit	Ratio (in %)	Total NPAT	Total Deposit	Ratio (in %)	Total NPAT	Total Deposit	Ratio (in %)
2005/2006	658,756	23,061,032	2.86	635,264	19,347,399	3.28	350,536	18,927,306	1.85
2006/07	691,668	24,647,021	2.81	673,959	23,342,285	2.89	501,398	24,488,856	2.05
2007/08	318,921	29,743,999	1.07	746,468	31,915,047	2.34	696,732	34,451,726	2.02
2008/09	1,025,115	35,871,721	2.86	1,031,053	37,348,256	2.76	900,619	46,698,100	1.93
2009/10	1,085,872	35,182,721	3.09	1,138,571	46,340,701	2.46	1,265,950	50,094,725	2.53
2010/11	1,119,171	37,999,242	2.95	1,344,179	49,608,376	2.71	1,176,641	50,138,122	2.35
2011/12	1,168,967	37,999,242	3.08	1,700,376	55,023,695	3.09	1,039,276	57,010,604	1.82
Mean ($\bar{X}$)			2.67			2.79			2.08
Standard Deviation (S.D.)			0.66			0.30			0.24
Coefficient of Variation (C.V.)			24.68			10.75			11.55

Source: Annual Reports of SCBNL, NABIL and NIBL

The table 4.13 showed the return on the total deposit ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL was 2.86% in the fiscal year 2005/06 which decreased to 2.81% in the fiscal year 2006/07 and to 1.07% in the fiscal year 2007/08 and 2.86% in the fiscal year 2008/09 then it increased to 3.09% in the fiscal year 2009/10. In average, total return on deposit occupied2.67% which indicated that SCBNL earned Rs.2.67 as net profit for Rs.100 investment in total deposit. The c.v. of 24.68% also indicated higher uniformity in the ratio.

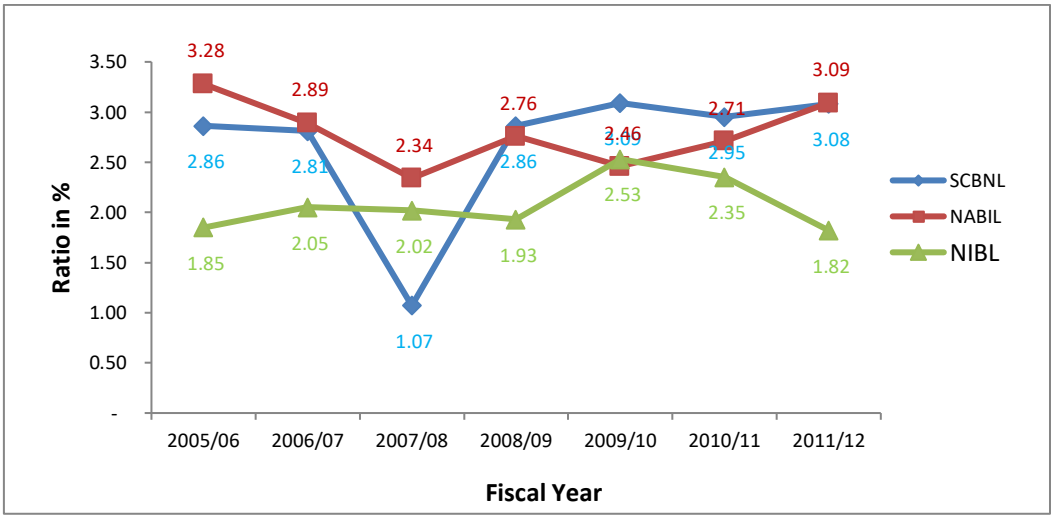
Similarly, 3.28%, 2.89%, 2.34%, 2.76%, 2.46%, 2.71% and 3.09% of the total return of NABIL remained mobilized as total deposit in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, NABIL kept return on deposit of 2.79% which indicated that NABIL earned Rs.2.79 as net profit for Rs.100 investment in total deposit.

Likewise, the table showed that the ratio in NIBL fluctuated during the seven years period. The ratio was 1.85% in the fiscal year 2005/06 which increased to 2.05% and 2.02% in the fiscal year 2006/07 and 2007/08, then decreased to 1.93% in the fiscal year 2008/09 and again increased to 2.35% in the fiscal year 2010/11 and reached to 1.82% in the fiscal year 2011/12 respectively. In average, the return on deposit of 2.08% indicated that NIBL earned Rs.2.08 as net profit for Rs.100 deposit.

Comparing three banks, it can be concluded that the capacity of turning total deposit into net profit of NABIL was much more admirable than that of SCBNL and NIBL. Hence, it can be concluded that the investment sector of the total deposit of NABIL was more fruitful.

Figure: 4.13

Return on Total Deposit



4.4.4 Interest Earned to Total Assets Ratio

Interest earned to total assets ratio measures the percentage of interest earned in relation to total assets of the banks. The ratio signifies the mobilization of its assets in interest generating purpose. Banks usually earns interest through the provision of loans, advances, overdrafts and investment in various securities. A high ratio reflects better efficiency in utilizing the resources in interest generating sector and vice-versa.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Assets}}$$

Table : 4.14
Total Interest Earned to Total Assets Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Interest Income	Total Assets	Ratio (in %)	Interest Income	Total Assets	Ratio (in %)	Interest Income	Total Assets	Ratio (in %)
2005/2006	1,189,602	25,776,332	4.62	1,310,005	22,329,970	5.87	1,172,740	21,330,145	5.50
2006/07	1,411,982	28,596,689	4.94	1,587,759	27,253,393	5.83	1,584,987	27,590,845	5.74
2007/08	1,591,195	33,335,788	4.77	1,978,696	37,132,759	5.33	2,194,275	38,873,306	5.64
2008/09	1,887,221	40,587,468	4.65	2,798,486	43,867,398	6.38	3,267,941	53,010,803	6.16
2009/10	2,042,109	40,213,319	5.08	4,047,725	52,079,725	7.77	4,653,521	57,305,413	8.12
2010/11	2,718,699	43,810,519	6.21	5,258,270	58,099,619	9.05	5,803,440	58,356,828	9.94
2011/12	2,870,971	41,677,052	6.89	6,145,751	63,257,372	9.72	5,982,641	65,756,232	9.10
Mean ($\bar{X}$)			5.31			7.14			7.17
Standard Deviation (S.D.)			0.82			1.60			1.71
Coefficient of Variation (C.V.)			15.45			22.42			23.84

Source: Annual Reports of SCBNL, NABIL and NIBL

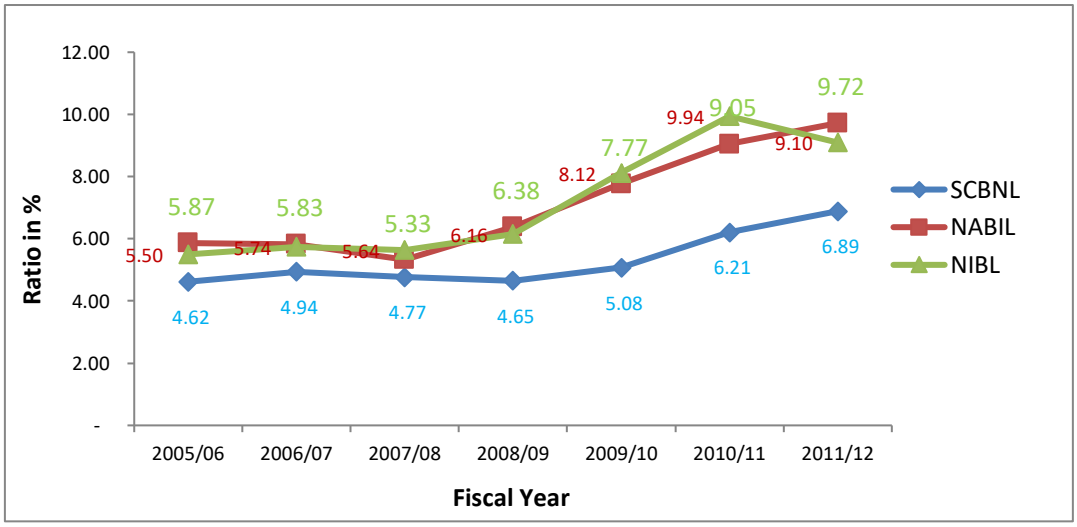
The table 4.14 showed the return on the total interest earned to total assets ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed interest earning capacity of SCBNL which seems to be in the increasing trend every sampled years from 4.94% in the fiscal year 2006/07 to 4.77% in the fiscal year 2007/08 and reached to 6.89% in the fiscal year 2011/12 respectively. But it seems to be slight decreased in the fiscal year 2008/09 being 4.65% other than the samples in every year increases. In average, the interest earned to total assets ratio was 5.31% which indicated that SCBNL generated Rs.5.31 as interest income from Rs.100 investment in total assets.

Similarly, the total interest earned to total assets ratio of NABIL seems to be in the increasing trend unlike in the fiscal year 2007/08 there is a slight decrease in the ratio being 5.33%. The increasing trend started from the fiscal year 2006/07 being 5.83% to the fiscal year 2009/10 reaching 7.77% and then increasing to 9.72% in the fiscal year 2010/11 respectively. In average, the interest earned to total assets ratio was 7.13% which indicated that NABIL generated Rs.7.13 as interest income from Rs.100 investment in total assets.

Likewise, the total interest earned to total assets ratio of NIBL seems to be in the increasing trend unlike in the fiscal year 2007/08 there is a slight decrease in the ratio being 5.64%. The increasing trend started from the fiscal year 2006/07 being 5.74% to the fiscal year 2009/10 reaching 8.12% and then increasing to 9.10% in the fiscal year 2010/11 respectively. In average, the interest earned to total assets ratio was 7.17% which indicated that NABIL generated Rs.7.17 as interest income from Rs.100 investment in total assets.

Figure: 4.14

Total Interest Earned to Total Assets



Comparing three banks, it can be concluded that NIBL is more efficient in utilizing the total interest earned to total assets than NABIL which stood second and SCBNL, as the ratio in NIBL was highest ie; 7.17% than that of NABIL 7.13% and SCBNL 5.31%.

4.5 Inevitability Ratio:

Investors contempt to invest potentiality of the bank before taking final decision. Analysis of inevitability ratio helps the investors to know the invisibility of the bank. Under this topic the following ratios are calculated;

- Earning Per Share (EPS)
- Dividend Per Share (DPS)
- Dividend Payout Ratio (DPR)

4.5.1 Earning Per Share (EPS)

Earning per share itself implied generated income which reduces even tax, must be allocated to its real owners. It is calculated by dividing net income available to the common stockholders by the total number of common share outstanding.

$$\text{Earning Per Share} = \frac{Total\ NPAT}{Total\ no.of\ common\ share\ outstanding}$$

Table : 4.15
Earning Per Share (EPS)
(in Rupees)

(Rs.000)

Fiscal Year	Earning Per Share		
	SCNBL	NABIL	NIBL
2005/2006	175.84	129.21	59.35
2006/07	167.37	137.08	62.57
2007/08	131.92	115.86	57.87
2008/09	109.99	113.44	37.42
2009/10	77.65	83.81	52.55
2010/11	69.51	70.67	39.11
2011/12	72.61	83.57	27.66
Mean ($\bar{X}$)	**114.98**	**104.81**	**48.08**
Standard Deviation (S.D.)	41.43	23.58	12.33
Coeffiecient of Variation (C.V.)	36.03	22.50	25.65

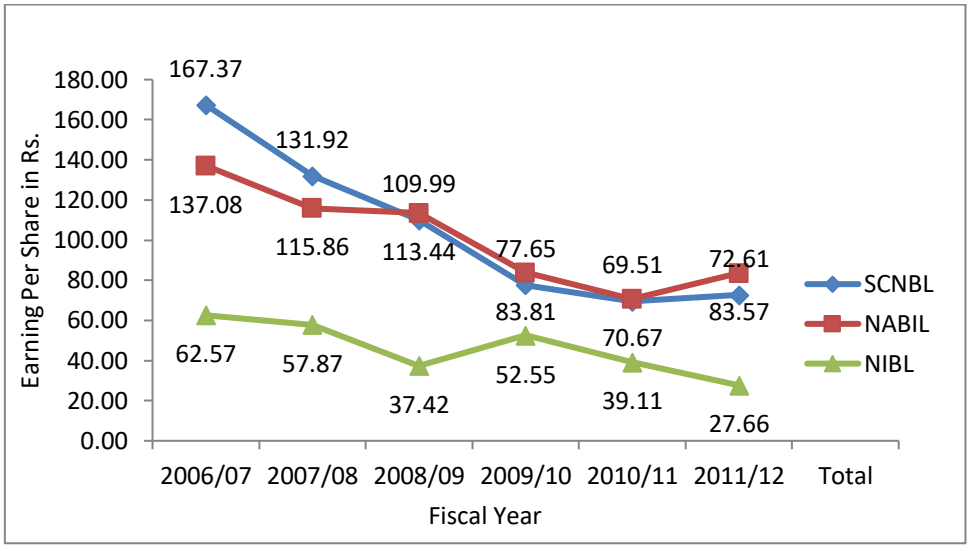
The Table 4.15 showed the trend of EPS of the selected sample banks. The EPS of SCBNL fluctuated during the seven years period of the study. The EPS ranged from Rs.175.84 in the fiscal year 2005/06 to Rs.109.99 in the fiscal year 2008/09 and finally decreased to Rs.72.61 in the fiscal year 2011/12. In average, SCBNL earned Rs.114.98 per share.

Likewise, the EPS of NABIL is also fluctuating showing Rs.129.21 in the fiscal year 2005/06. It increases to Rs.137.08 in the fiscal year 2006/07 and then for the further five years it has been decreasing showing Rs.70.67 in the f.y. 2010/11. In average, NABIL earned Rs.83.57 per share.

The EPS of NIBL is also fluctuating showing Rs.59.35 in the fiscal year 2005/06. It increases to Rs.62.57 in the fiscal year 2006/07 and then it decreases showing Rs.39.11 in the fiscal year 2010/11. In average, NABIL earned Rs.48.07 per share.

Figure: 4.15

Earning Per Share



Comparing these three JVBs on the basis of EPS, it can be concluded that SCBNL is the highest profit earning bank than NABIL and NIBL and the uniformity on the EPS is also greatest in SCBNL compared to that of other banks.

4.5.2 Dividend Per Share (DPS)

Dividend per share implies the portion of the net profit, which is allocated to shareholders as their return in terms of cash. It also implies what the owners have theoretical impact entitled to get from the company. DPS is that portion of earning the cash, where the amount is allocated to shareholders dividend by the total number of ordinary share outstanding.

$$\text{Dividend Per Share} = \frac{\text{Total Proposed Dividend Amoount}}{\text{Total no.oc common share issued}}$$

Table : 4.16
Dividend Per Share (DPS)
(in Rupees)

(Rs.000)

Fiscal Year	Dividend Per Share		
	SCNBL	NABIL	NIBL
2005/2006	140.00	85.00	55.46
2006/07	130.00	140.00	30.00
2007/08	130.00	100.00	40.83
2008/09	100.00	85.00	20.00
2009/10	70.00	70.00	25.00
2010/11	50.00	30.00	50.00
2011/12	60.00	60.00	30.00
Mean $(\bar{X})$	**97.14**	**81.43**	**35.90**
Standard Deviation (S.D.)	34.52	31.70	12.23
Coefficient of Variation (C.V.)	35.54	38.93	34.07

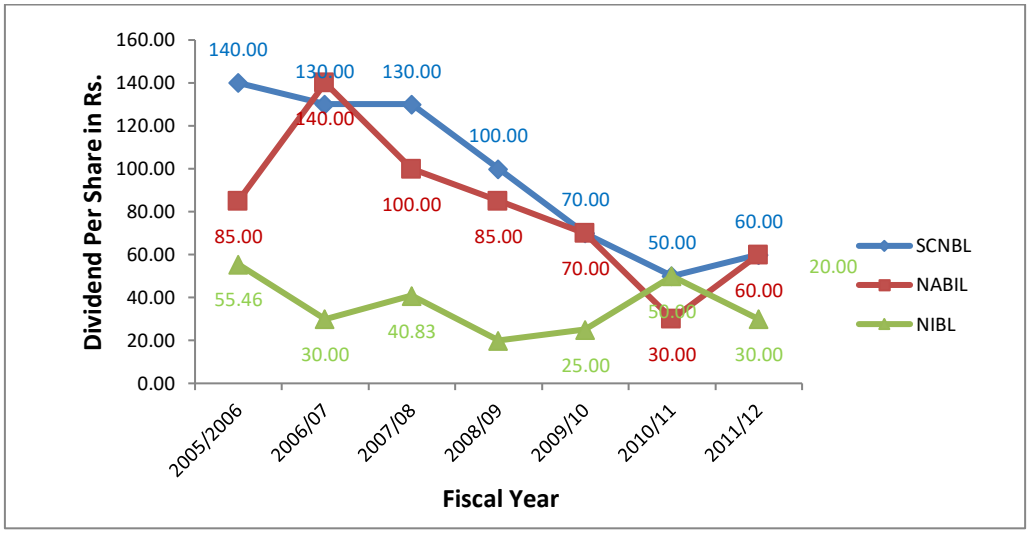
The Table 4.16 showed the trend of DPS of the selected sample banks. DPS presented in the table includes both cash dividend (CD) percentage paid per par value of share and the bonus share dividend (BSD) percentage per par value of unit share. The DPS of SCBNL remained constant during the fiscal years 2006/07 and 2007/08 with Rs.130 per share dividend. Then, at the fiscal year 2008/09 it increase to Rs.100 per share dividend and reached to Rs.60 per share dividend at the fiscal year 2011/12.

Likewise, the DPS of NABIL is also fluctuating showing Rs.85per share dividend in the fiscal year 2005/06. It increases to Rs.140 in the fiscal year 2006/07 and then for the further five years it has been decreasing showing Rs.30 per share dividend in the fiscal year 2010/11.

Similarly, the DPS of NIBL is also fluctuating showing Rs.55.46 per share dividend in the fiscal year 2005/06. It decreased to Rs.30 in the fiscal year 2006/07. In the fiscal year 2007/08 it has Rs.40.83per share dividend and at the fiscal year 2011/12 it shows Rs.30 per share dividend.

Figure: 4.16

Dividend Per Share



Comparing these three JVBs on the basis of DPS, it can be concluded that SCBNL remained more success to retain its existing shareholders and to allure the potential shareholders towards it by distributing highest amount of dividend per share than NABIL and NIBL.

4.5.3 Dividend Payout Ratio (DPR)

Dividend Payout Ratio measures the relationship between the earnings belonging to the ordinary shareholders and the dividend paid to them. In other words, the dividend payout ratio shows what proportion of earning is paid out as dividend and how much retained by the firm. Usually, higher dividend payout ratio is preferred by the shareholders where as a very high ratio may slow-down the growth. Likewise, goal of the firm favors a low dividend payout ratio as there is proportionately more earning in order to utilizing gain (profit) in the profit generating purpose.

$$\text{Dividend Payout Ratio} = \frac{Dividend\ Per\ Share}{Earning\ Per\ Share}$$

Table : 4.17
Dividend Payout Ratio

(in percentage) (Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	DPS	EPS	Ratio	DPS	EPS	Ratio	DPS	EPS	Ratio
2005/2006	140.00	175.84	**79.62**	**85.00**	129.21	**65.78**	**55.46**	59.35	**93.45**
2006/07	130.00	167.37	**77.67**	140.00	137.08	**102.13**	30.00	62.57	**47.95**
2007/08	130.00	131.92	**98.54**	100.00	115.86	**86.31**	40.83	57.87	**70.55**
2008/09	100.00	109.99	**90.92**	85.00	113.44	**74.93**	20.00	37.42	**53.45**
2009/10	70.00	77.65	**90.15**	70.00	83.81	**83.52**	25.00	52.55	**47.57**
2010/11	50.00	69.51	**71.93**	30.00	70.67	**42.45**	50.00	39.11	**127.84**
2011/12	60.00	72.61	**82.63**	60.00	83.57	**71.80**	30.00	27.66	**108.46**
Mean($\bar{X}$)			84.49			75.27			78.47
Standard Deviation (S.D.)			8.47			17.28			29.61
Coefficient of Variation (C.V.)			10.02			22.96			37.74

The Table 4.17 showed the trend of dividend payout ratio of the selected sample banks. The table showed that the dividend payout ratio of SCBNL in the seven consecutive years were 79.62% in the fiscal year 2005/06, 77.67% in fiscal year 2006/07, 98.54% in fiscal year 2007/08, 90.92% in fiscal year 2008/09, 90.15% in fiscal year 2009/10, 71.93% in fiscal year 2010/11 and 82.63% in fiscal year 2011/12 respectively.

Similarly, the dividend payout ratio of NABIL ranged from 65.78% in the fiscal year 2005/06 increased tremendously to the highest of all the ratios of banks in comparisons 102.13% the very next in the fiscal year 2006/07 and again falls to 86.31% in the fiscal year 2007/08. Also, the dividend payout ratio of NIBL ranged from 47.95% in the fiscal year 2006/07 to 127.84% in the fiscal year 2010/11.

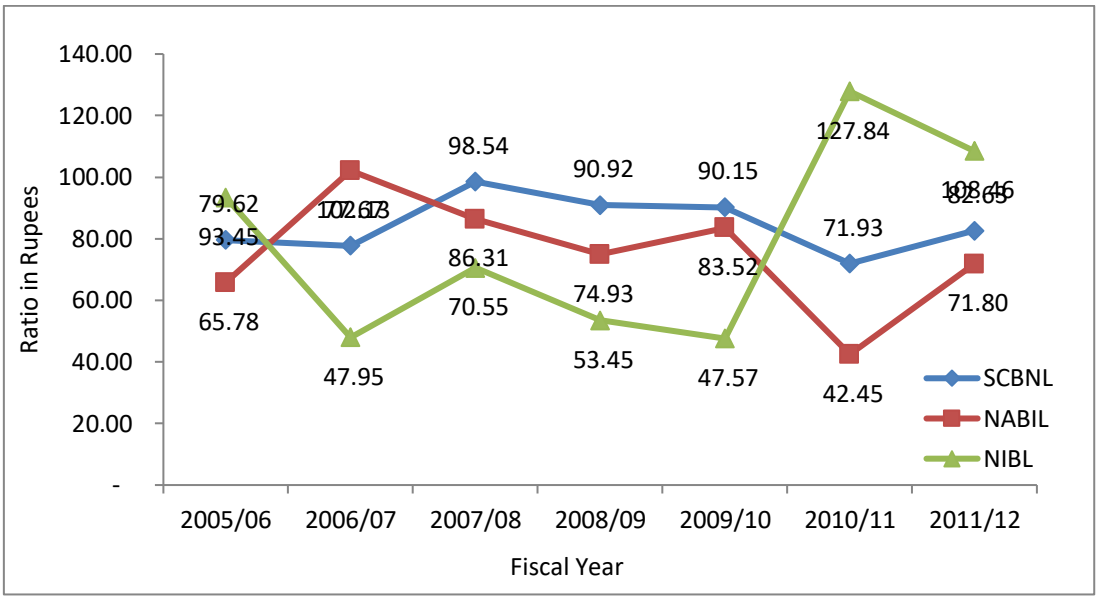
In average, SCBNL, NABIL and NIBL distributed 84.49%, 75.27% and 78.47% respectively of the total earnings as dividend to shareholders of the corresponding banks. Besides these, the coefficient of variations on dividend payout ratio of SCBNL was 10.02%, NABIL was 22.96% and NIBL was 37.74% respectively.

Although, the dividend payout ratio of all the sampled banks fluctuated tremendously, the dividend payout ratio of SCBNL is considered best since the average dividend payout ratio of SCBNL is highest compared to that of other banks. Hence, it is

considered that the shareholders of SCBNL were more satisfied than those of NABIL and NIBL, as SCBNL's shareholders got more percentage of EPS in the form of dividend. Also, on the basis of highest dividend payout ratio, it is considered that SCBNL is most matured bank than other. In addition, lowest coefficient of variation of 10.02% of SCBNL indicated that SCBNL has best benchmark and uniformity on dividend payout ratio.

Figure: 4.17

Dividend Payout Ratio



4.6 Other Ratios:

- Total Interest Expenses to Total Interest Income Ratio (TIE to TIR)
- Commission and Discount to Total Income Ratio
- Total Staff Expenses to Total Income Ratio (TSE to TIR)
- Total Exchange Gain to Total Income Ratio

4.6.1 Total Interest Expenses to Total Interest Income Ratio (TIE to TIR)

This ratio is measures the percentage of total interest expenses against total interest income. This ratio is calculated by dividing total interest expenses by total interest income.

TIE to TIR = $\frac{Total\ Interest\ Expenses}{Total\ Interest\ Income}$

Table : 4.18

Total Interest Expenses to Interest Income Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Interest Expenses	Interest Income	Ratio (in %)	Interest Expenses	Interest Income	Ratio (in %)	Interest Expenses	Interest Income	Ratio (in %)
2005/2006	303,198	1,189,602	**25.49**	357,161	1,309,999	**27.26**	490,947	1,172,742	**41.86**
2006/07	413,055	1,411,982	**29.25**	555,710	1,587,759	**35.00**	685,530	1,584,987	**43.25**
2007/08	471,730	1,591,195	**29.65**	758,436	1,978,696	**38.33**	992,158	2,194,275	**45.22**
2008/09	543,787	1,887,221	**28.81**	1,153,280	2,798,486	**41.21**	1,686,973	3,267,941	**51.62**
2009/10	575,740	2,042,109	**28.19**	1,960,108	4,047,725	**48.42**	2,553,847	4,653,521	**54.88**
2010/11	1,003,100	2,718,699	**36.90**	2,946,691	5,258,269	**56.04**	3,620,337	5,803,440	**62.38**
2011/12	1,007,199	2,870,971	**35.08**	3,152,940	6,145,751	**51.30**	3,814,411	5,982,641	**63.76**
Mean ($\bar{X}$)			**30.48**			**42.51**			**51.85**
Standard Deviation (S.D.)			**3.73**			**9.28**			**8.28**
Coefficient of Variation (C.V.)			**12.24**			**21.83**			**15.97**

Source: Annual Reports of SCBNL, NABIL and NIBL

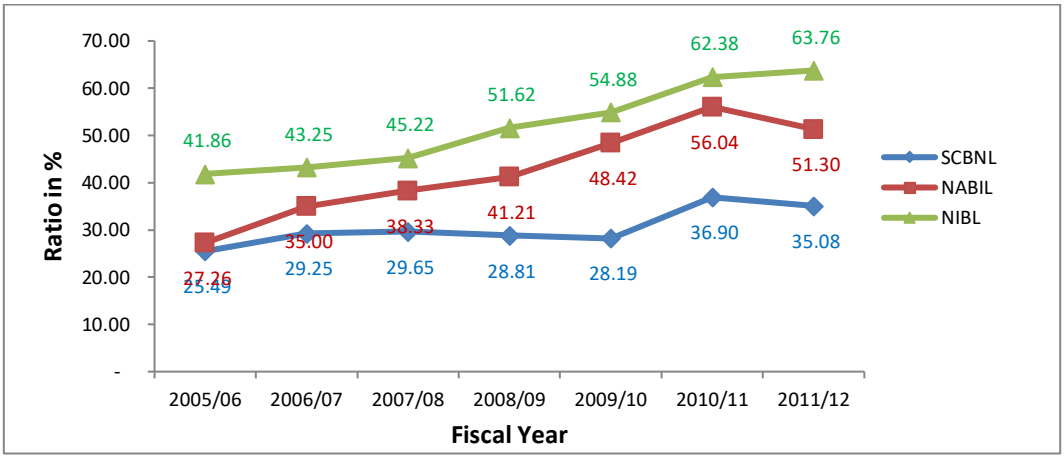
The table 4.18 showed the total interest expenses to the total interest income ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL fluctuated during the seven years period. The ratio was 25.49% in the fiscal year 2005/06 and remained slightly constant during the fiscal years 2006/07 and 2007/08 with 29.25% and 29.65% respectively and during the fiscal year 2008/09 and 2009/10 with 28.81% and 28.19%. In average, the total expenses occupied 30.48% of the total income of the bank.

Similarly, 27.26%, 35%, 38.33%, 41.21%, 48.42%, 56.04% and 51.30% of the total deposits of NABIL remained mobilized as investments in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, NABIL kept 42.51% of total interest expenses to total interest income to meet the daily obligations.

Likewise, the table showed that the ratio in NIBL is in the increasing trend from the fiscal year 2005/06 being 41.86% to the fiscal year 2008/09 which is 51.62% to the fiscal year 2011/12 which was 62.38%. In average, NIBL kept 51.85% of total interest expenses to total income.

Figure: 4.18

Total Interest Expenses to Interest Income



Comparing three banks, it can be concluded that SCBNL is more efficient in utilizing total interest expenses to total interest income. The reason for this conclusion is, high ratio is not suitable for the bank because interest income will go to interest expenses. Likewise, low ratio will also be not suitable because it shows the bank is not successful in collecting deposits and with low deposit the bank cannot invest in profitable sector. So, appropriate ratio is beneficial so SCBNL is chosen best as it depends upon the banks practice and experience.

4.6.2 Commission and Discount to Total Income Ratio

This ratio reflects the proportion of commission and discount earned on total income. Thus, it is calculated by dividing income from commission and discount by the total income of the bank.

$$\text{Commission and Discount to Total Income Ratio} = \frac{Total\ Commission\ and\ Discount}{Total\ Interest\ Income}$$

Table : 4.19

Total Commission & Discount Income to Total Interest Income Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Commission & Discount	Interest Income	Ratio (in %)	Commission & Discount	Interest Income	Ratio (in %)	Commission & Discount	Interest Income	Ratio (in %)
2005/2006	222,929	1,189,602	18.74	138,294	1,309,999	10.56	115,942	1,172,742	9.89
2006/07	221,207	1,411,982	15.67	150,608	1,587,759	9.49	163,899	1,584,987	10.34
2007/08	276,432	1,591,195	17.37	156,234	1,978,696	7.90	215,292	2,194,275	9.81
2008/09	235,469	1,887,221	12.48	179,693	2,798,486	6.42	262,792	3,267,941	8.04
2009/10	338,298	2,042,109	16.57	215,482	4,047,725	5.32	242,886	4,653,521	5.22
2010/11	314,423	2,718,699	11.57	290,855	5,258,269	5.53	269,429	5,803,440	4.64
2011/12	270,472	2,870,971	9.42	364,075	6,145,751	5.92	319,667	5,982,641	5.34
Mean ($\bar{X}$)			14.55			7.31			7.65
Standard Deviation (S.D.)			3.17			1.91			2.27
Coefficient of Variation (C.V.)			21.79			26.14			29.66

Source: Annual Reports of SCBNL, NABIL and NIBL

The table 4.19 showed the total commission and discount income to the total interest income ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL fluctuated during the seven years period. The ratio was 18.74% in the fiscal year 2005/06 and decreased during the fiscal years 2006/07 and 2008/09 with 15.67% and 12.48% respectively and during the fiscal year 2007/08 and 2009/10 with 17.37% and 16.57%. In average, the total commission and discount occupied 14.55% of the total interest income of the bank.

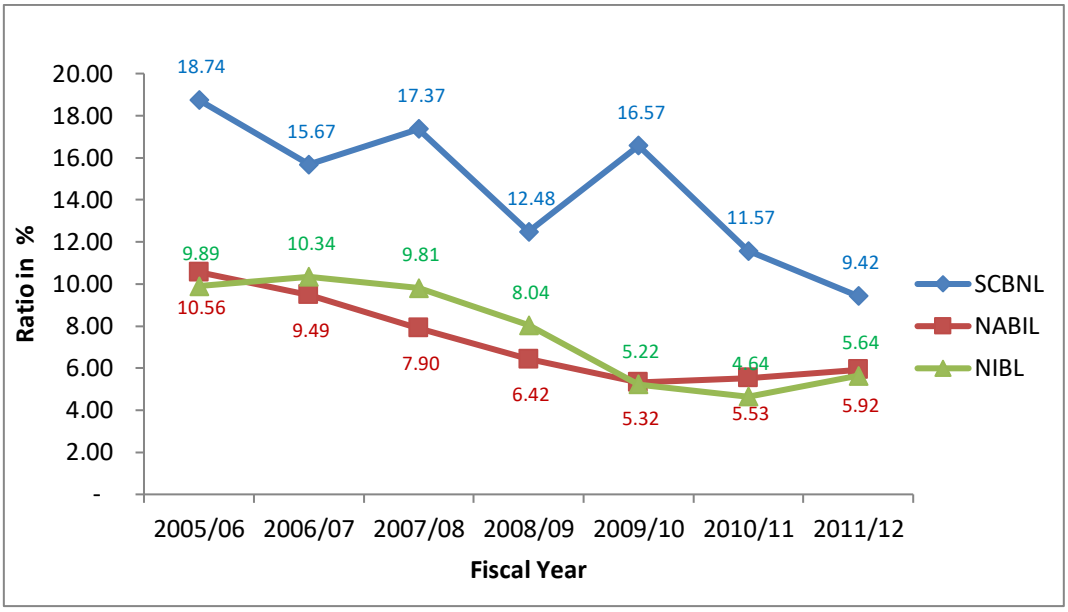
Similarly, 10.56%, 9.49%, 7.90%, 6.42%, 5.32%, 5.53% and 5.92% of the total interest income of NABIL remained mobilized as commission and discount in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, NABIL kept 7.31% of total commission and discount as the total interest income of the bank.

Likewise, the commission and discount to total interest income ratio of NIBL also fluctuated during seven years period. . The ratio was 9.89% in the fiscal year 2005/06 and increased during the fiscal years 2006/07 and 2007/08 with 10.34% and 9.81% respectively. The ratio then decreased from the fiscal year 2008/09 to 2011/12 with

8.04% and 5.34%. In average, the total commission and discount occupied 7.65% of the total interest income of the bank.

Figure: 4.19

Total Commission & Discount Income to Total Interest Income



Comparing these three JVBs on the basis of total commission and discount income to total interest income, it can be concluded that SCBNL remained more success to retain its existing commission and discount by distributing highest amount of interest income than NABIL and NIBL.

4.6.3 Total Staff Expenses to Total Income Ratio (TSE to TIR)

This ratio measures the percentage of staff expenses against total income of the bank. It is calculated by dividing staff expenses by the total income. The firm's staff expenses includes salary, allowances, bank contribution to provident fund, gratuity fund, staff training expenses, medical expenses and other expenses; etc.

Total Staff Expenses to Total Income Ratio = $\frac{Total\ Staff\ Expenses}{Total\ Income}$

Table : 4.20

Total Staff Expenses to Total Income Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Staff Expenses	Total Income	Ratio (in %)	Staff Expenses	Total Income	Ratio (in %)	Staff Expenses	Total Income	Ratio (in %)
2005/2006	168,231	910,092	18.49	219,780	1,751,261	12.55	111,050	493,293	22.51
2006/07	199,778	1,137,181	17.57	240,161	2,092,824	11.48	145,371	547,349	26.56
2007/08	225,256	1,366,855	16.48	262,908	1,011,161	26.00	187,150	818,086	22.88
2008/09	253,056	1,455,207	17.39	339,898	1,192,753	28.50	225,721	968,098	23.32
2009/10	312,964	1,325,366	23.61	367,162	1,257,169	29.21	279,851	1,422,508	19.67
2010/11	365,986	1,141,204	32.07	455,616	1,449,150	31.44	326,543	1,890,254	17.28
2011/12	386,823	1,846,205	20.95	505,009	2,199,535	22.96	340,160	1,294,809	26.27
Mean ($\bar{X}$)			20.94			23.16			22.64
Standard Deviation (S.D.)			5.03			7.47			3.09
Coefficient of Variation (C.V.)			24.02			32.25			13.65

Source: Annual Reports of SCBNL, NABIL and NIBL

The table 4.20 showed the total staff expenses to the total income ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL fluctuated during the seven years period. The ratio was 18.49% in the fiscal year 2005/06 and decreased during the fiscal years 2006/07 and 2007/08 with 17.57% and 16.48% respectively and increased during the fiscal year 2008/09 to 2010/11 with 17.39% and 32.07%. In average, the total staff expenses occupied 20.94% of the total income of the bank.

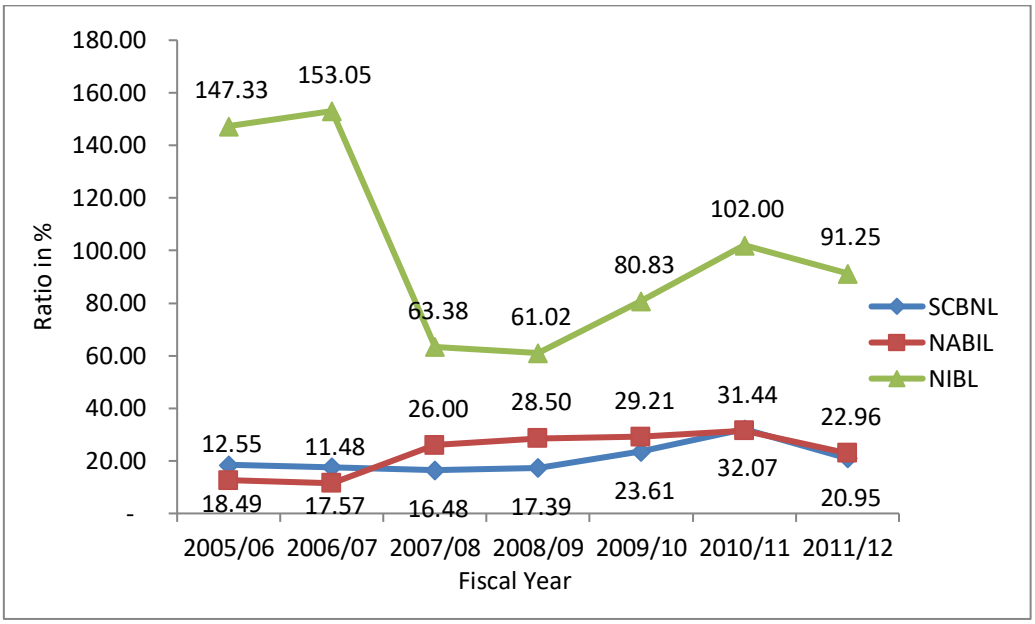
Similarly, 12.55%, 11.48%, 26%, 28.5%, 29.21%, 31.44% and 22.96% of the total income of NABIL remained mobilized as staff expenses in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, NABIL kept 23.16% of total income as the staff expenses of the bank.

Likewise, the staff expenses to total income ratio of NIBL also fluctuated during seven years period. The ratio was 22.51% in the fiscal year 2005/06 and increased during the fiscal years 2006/07 and 2008/09 with 26.56% and 23.32% respectively. The ratio then decreased from the fiscal year 2009/10 and 2010/11 with 19.67% and 17.28%. In average, the total staff expenses occupied 22.64% of the total income of the bank.

There is no standard for this ratio, it depends upon the banks practice and experience. Staff expenses are increased if business activities are increased. Volume of the business creates the staff expenses. Thus, it can be concluded from the table and graph that NABIL has more effectively used its income towards enhancing its staffs.

Figure: 4.20

Total Staff Expenses to Total Income



4.6.4 Total Exchange Gain to Total Income Ratio

This ratio reflects the proportion of exchange fluctuation income to total income. Thus, it is calculated by dividing net exchange gain by total income.

$$\text{Total Exchange Gain to Total Income Ratio} = \frac{Total\ Exchange\ Gain/Income}{Total\ Income}$$

Table : 4.21
Total Exchange Income toTotal Income Ratio

(Rs.000)

Fiscal Year	SCNBL			NABIL			NIBL		
	Exchange Income	Total Income	Ratio (in %)	Exchange Income	Total Income	Ratio (in %)	Exchange Income	Total Income	Ratio (in %)
2005/2006	283,472	910,092	31.15	185,484	1,751,261	10.59	125,748	493,293	25.49
2006/07	309,086	1,137,181	27.18	209,926	2,092,824	10.03	135,355	547,349	24.73
2007/08	345,653	1,366,855	25.29	196,487	1,011,161	19.43	165,839	818,086	20.27
2008/09	480,031	1,455,207	32.99	251,920	1,192,753	21.12	185,327	968,098	19.14
2009/10	458,564	1,325,366	34.60	291,441	1,257,169	23.18	224,056	1,422,508	15.75
2010/11	387,134	1,141,204	33.92	276,103	1,449,150	19.05	228,076	1,890,254	12.07
2011/12	435,884	1,846,205	23.61	281,387	2,199,535	12.79	264,167	1,294,809	20.40
Mean ($\bar{X}$)			29.82			16.60			19.69
Standard Deviation (S.D.)			4.10			4.95			4.37
Coefficient of Variation (C.V.)			13.75			29.82			22.19

Source: Annual Reports of SCBNL, NABIL and NIBL

The table 4.21 showed the total exchange income to the total income ratio of three sampled banks viz, SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL fluctuated during the seven years period. The ratio was 31.15% in the fiscal year 2005/06 and decreased during the fiscal years 2006/07 and 2007/08 with 27.18% and 25.29% respectively and increased during the fiscal year 2008/09 to 2010/11 with 32.99% and 33.92%. In average, the total exchange income occupied 29.82% of the total income of the bank.

Similarly, the total exchange income to total income ratio of NABIL also fluctuated during seven years period. The ratio was 10.59% in the fiscal year 2005/06 and increased during the fiscal years 2007/08 to 2009/10 with 19.43% and 23.18% respectively. The ratio then decreased from the fiscal year 2010/11 and 2011/12 being 19.05% and 12.79%. In average, the total exchange income occupied 19.69% of the total income of the bank.

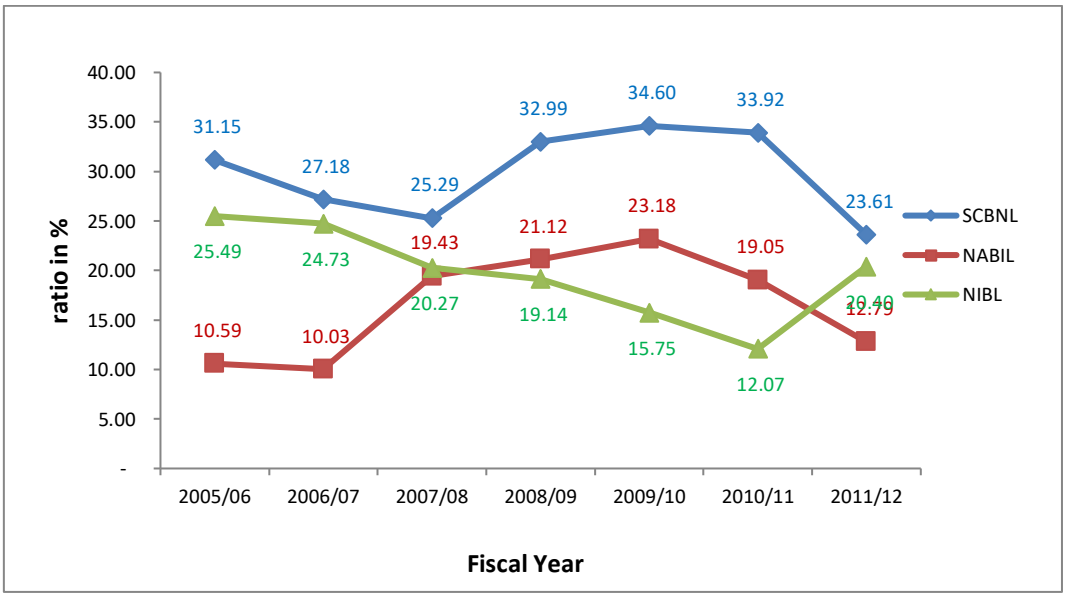
Likewise, 25.49%, 24.73%, 20.27%, 19.14%, 15.75%, 12.07% and 20.40% of the total income of NIBL remained mobilized as exchange income in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In

average, NIBL kept 19.69% of total income as the exchange income and the coefficient of variance was 22.19%.

Comparing three banks, it can be concluded that SCBNL is more efficient in utilizing total exchange income to total income. The reason for this conclusion is high capacity of foreign exchange currency earning capacity of SCBNL being 29.82%.

Figure: 4.21

Total Exchange Income to Total Income



4.7 Income and Expenses Analysis:

4.7.1 Income (Cash Receipt) Analysis

It is analyzed to find out the proportionate contribution of different sources of income in generating total income analysis being one of the important indicators of the financial performance.

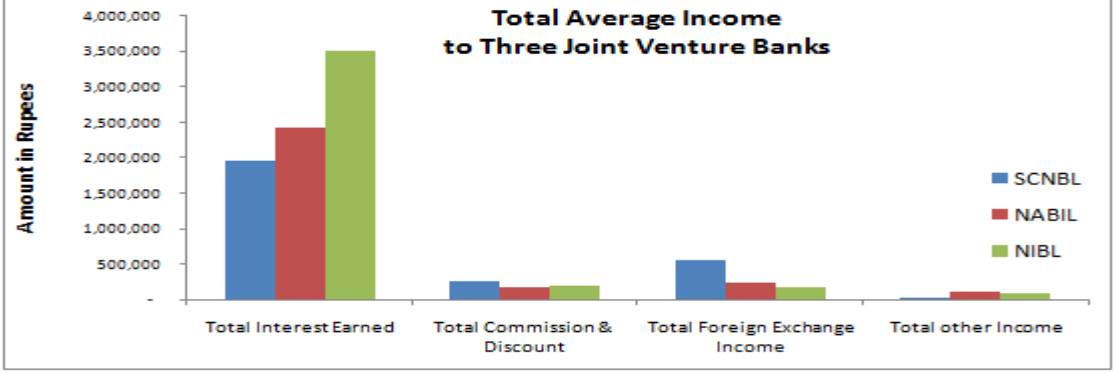
The main sources of commercial banks are interest received from loans and advances, interest received from government securities, commission and discount, foreign exchange, fluctuation gain and other miscellaneous sources. The contribution of each source to the total average income has been tabulated in terms of Rupees in the following table:

Table : 4.22
Total Average Income of Three Joint Venture Banks

(Rs.000)

Income Sources	SCNBL	NABIL	NIBL
Total Interest Earned	1,958,826	2,425,849	3,522,792
Total Commission & Discount	268,461	200,234	220,102
Total Foreign Exchange Income	579,880	250,611	189,795
Total other Income	34,393	119,966	103,768
Total	2,841,560	2,996,660	4,036,457

Figure: 4.22
Total Average Income to Three Joint Venture Banks



Total Interest Earned/Income:

All banks are financial concerns, thus the efficiency of the banks is reflected by the extent of interest earned that includes loans and advances, overdrafts, treasury bills and securities.

The Table 4.22 demonstrated total average income of three selected JVBs viz, SCBNL, NABIL and NIBL. The table showed income generated from interest appears as the major component of earnings. In average, SCBNL mobilized Rs.1958826 from total interest earned. Likewise, NABIL earned Rs.2425849 and the earnings from NIBL is Rs.3522792 within the seven years period from the fiscal year 2005/06 to 2011/12. Thus, comparing total interest earned from among three JVBs, it can be concluded that NIBL has more interest earnings.

Total Commission and Discount:

The commission and discount includes income from letter of credit, letter of guarantee, collecting fees, remittance fees and other fees and commission.

The Table 4.22 demonstrated total average commission and discounts of three selected JVBs viz, SCBNL, NABIL and NIBL. The table showed income generated

from commission and discount of SCBNL is Rs.268461 and that of NABIL is Rs.200234 and NIBL being Rs.220102. Thus, comparing total commission and discount from among three JVBs, it can be concluded that SCBNL has more earnings.

Total Foreign Exchange Income:

Total foreign exchange income is also the major source of income that includes income earned through the sale of exchange currency and revaluation gain.

The Table 4.22 demonstrated total average of three selected JVBs viz, SCBNL, NABIL and NIBL. The table showed income generated from foreign exchange of SCBNL is Rs.579880 and that of NABIL is Rs.250611 and NIBL is Rs.189795 respectively. Thus, comparing total foreign exchange income from among three JVBs, it can be concluded that SCBNL has more foreign exchange earnings.

Other Income:

The Table 4.22 showed other income earnings of SCBNL is Rs.34393 and that of NABIL is Rs.119966 and NIBL being Rs.103768 respectively. Thus, comparing other incomes other than mentioned incomes, it can be concluded that NABIL has more earnings in other income.

4.7.2 Expenses (Cash Payment) Analysis:

It is evaluated to find out proportionate expenses under the different headings. Commercial banks have various headings under which expenses are made but income statement of the banks only shows major headings and sub-heading grouped within these major headings for their business for their financial statement.

The main sources of commercial banks are interest expenses, staff expenses, office operating expenses and other related expenses. The contribution of each source to the total average expenses has been tabulated in terms of Rupees in the following table:

Table : 4.23

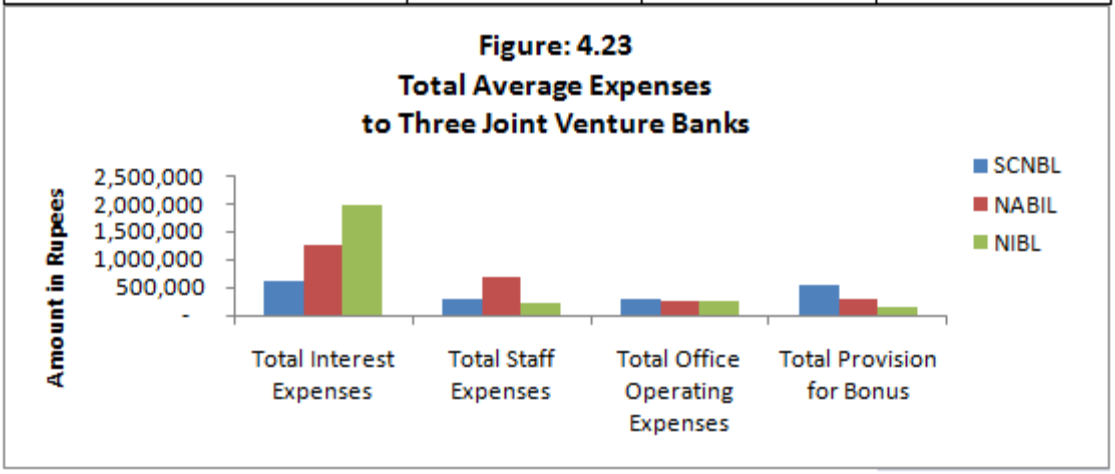
Total Average Expenses of Three Joint Venture Banks

(Rs.000)

Expenses Sources	SCNBL	NABIL	NIBL
Total Interest Expenses	616,830	1,248,369	1,977,743
Total Staff Expenses	273,156	661,621	230,835
Total Office Operating Expenses	268,630	245,782	244,917
Total Provision for Bonus	542,985	276,115	150,335
Total	1,701,601	2,431,888	2,603,831

Figure: 4.23

Total Average Expenses to Three Joint Venture Banks



Total Interest Expenses:

All banks are financial concerns, thus the efficiency of the banks is reflected by the consumption of interest expenses that includes interest paid on deposits, borrowings and loans and advances.

The Table 4.23 demonstrated total average interest expenses of three selected JVBs viz, SCBNL, NABIL and NIBL. In average, SCBNL mobilized Rs.616830 from total interest expenses. Likewise, NABIL bears Rs.1248369 and NIBL has Rs.1977743 as interest expenses within the seven years period from the fiscal year 2005/06 to 2011/12. The trend of interest payment has been increasing over the study period and showed continuous fluctuation. . The main reason of this fluctuation is increment in the amount of deposit and increased rate of interest on deposit. Thus, comparing total interest expenses from among three JVBs, it can be concluded that NIBL has more interest expensed.

Total Staff Expenses:

The banks being the working industry to its staffs comprises staff expenses as the main highlight of the operating expenses. It includes salary and allowances, contribution to provident and gratuity funds, staff training expenses, medical aids, personal development and fooding, operating expenses and other expenses related to bank personnel.

The Table 4.23 demonstrated total average staff expenses of three selected JVBs viz, SCBNL, NABIL and NIBL. In average, SCBNL mobilized Rs.273156 for total staff expenses. Likewise, NABIL bears Rs.661621 and NIBL has Rs.230835 as staff expenses within the seven years period from the fiscal year 2005/06 to 2011/12. Thus, comparing total staff expenses from among three JVBs, it can be concluded that NABIL has contributed more to enhance its staffs for better work environment.

Office Operating Expenses:

Office expenses includes house rent for office premises, water charges, lighting and heating, repairs and maintenance, insurance, postage, telephone and telex, travelling allowance expenses, office donations and promotions, board expenses, audit fees, depreciation on fixed assets, entertainment, annual general meetings, premium to credit guarantee, provision for other losses and other miscellaneous expenses.

The Table 4.23 demonstrated total average office operating expenses of three selected JVBs viz, SCBNL, NABIL and NIBL. In average, SCBNL mobilized Rs.268630 for office operating expenses. Likewise, NABIL bears Rs.245782 and NIBL has Rs.244917 as office operating expenses within the seven years period from the fiscal year 2005/06 to 2011/12. Thus, comparing total operating expenses from among three JVBs, it can be concluded that SCBNL holds more expenses. (Although there is a question, which bank covered bigger volume of business will have high operating expenses? There is no limit on operating expenses, it depends upon banks practice and experience.)

Provision for Bonus Expenses:

Bonus refers to the extra incentives paid to the employees for their efficient services which is distributed if the banks earn enough profit. Actually such financial benefit is very much motivating factors to the staffs as well as to the company itself.

The Table 4.23 demonstrated total average provision for bonus expenses of three selected JVBs viz, SCBNL, NABIL and NIBL. In average, SCBNL distributed Rs.542985 for provision for bonus expenses. Likewise, NABIL bears Rs.276115 and NIBL has distributed Rs.150335 as bonus to its staffs within the seven years period from the fiscal year 2005/06 to 2011/12. Thus, comparing total provision for bonus expenses from among three JVBs, it can be concluded that SCBNL distributed more of its bonus to its staff members.

Statistical Tools:

Statistical tool is one of the important tools to analyze the data. In this section some statistical tools such as coefficient of correlation analysis between different variables, trend analysis of deposits, total investment and net profit are used to achieve the objectives of the study.

4.8 Correlation Analysis:

Coefficient of correlation shows the relationship between two or more than two variables. It measures whether two variables are positively or negatively co-related. Karl Pearson's coefficient of correlation has been taken for the study and applied to find-out and analyze the relationship between total deposit and loan and advance, total deposit and total investment, loan and advance and net profit, and net profit and total deposit. In this analysis, correlation between the important variables is analyzed under this heading;

4.8.1 Correlation Coefficient between Deposit and Loan and Advances:

Total deposit has played a vital role in performance of the commercial bank and loan and advance is also the important tool to mobilize the collected deposits. Coefficient of correlation between deposit and loan and advances measure the degree of relationship between these two variables**.**

In this analysis, deposit is the independent variable (X) and loan and advance is dependent variable (Y). The main objective of computing 'r' between these two variables, is to justify whether deposits are significantly used as loan and advances in a proper way or not. The below table shows the value of 'r', 'r^2', probable error (P.E.) and 6P.E. between three sampled banks namely SCBNL, NABIL and NIBL;

Table : 4.24

Coefficient of Correlation between Total Deposit and Loan & Advance

Name of Banks	Evaluation Criterions				
	r	r^2	P.E.	6 P. E.	Remarks
SCBNL	0.927	0.860	0.04	0.240	Significant
NABIL	0.995	0.990	0.01	0.060	Significant
NIBL	0.990	0.980	0.01	0.060	Significant

Source : APPENDIX - I

The Table 4.24 demonstrated coefficient of correlation between total deposit and loan and advance of three selected JVBs viz, SCBNL, NABIL and NIBL. The coefficient of correlation (r) is 0.927 of SCBNL, 0.995 of NABIL and 0.990 of NIBL, which shows deposit and loan and advances of all these JVBs move together very closely but not proportionately. Moreover, coefficient of determination of SCBNL, NABIL and NIBL are 0.860, 0.990 and 0.980 respectively. It means, 86percent of variation in loan and advances of SCBNL, 99 percent of variation in loan and advances of NABIL and 98 percent of variation in loan and advances of NIBL have been explained by total deposit. Likewise, the correlation of coefficient of all the sampled banks are significant because the correlation of coefficient is greater than the relative value of 6 P.E. that denotes there is significant relationship between total deposit and loan and advances of SCBNL, NABIL and NIBL.

4.8.2 Correlation Coefficient between Deposit and Investment:

Total investment has played a vital role in mobilizing the collected deposits. Coefficient of correlation between deposit and investment measure the degree of relationship between these two variables**.**

In this analysis, deposit is the independent variable (X) and investment is dependent variable (Y). The main objective of computing 'r' between these two variables, is to justify whether deposits are significantly used to invest in a proper way or not. The below table shows the value of 'r', 'r^2', probable error (P.E.) and 6P.E. between three sampled banks namely SCBNL, NABIL and NIBL;

Table 4.25

Coefficient of Correlation between Total Deposit and Investment

Name of Banks	Evaluation Criterions				
	r	r^2	P.E.	6 P. E.	Remarks
SCBNL	0.988	0.976	0.027	0.162	Significant
NABIL	0.977	0.955	0.018	0.108	Significant
NIBL	0.815	0.664	0.10	0.600	Significant

The Table 4.25 demonstrated coefficient of correlation between total deposit and investment of three selected JVBs viz, SCBNL, NABIL and NIBL. The coefficient of correlation (r) is 0.988 of SCBNL, 0.977 of NABIL and 0.815 of NIBL. Moreover, coefficient of determination of SCBNL, NABIL and NIBL are 0.976, 0.955and 0.664 respectively. It means, 98percent of variation in investment of SCBNL, 96 percent of variation in investment of NABIL and 66 percent of variation in investment of NIBL have been explained by total deposit. Likewise, the correlation of coefficient of all the sampled banks are significant because the correlation of coefficient is greater than the relative value of 6 P.E. that denotes there is significant relationship between total deposit and total investment of SCBNL, NABIL and NIBL.

4.8.3 Correlation Coefficient between Loan and Advance and Net Profit:

The study focuses on what portion of net profit is consumed by total loan and advances. Coefficient of correlation between loan and advance and net profit measure the degree of relationship between these two variables**.**

In this analysis, loan and advance is the independent variable (X) and net profit is dependent variable (Y). The main objective of computing 'r' between these two variables, is to justify whether net profit is significantly correlated with respective

loan and advance or not. The below table shows the value of 'r', 'r^2', probable error (P.E.) and 6P.E. between three sampled banks namely SCBNL, NABIL and NIBL;

Table 4.26

Coefficient of Correlation between Loan and Advances and Net Profit

Name of Banks	Evaluation Criterions				
	r	r^2	P.E.	6 P. E.	Remarks
SCBNL	0.998	0.996	0.008	0.048	Significant
NABIL	0.989	0.978	0.007	0.042	Significant
NIBL	0.955	0.912	0.04	0.24	Significant

The Table 4.25 demonstrated coefficient of correlation between loan and advances and net profit of three selected JVBs viz, SCBNL, NABIL and NIBL. The coefficient of correlation (r) is 0.988 of SCBNL, 0.989 of NABIL and 0.955 of NIBL, which shows deposit and investment of all these JVBs move together very closely but not proportionately. Moreover, coefficient of determination of SCBNL, NABIL and NIBL are 0.996, 0.978and 0.912 respectively. It means, 99percent of variation in net profit of SCBNL, 98 percent of variation in net profit of NABIL and 91 percent of variation in net profit of NIBL have been explained by total loan and advances. Likewise, the correlation of coefficient of all the sampled banks are significant because the correlation of coefficient is greater than the relative value of 6 P.E. that denotes there is significant relationship between net profit and loan and advances of SCBNL, NABIL and NIBL.

4.8.4 Correlation Coefficient between Total Deposit and Net Profit:

The study focuses on what portion of net profit is consumed by total deposit. Coefficient of correlation between deposit and net profit measure the degree of relationship between these two variables**.**

In this analysis, deposit is the independent variable (X) and net profit is dependent variable (Y). The main objective of computing 'r' between these two variables, is to justify whether net profit is significantly correlated with respective deposit or not.

The below table shows the value of 'r', 'r^2', probable error (P.E.) and 6P.E. between three sampled banks namely SCBNL, NABIL and NIBL;

Table 4.27

Coefficient of Correlation between Total Deposit and Net Profit

Name of Banks	Evaluation Criterions				
	r	r^2	P.E.	6 P. E.	Remarks
SCBNL	0.991	0.982	0.011	0.066	Significant
NABIL	0.983	0.966	0.019	0.114	Significant
NIBL	0.958	0.918	0.038	0.228	Significant

The Table 4.27 demonstrated coefficient of correlation between total deposit and net profit of three selected JVBs viz, SCBNL, NABIL and NIBL. The coefficient of correlation (r) is 0.991 of SCBNL, 0.983 of NABIL and 0.958 of NIBL, which shows deposit and net profit of all these JVBs move together very closely but not proportionately. Moreover, coefficient of determination of SCBNL, NABIL and NIBL are 0.982, 0.966 and 0.918 respectively. Likewise, the correlation of coefficient of all the sampled banks are significant because the correlation of coefficient is greater than the relative value of 6 P.E. that denotes there is significant relationship between net profit and total deposit of SCBNL, NABIL and NIBL.

4.9 Trend Analysis:

In financial analysis, the direction of change over a period of year is of crucial importance. Trend analysis of ratio indicates the direction of change in all financial indicators. In this section we are going to analyze some of the significant items contained in the financial statement by means of trend so as to magnify the trend changes individually as well as with respect to related items over the year. The significant fact shows by these graphs are listed below:

- Trend Analysis of Total Deposit
- Trend Analysis of Total Loan and Advances
- Trend Analysis of Total Investments
- Trend Analysis of Net Profit

4.9.1 Trend Analysis of Total Deposit:

Deposits are the important part in the banking sectors. Hence its trend for next seven years will be forecasted for the future analysis. Here the effort has been made to calculate the trend values of Total Deposit of three sampled banks viz; SCBNL, NABIL and NIBL.

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x ……(I)

Where

x = X – Middle year ie; average year (2008/09)

Then,

Y_D = 151913761 – 355763.18 X x……. of SCBNL

Y_D = 37560822.71 + 6213811.571 X x……. of NABIL

Y_D = 40258491.29 + 6471122.321 X x……. of NIBL

Table 4.28

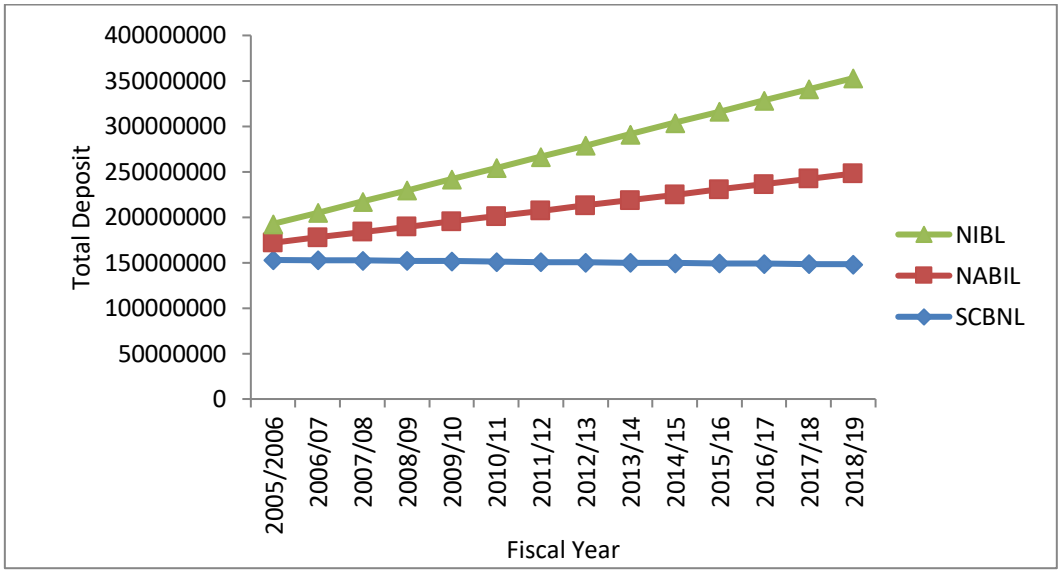
Trend Analysis of Total Deposit

Trend Analysis of Total Deposit			
Fiscal Year	**SCBNL**	**NABIL**	**NIBL**
2005/2006	152981050.5	18919388	20845124.33
2006/07	152625287.4	25133199.57	27316246.65
2007/08	152269524.2	31347011.14	33787368.97
2008/09	151913761	37560822.71	40258491.29
2009/10	151557997.8	43774634.28	46729613.61
2010/11	151202234.6	49988445.85	53200735.93
2011/12	150846471.5	56202257.42	59671858.25
2012/13	150490708.3	62416068.99	66142980.57
2013/14	150134945.1	68629880.57	72614102.9
2014/15	149779181.9	74843692.14	79085225.22
2015/16	149423418.7	81057503.71	85556347.54
2016/17	149067655.6	87271315.28	92027469.86
2017/18	148711892.4	93485126.85	98498592.18
2018/19	148356129.2	99698938.42	104969714.5

Source : Appendix - I (1)

Figure 4.24

Trend Analysis of Total Deposit



The Table 4.28 demonstrated trend analysis of total deposit of three selected JVBs viz, SCBNL, NABIL and NIBL. The rate of increment of total deposit of SCBNL seems to be constant while NABIL and NIBL bears the increasing trend. The increasing trend of NABIL and NIBL indicates aggressive total deposit collection while SCBNL seems to be slightly decreasing. The trend analysis has projected deposit amount for the fiscal year 2012/13 to the fiscal year 2018/19 for further seven years. Thus, from the above trend analysis it is clear that NABIL and NIBL are showing increasing total deposit collection while SCBNL is showing slight decreasing total deposit collection.

4.9.2 Trend Analysis of Total Loan and Advances:

Loan and advances are the important part in the banking sectors. Hence its trend for next seven years will be forecasted for the future analysis. Here the effort has been made to calculate the trend values of total loan and advances of three sampled banks viz; SCBNL, NABIL and NIBL.

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

$Y = a + b\ x$ ……(I)

Where

$x = X$ – Middle year ie; average year (2008/09)

Then,

$Y_{LA} = 14399514.57 + 1786045.5\ X\ x$……. of SCBNL

$Y_{LA} = 27047423 + 5068924.14\ X\ x$……. of NABIL

$Y_{LA} = 30907331 + 5268650.11\ X\ x$……. of NIBL

Table 4.29

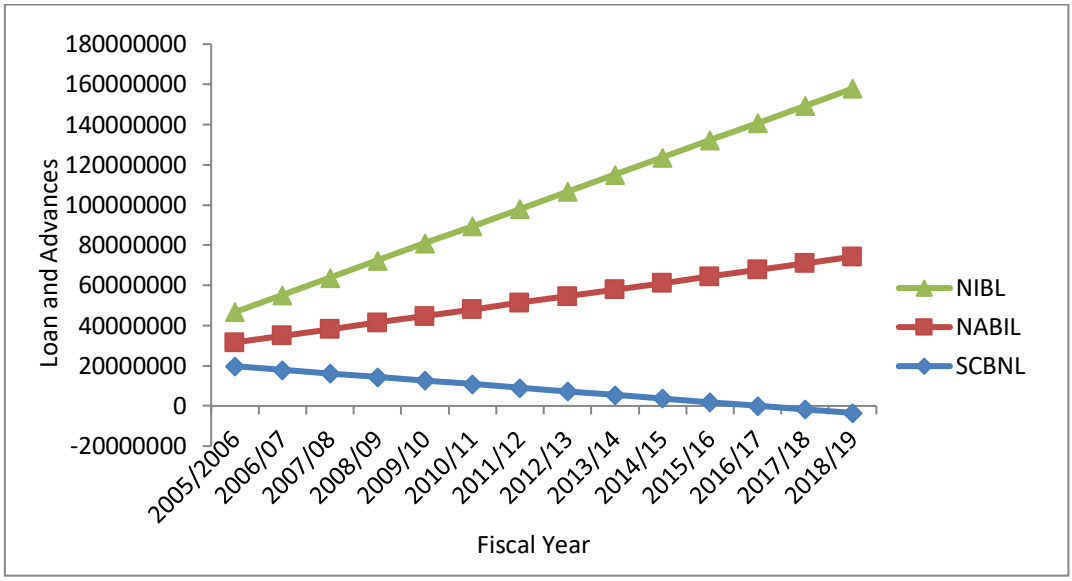
Trend Analysis of Total Loan and Advances

Trend Analysis of Total Loan and Advances			
Fiscal Year	**SCBNL**	**NABIL**	**NIBL**
2005/2006	19757651.07	11840650.58	15101380.67
2006/07	17971605.57	16909574.72	20370030.78
2007/08	16185560.07	21978498.86	25638680.89
2008/09	14399514.57	27047423	30907331
2009/10	12613469.07	32116347.14	36175981.11
2010/11	10827423.57	37185271.28	41444631.22
2011/12	9041378.07	42254195.42	46713281.33
2012/13	7255332.57	47323119.56	51981931.44
2013/14	5469287.07	52392043.7	57250581.55
2014/15	3683241.57	57460967.84	62519231.66
2015/16	1897196.07	62529891.98	67787881.77
2016/17	111150.57	67598816.12	73056531.88
2017/18	-1674894.93	72667740.26	78325181.99
2018/19	-3460940.43	77736664.4	83593832.1

Source : Appendix - I (2)

Figure 4.25

Trend Analysis of Loan and Advances



The Table 4.29 demonstrated trend analysis of total loan and advances of three selected JVBs viz, SCBNL, NABIL and NIBL. There is decreasing trend in total loan and advances of SCBNL while loan and advances of NABIL and NIBL seems to be in the increasing trend. The increasing trend of NABIL and NIBL indicates aggressive total loan and advance collection while SCBNL seems to be slightly decreasing. The trend analysis has projected loan and advance amount for the fiscal year 2012/13 to the fiscal year 2018/19 for further seven years. Thus, from the above trend analysis it is clear that NABIL and NIBL are showing increasing total loan and advance while SCBNL is showing slight decreasing total loan and advance.

4.9.3 Trend Analysis of Total Investment:

Every business desires of fruitful investment as it is the main source of profit earning. Hence its trend for next seven years will be forecasted for the future analysis. Here the effort has been made to calculate the trend values of total investments of three sampled banks viz; SCBNL, NABIL and NIBL.

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x ……(I)

Where

x = X – Middle year ie; average year (2008/09)

Then,

Y_I = 15797759.71 + 486715.36 X x……. of SCBNL

Y_I = 11186551.86 + 1080971.21 X x……. of NABIL

Y_I = 7849930 + 567614.68 X x…….. of NIBL

Table 4.30

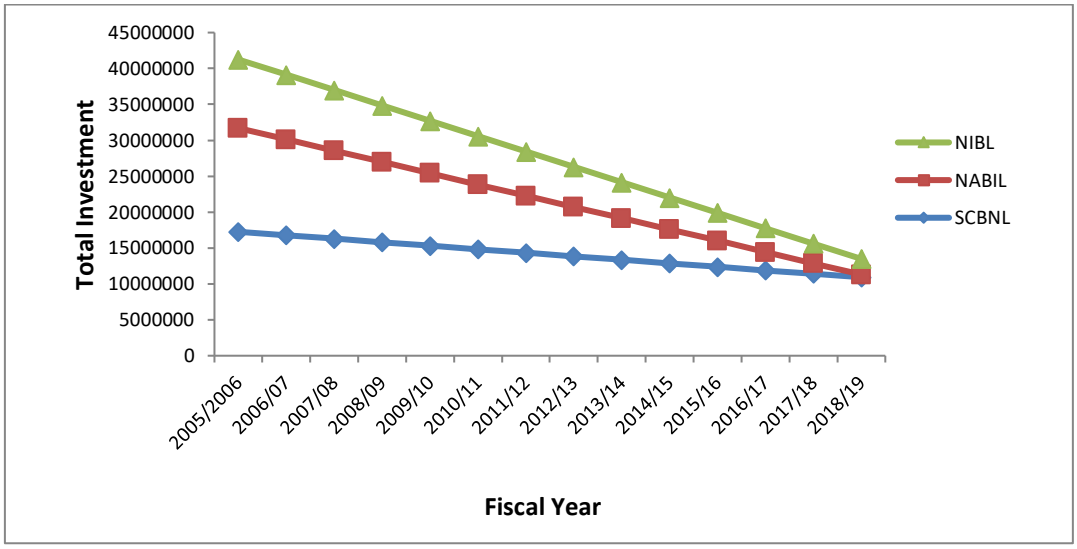
Trend Analysis of Total Investment

Trend Analysis of Total Investment			
Fiscal Year	**SCBNL**	**NABIL**	**NIBL**
2005/2006	17257905.79	14429465.49	9552774.04
2006/07	16771190.43	13348494.28	8985159.36
2007/08	16284475.07	12267523.07	8417544.68
2008/09	15797759.71	11186551.86	7849930
2009/10	15311044.35	10105580.65	7282315.32
2010/11	14824328.99	9024609.44	6714700.64
2011/12	14337613.63	7943638.23	6147085.96
2012/13	13850898.27	6862667.02	5579471.28
2013/14	13364182.91	5781695.81	5011856.6
2014/15	12877467.55	4700724.6	4444241.92
2015/16	12390752.19	3619753.39	3876627.24
2016/17	11904036.83	2538782.18	3309012.56
2017/18	11417321.47	1457810.97	2741397.88
2018/19	10930606.11	376839.76	2173783.2

Source : Appendix - I (3)

Figure 4.26

Trend Analysis of Total Investment



The Table 4.30 demonstrated trend analysis of total investment of three selected JVBs viz, SCBNL, NABIL and NIBL. There is decreasing trend in total investment in all the three sampled banks. The trend analysis has projected total investment amount for the fiscal year 2012/13 to the fiscal year 2018/19 for further seven years. Thus, from the above trend analysis it is clear that SCBNL, NABIL and NIBL are showing decreasing total investment.

4.9.4 Trend Analysis of Net Profit:

Every business desires ultimate profit. Hence its trend for next seven years will be forecasted for the future analysis. Here the effort has been made to calculate the trend values of net profit of three sampled banks viz; SCBNL, NABIL and NIBL.

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

$Y = a + b\,x$ ……(I)

Then,

x = X – Middle year ie; average year (2008/09)

Y_{NP} = 866924.29 + 112592.5 X x……. of SCBNL

Y_{NP} = 1038552.86 + 175995.68 X x……. of NABIL

Y_{NP} = 847307.43 + 142354.43 X x……. of NIBL

Table 4.31

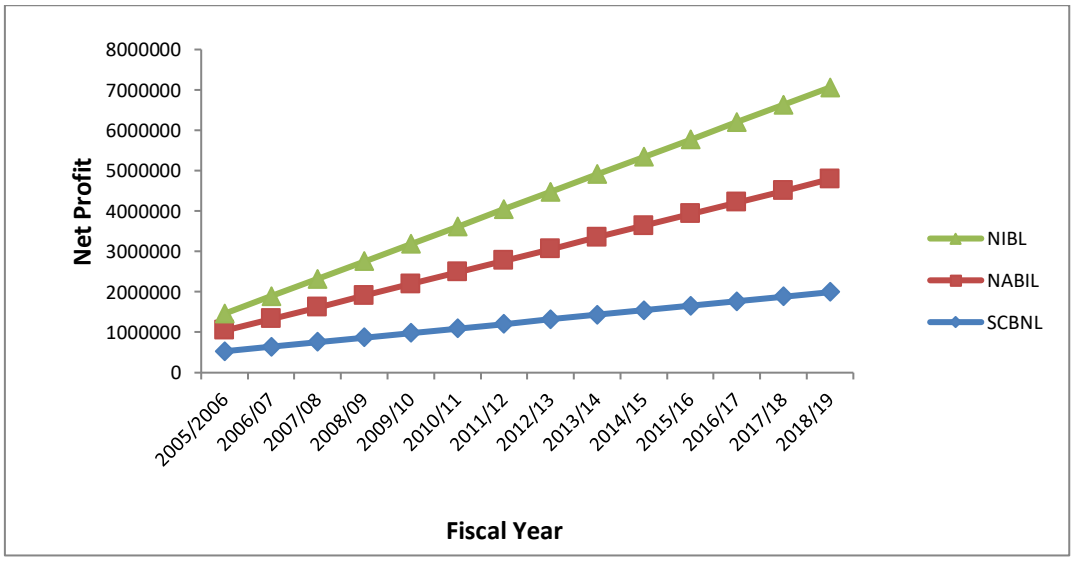
Trend Analysis of Net Profit

Trend Analysis of Net Profit			
Fiscal Year	**SCBNL**	**NABIL**	**NIBL**
2005/2006	529146.79	510565.82	420244.14
2006/07	641739.29	686561.5	562598.57
2007/08	754331.79	862557.18	704953
2008/09	866924.29	1038552.86	847307.43
2009/10	979516.79	1214548.54	989661.86
2010/11	1092109.29	1390544.22	1132016.29
2011/12	1204701.79	1566539.9	1274370.72
2012/13	1317294.29	1742535.58	1416725.15
2013/14	1429886.79	1918531.26	1559079.58
2014/15	1542479.29	2094526.94	1701434.01
2015/16	1655071.79	2270522.62	1843788.44
2016/17	1767664.29	2446518.3	1986142.87
2017/18	1880256.79	2622513.98	2128497.3
2018/19	1992849.29	2798509.66	2270851.73

Source : Appendix - I (4)

Figure 4.27

Trend Analysis of Net Profit



The Table 4.31 demonstrated trend analysis of net profit of three selected JVBs viz, SCBNL, NABIL and NIBL. There is increasing trend in net profit in all the three sampled banks. The trend analysis has projected net profit for the fiscal year 2012/13

to the fiscal year 2018/19 for further seven years. Thus, from the above trend analysis it is clear that SCBNL, NABIL and NIBL are showing increasing trend.

Primary Data Analysis:

On the second part of data analysis, the primary data has been collected and analyzed to find out the true picture of the financial strength and problems of the banking sector highlighting "*Survey on determining how the commercial banks determine the financial performance in Nepal.*" This survey report which looks into several key factors which affect the financial performance with reference to the profitability of Nepalese banking sector considering econometric (questionnaire) approach using regression model to identify which of the financial indicators will have implications and which do not have implications on the financial performance of bank, more specifically related to profitability.

4.10 "Questionnaire Survey on Financial Strength of the Commercial Banks "

This was a descriptive study. It was a census survey and the population consisted of employees of three banking institutions (sampled banks SCBNL, NABIL and NIBL) choosing five employees from the majority from each banks.

The study largely utilized the primary data. The data was collected using a questionnaire. The questionnaire consisted of both closed and open-ended questions. The questionnaire was divided into two sections, Section-A sought bio-data of the respondents and organization while Section-B addressed aspects to financial performance, mainly the criteria used in the identification of the survey.

4.10.1 Problem related to Finance:

To know the existing problems and solve the query that the banks are facing while financing the assets, the respondents were asked to opine their view about the following query;

Does your bank have any problems related to finance?

( ) Reserve Ratios

( ) Security

The options obtained from the majority are presented below:

Table 4.32
Problem Related to Finance

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Reserve Ratios	3	4	2	9	60
Security	2	1	3	6	40
Total	5	5	5	15	100

Source: Appendix III and IV

Table 4.32 depicted that 3 out of 5 respondents of SCBNL, and 4 out of 5 of NABIL responded that the reserve ratio is the major problem while financing. While, the majority of NIBL bank's respondents stated that the security of the principle amount is the major problem in financing. Overlooking the overall responses, the majority of the total respondents, 9 out of 15 ie; 60% of the respondents revealed the fact that reserve ratio are the major problems in financing.

4.10.2 Effect of NRB's regulation for Bank:

To know whether the current NRB's regulations are really favorable for the banking operations in the country, the respondents were asked to opine their view about the following query;

Do you think NRB's regulation is favourable for your bank?

Yes ( )

No ( )

The options obtained from the majority are presented below:

Table 4.33
Effect of NRB's Regulation for Bank

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Yes	4	5	3	12	80
No	1	0	2	3	20
Total	5	5	5	15	100

Source: Appendix III and IV

Table 4.33 depicted that 4 out of 5 respondents of SCBNL, 5 out of 5 of NABIL and 3 out of 5 respondents of NIBL responded that the NRB regulations are favorable for their respective banks. Similarly, the majority of the total respondent, 12 out of 15 ie; 80% of the respondents said that the NRB regulations are favorable, while only 3 out of 15 ie; 20% of the respondents claimed that the regulations are not favorable (unfavorable). Hence, on the basis of majority, it can be considered that the NRB's regulations are favorable for the commercial banks.

4.10.3 Reserve Rate on Current and Saving Deposits:

As per the NRB rules, each bank has to keep 7% of the current and saving deposit on NRB as reserve ratio. Thus, to know the extent of satisfaction of bankers on this policy, the responses were asked to express their views on the following query;

In your opinion, what should be reserve rate in NRB on current and saving deposits?

Less than 7% ( )

Exactly 7% ( )

More than 7% ( )

The responses obtained from them are presented below:

Table 4.34
Reserve Rate on Current and Saving Deposits:

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Less than 7%	1	2	3	6	40
Exactly 7%	3	3	2	8	53
More than 7%	1	0	0	1	7
Total	5	5	5	15	100

Source: Appendix III and IV

The Table 4.34 depicted that the majority of SCBNL and NABIL, 3 out of 5 are in the view that the current reserve ie;7% on current and saving deposit is appropriate for bank to prevent from turning bankrupt. While, the majority of NIBL, 3 out of 5, said that the reserve ratio should be less than 7%. Going through the overall responses, 53% of the respondents are in the view that the reserve rate is fair ie; should be exactly 7%, while 40% of the respondents are in the view that the reserve rate should be less than 7% and 7% of the respondents are in the view that the reserve rate is

unfair. Hence, it can be concluded that the existing rate of 7% is appropriate on the basis of overall majority.

4.10.4 Reserve Rate on Fixed Deposit:

As per the NRB rules, each bank has to keep 4.5% of the fixed deposit as reserve in NRB to protect the depositors' amount. Thus, to know the appropriate rate that the bankers feel, the responses were asked to express their views on;

In your opinion, what should be the reserve rate in NRB for fixed deposit ?

( ) Less than 4.5%
( ) Exactly 4.5%
( ) More than 4.5%

The responses obtained from them are presented below:

Table 4.35
Reserve Rate on Fixed Deposit

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Less than 4.5%	2	3	3	8	53
Exactly 4.5%	3	2	1	6	40
More than 4.5%	0	0	1	1	7
Total	5	5	5	15	100

Source: Appendix III and IV

The Table 4.35 depicted that except SCBNL, the majority of respondents of each NABIL and NIBL, 3 out of 5, strongly supported that the ratio should be less than 4.5%. While the majority of SCBNL, 3 out of 5, said that the reserve ratio should remain same i.e; 4.5%. Going through the overall responses, 53% of the respondents are in the view that the reserve rate would better if the reserve rate was less than 4.5%, while 40% of the respondents are in the view that the reserve rate is fair with 4.5% and 7% of the respondents are in the view that the reserve rate is unfair. Hence, it can be concluded that the existing rate of 4.5% should have been decreased on the basis of overall majority.

4.10.5 Cash Vault on Total Deposit:

To know what the bank opined about the cash vault of 2% of the total deposit that is to keep on the respective banks as per the rule of NRB, the respondents were asked on this regard;

As per the NRB directives, the bank should keep 2% of the total deposit on cash vault.

In your, opinion, what should be the reserve rate?

Less than 2% ( )

Exactly 2% ( )

More than 2% ( )

The responses obtained from the questionnaire are presented below:

Table 4.36
Cash Vault on Total Deposit

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Less than 2%	1	0	1	2	13
Exactly 2%	3	3	2	8	53
More than 2%	1	2	2	5	34
Total	5	5	5	15	100

Source: Appendix III and IV

The Table 4.36 depicted that the majority of SCBNL and NABIL , 3 out of 5 are in the view that the total deposit ie; 2% on cash vault is appropriate for the bank to prevent from turning bankrupt. While, the majority of NIBL, 2 out of 5, said that the total deposit ratio should be 2% or more than 2%. Going through the overall responses, 53% of the respondents are in the view that the reserve rate is fair ie; should be exactly 2%, while 13% of the respondents are in the view that the reserve rate should be less than 2% and 34% of the respondents are in the view that the reserve rate should be more than 2%. Hence, it can be concluded that the existing rate of 2% is appropriate on the basis of overall majority.

4.10.6 New Sectors of Investments:

To investigate what could be the new sectors of investment for the banks to maximize the profit, the respondents were given the options and requested to choose among the best;

What are the new sectors of investment?

Corporate Bonds ( )

Real Assets ( )

Derivative Securities ( )

Other (specify) ……..... ( )

The responses obtained from the questionnaire are presented below:

Table 4.37
New Sectors of Investments

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Corporate Bods	2	1	1	4	27
Real Assets	3	4	3	10	67
Derivative Securities	0	0	1	1	6
Total	5	5	5	15	100

Source: Appendix III and IV

Table 4.37 reveals that 67% of the respondents, 10 out of 15, are in the opinion that real assets can be the new sectors of investment for the banks. Similarly, 27% of the respondents, 4 out of 15, are in the opinion that investments in the corporate bonds will be more profitable. Likewise, only 1 respondent out of 15 has opined in derivative securities to be profitable. Hence, on the basis of majority, it can be concluded that the real assets business is more appropriate new sector of investment.

4.10.7 Secured investment Sector:

The bank invests in various sectors to make the profit. To know the most secured sector of investments that the bank thinks, the respondents were asked to view the regards;

In which sector of investment, you would feel more secured to invest?

Share and Debenture ( )

Loans and Advances ( )

Government Securities ( )

Other (specify) …… ( )

The options achieved from them through questionnaire are presented below:

Table 4.38
Secured investment Sector

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Share and Debenture	0	1	0	1	7
Loan and Advances	1	1	0	2	13
Government Securities	4	3	5	12	80
Total	5	5	5	15	100

Source: Appendix III and IV

Table 4.38 reveals that all of the respondents of NIBL are in the view that investments in the Government securities will bring prosperity in the country as well as in the banking sectors. Similarly, 80% of the respondents, 12 out of 15, also are in the opinion that investments in government securities can be the new sectors of investment for the banks. Likewise, only 1 respondent out of 15 has opined investment in share and debenture and 13% i.e; 2 out of 15 are in opinion that secured policy in loan and advances should be adopted. Hence, on the basis of majority, it can be concluded that the government securities should be enhanced for new secured of investment.

4.10.8 Programs to increase Business Volume:

The overall intention of each bank is to increase its business volume. So, to examine the special programs that the bank thinks is the best to increase the business volume, the respondents were asked on this regard;

What are your special programs to increase the volume of business?

Launch New Services ( )

Higher interest rates on Deposit ( )

Quest new sector for investment ( )

Table 4.39

Programs to Increase Business Volume

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Launch new services	1	1	0	2	13
Higher interest rate on deposit	3	2	4	9	60
Quest new sector for Investment	1	2	1	4	27
Total	5	5	5	15	100

Source: Appendix III and IV

Table 4.39 reveals that all of the respondents of banks are in the view that launching new services is not the complete solution for the enhancement of business volume until the earlier businesses are corrected and developed. Similarly, 60% of the respondents, 9 out of 15, also are in the opinion that the recent interest levied on deposit should be changed or should be higher. Likewise, 4 respondents out of 15 have opined for quest new sectors for investment. Hence, on the basis of majority, it can be concluded that the volume of business can be extended if the bank offers higher interest rate to its depositors but this may reduce the interest of depositors to save money which may also be utilized to launch new services or may also quest new sector for investment.

4.10.9 Present problem of Banks:

To examine the present problems that the banks are facing, the respondents were given a set of objective answers and asked to choose the best;

What are the present problems for your bank?

Unclear Government Rules & Regulations ( )

Financial Problem ( )

Human Resource Problem ( )

Banking Policy of NRB ( )

The responses achieved from them through questionnaire are presented below:

Table 4.40
Present problem of Banks

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Unclear or Fluctuating Government Rules & Regulations	2	1	3	6	40
Financial Problem	0	0	0	0	0
Human Resource Problem	1	1	0	2	13
Banking Ploicy of NRB	2	3	2	7	47
Total	5	5	5	15	100

Source: Field Survey, July 2012

Table 4.40 reveals that 47% i.e; 7 out of 15 of the respondents of banks are in the view that present banking policy if NRB is the main reason of banking problems though none of the respondents claimed for the financial problem of the banks. Similarly, 40% of the respondents ie; 6out of 15, claimed the unclear and continuous changing government rules and regulations being the present problem while 1 out of 5 each respondents of SCBNL and NABIL claimed the present problem of their bank is the human resource. Thus, on the basis of the majority, it can be considered that the rigid banking policy of NRB is the major problems of the banks.

4.10.10 Financial Strength:

To investigate what factors truly represents the financial strength of the banks, the respondents were given a set of objective answers and asked to express their degree of agreements by filling out the appropriate headings through

SA = Strongly Agree

A = Agree

Ind.= Indifference

DA = Disagree

SD = Strongly Disagree

Table 4.41
Financial Strength

Responses	SA	A	Ind.	DA	SD
Earning Rate	2	3	0	0	0
Operating Leverage	1	1	0	2	1
Firm Size	1	2	0	2	1
Interest Rate	1	3	0	0	1
Flexibility	0	1	1	3	0
Control	1	2	0	2	0
Growth Opportunities	2	1	0	1	1
Debt Service Capacity	0	1	0	2	2
Market Condition	2	2	0	1	0
Dividend Payout	3	2	0	0	0
Goodwill	2	3	0	0	0

Source: Field Survey, July 2012

The Table 4.41 depicts that earning rate, interest rate, control, growth opportunities, market condition, dividend payout scheme and goodwill are the representatives of the financial strength of SCBNL, as the total agreed responses are greater than the total disagreed responses. While operating leverage, firm size, flexibility and debt service capacity are not the true representatives of the financial strength of the bank. Looking at each of the categories, cent percentage of the respondents (2 strongly agreed and 3 agreed) pointed earning rate represent the financial strength. Similarly, 4 out of 5 (1 strongly agreed and 3 agreed), 3 out of 5 (1 strongly agreed and 2 agreed), 3 out of 5 (2 strongly agreed and 1 agreed), 4 out of 5 (2 strongly agreed and 2 agreed), 5 out of 5 (3 strongly agreed and 3 agreed) and 5 out of 5 (2 strongly agreed and 3 agreed) stated that interest rate, control, growth opportunities, market condition, dividend payout and goodwill respectively represents the financial strength of

Table 4.42
Financial Strength of NABIL

Responses	SA	A	Ind.	DA	SD
Earning Rate	3	1	1	0	0
Operating Leverage	0	1	1	2	1
Firm Size	1	2	1	1	0
Interest Rate	1	2	0	1	1
Flexibility	0	1	0	2	2
Control	2	2	0	0	1
Growth Opportunities	1	3	0	1	0
Debt Service Capacity	1	1	1	2	0
Market Condition	1	4	0	0	0
Dividend Payout	1	4	0	0	0
Goodwill	1	3	0	1	0

Source: Field Survey, July 2012

The Table 4.42 states that earning rate, interest rate, control, growth opportunities, market condition, dividend payout scheme and goodwill are the representatives of the financial strength of NABIL, in each of the aforementioned variables greater than the total disagreed responses. While operating leverage, firm size, flexibility and debt service capacity are not the true representatives of the financial strength of the bank.

Viewing each agreed indicator 4 out of 5 (3 strongly agreed and 1 agreed) pointed earning rate represent the financial strength. Similarly, 3 out of 5 (1 strongly agreed and 2 agreed), 4 out of 5 (2 strongly agreed and 2 agreed), 4 out of 5 (1 strongly agreed and 3 agreed), 5 out of 5 (1 strongly agreed and 4 agreed), 5 out of 5 (1 strongly agreed and 4 agreed) and 4 out of 5 (1 strongly agreed and 3 agreed) stated that interest rate, control, growth opportunities, market condition, dividend payout and goodwill respectively represents the financial strength of NABIL.

Table 4.43
Financial Strength of NIBL

Responses	SA	A	Ind.	DA	SD
Earning Rate	1	3	1	0	0
Operating Leverage	0	1	2	1	1
Firm Size	1	2	0	1	1
Interest Rate	2	1	0	1	1
Flexibility	2	1	0	0	2
Control	1	2	0	2	0
Growth Opportunities	1	1	0	2	1
Debt Service Capacity	0	1	0	3	1
Market Condition	1	3	0	1	0
Dividend Payout	2	3	0	0	0
Goodwill	2	3	0	0	0

Source: Field Survey, July 2012

The Table 4.43 states that earning rate, interest rate, control, growth opportunities, market condition, dividend payout scheme and goodwill are the representatives of the financial strength of NIBL, in each of the aforementioned variables greater than the total disagreed responses. While operating leverage, firm size, flexibility and debt service capacity are not the true representatives of the financial strength of the bank.

Viewing each agreed indicator 4 out of 5 (3 strongly agreed and 1 agreed) pointed earning rate represent the financial strength. Similarly, 3 out of 5 (2 strongly agreed and 1 agreed), 3 out of 5 (1 strongly agreed and 2 agreed), 2 out of 5 (1 strongly agreed and 1 agreed), 4 out of 5 (1 strongly agreed and 3 agreed), 5 out of 5 (2 strongly agreed and 3 agreed) and 5 out of 5 (2 strongly agreed and 3 agreed) stated that interest rate, control, growth opportunities, market condition, dividend payout and goodwill respectively represents the financial strength.

4.11 Major Findings of the Study:

From the data analysis, the following major findings have been drawn:-

4.11.1 Findings from Secondary Data Analysis:

(I) Liquidity Position of mentioned JVBs reveals the following positions:

- The current ratio showed that SCBNL, NABIL and NIBL maintained 0.99:1, 1.04:1 and 1.07:1 as current ratios and hence none of the banks met the benchmark of 2:1, thus indicating poor liquidity.
- The mean ratio of cash and bank balance to current deposits of SCBNL is 36.99%, NABIL is 39.26% and NIBL is 161.26% respectively. The highest mean of NIBL indicates that the cash and bank balance is excess than current deposits.
- The mean ratio of cash and bank balance to total deposits (excluding fixed deposit) of SCBNL is 9.11%, NABIL is 7.52% and NIBL is 20.93% respectively. The highest mean ratio of NIBL being 20.93% indicates that the bank has ability to instantly pay the depositors whenever demanded otherwise vice-versa.

(II) Activity Ratios of mentioned JVBs reveals the following positions:

- The mean ratio of loan and advances to total deposits of SCBNL is 44.89%, NABIL is 70.87% and NIBL is 75.65% respectively. The highest mean ratio of NIBL i.e; 75.65% indicates the efficient utilization of funds otherwise vice-versa.
- 3.05 times of loan and advances to total fixed deposits of SCBNL indicates that this bank has been able to convert highest amount of its fixed deposit amount to advance its loan and advances. Likewise, NABIL bears 2.84 times of loan and advances to fixed deposit and NIBL bears 2.56 times of loan and advances to fixed deposit.
- Similarly, the highest mean ratio of NIBL i.e; 222.24% indicates that the bank has not been able to follow adequate policy regarding loan and advances to saving deposit. Likewise, NABIL bears 199.41% and SCBNL bears 98.80% of saving deposits to investment in loan and advances.

- The mean ratio of investment to total deposits of SCBNL is 49.96%, that of NABIL is 31.50% and NIBL is 21.22% respectively. The highest ratio of SCBNL indicates that the bank is able to invest its total deposit.

(III) Capital Structure i.e; Leverage Ratio of mentioned JVBs reveals the following positions:

- The total debt to total assets of SCBNL being 90.21% was strongest than that of NABIL being 86.25% and NIBL being 72.01%. This indicates that SCBNL bears more risk since the bank used most of its assets in debt financing.
- The total assets of SCBNL was most risky than that of NABIL and NIBL. SCBNL, NABIL and NIBL used 13.20%, 12.46% and 12.61% more debt finance than the equity finance.
- The mean ratios of total interest coverage of SCBNL is 2.63 times, NABIL is 1.46 times and NIBL is 0.89 times respectively. The highest ratio of SCBNL, indicates the amount shared by debt in total capital that means the outsiders claim towards the bank is high.

(IV) Profitability Ratios of mentioned JVBs reveals the following position:

- The net worth to total assets ratio indicated that SCBNL was most successful in mobilizing net worth to finance total assets. The mean ratios of return on total assets of SCBNL was 2.58%, NABIL being 2.56% and NIBL was 1.82% respectively.
- NABIL bearing net profit margin of 33.60% was most profitable than SCBNL with 29.66% and NIBL with 25.39% of return on shareholders' equity. This indicates NABIL utilizes the shareholders' fund efficiently.
- The mean ratios of return on total deposit of SCBNL was 2.67%, NABIL being 2.79% and NIBL being 2.08% respectively. The highest ratio indicates that the bank uses total deposit effectively and vice-versa.
- NIBL remained most successful in efficiently utilizing the total assets in generating interest income. The mean ratios of SCBNL was 5.31% and that of NABIL was 7.14% and NIBL being 7.17% respectively.

(V) Inevitability Ratios of mentioned JVBs reveals the following position:

- The average EPS of SCBNL, NABIL and NIBL for the seven years period was Rs.114.98, Rs.104.81 and Rs.48.08 respectively.
- The average DPS of SCBNL was Rs.97.14, NABIL being Rs.81.43 and NIBL was Rs.35.90 respectively. The highest ratio of SCBNL indicates that the bank has performed its transactions effectively.
- The average DPR of SCBNL was Rs.84.49, NABIL was Rs.75.27 and that of NIBL was Rs.78.47 respectively. The highest DPR of SCBNL indicates that the bank distributes the highest amount of dividend to its shareholders.

(VI) Other Ratios of mentioned JVBs reveals the following positions:

- The mean ratio of total interest expenses to total income of SCBNL is 30.48%, NABIL is 42.51% and NIBL is 51.85% respectively. Thus, the highest ratio of NIBL indicates that the bank bears high interest expenses.
- The mean ratio of total commission and discount to total income of SCBNL is 14.55%, NABIL is 7.31% and NIBL is 7.65% respectively. Thus, the highest ratio of SCBNL indicates that the bank is successful in earning highest income from commission and discounts.
- The mean ratio of total staff expenses to total income of SCBNL is 20.94%, NABIL is 23.16% and NIBL is 22.64% respectively. Thus, the highest ratio of SCBNL indicates that the bank motivated its staffs paying high.
- The mean ratio of total exchange income to total income of SCBNL is 29.82%, NABIL is 16.60% and NIBL is 19.69% respectively. Thus, the highest ratio of SCBNL indicates that the bank bears more income generation through exchange income compared to other banks.

4.11.2 Findings from Statistical Tool Analysis:

- The coefficient of correlation (r) is 0.927 of SCBNL, 0.995 of NABIL and 0.990 of NIBL, which shows deposit and loan and advances of all these JVBs move together very closely but not proportionately. Moreover, coefficient of determination of SCBNL, NABIL and NIBL are 0.860, 0.990 and 0.980 respectively. It means, 86percent of variation in loan and advances of SCBNL, 99 percent of variation in loan and advances of NABIL and 98 percent of

variation in loan and advances of NIBL have been explained by total deposit. Likewise, the correlation of coefficient of all the sampled banks are significant because the correlation of coefficient is greater than the relative value of 6 P.E. that denotes there is significant relationship between total deposit and loan and advances of SCBNL, NABIL and NIBL.

- The coefficient of correlation (r) is 0.988 of SCBNL, 0.977 of NABIL and 0.815 of NIBL. Moreover, coefficient of determination of SCBNL, NABIL and NIBL are 0.976, 0.955and 0.664 respectively. It means, 98percent of variation in investment of SCBNL, 96 percent of variation in investment of NABIL and 66 percent of variation in investment of NIBL have been explained by total deposit. Likewise, the correlation of coefficient of all the sampled banks are significant because the correlation of coefficient is greater than the relative value of 6 P.E. that denotes there is significant relationship between total deposit and total investment of SCBNL, NABIL and NIBL.
- The coefficient of correlation (r) is 0.988 of SCBNL, 0.989 of NABIL and 0.955 of NIBL, which shows deposit and investment of all these JVBs move together very closely but not proportionately. Moreover, coefficient of determination of SCBNL, NABIL and NIBL are 0.996, 0.978and 0.912 respectively. It means, 99percent of variation in net profit of SCBNL, 98 percent of variation in net profit of NABIL and 91 percent of variation in net profit of NIBL have been explained by total loan and advances. Likewise, the correlation of coefficient of all the sampled banks are significant because the correlation of coefficient is greater than the relative value of 6 P.E. that denotes there is significant relationship between net profit and loan and advances of SCBNL, NABIL and NIBL.
- The coefficient of correlation (r) is 0.991 of SCBNL, 0.983 of NABIL and 0.958 of NIBL, which shows deposit and net profit of all these JVBs move together very closely but not proportionately. Moreover, coefficient of determination of SCBNL, NABIL and NIBL are 0.982, 0.966 and 0.918 respectively. Likewise, the correlation of coefficient of all the sampled banks are significant because the correlation of coefficient is greater than the relative value of 6 P.E. that denotes there is significant relationship between net profit and total deposit of SCBNL, NABIL and NIBL.

4.11.3 Findings from Trend Analysis:

- The rate of increment of total deposit of SCBNL seems to be constant while NABIL and NIBL bears the increasing trend. The increasing trend of NABIL and NIBL indicates aggressive total deposit collection while SCBNL seems to be slightly decreasing.
- There is decreasing trend in total loan and advances of SCBNL while loan and advances of NABIL and NIBL seems to be in the increasing trend. The increasing trend of NABIL and NIBL indicates aggressive total loan and advance collection while SCBNL seems to be slightly decreasing.
- There is decreasing trend in total investment in all the three sampled banks. The trend analysis has projected total investment amount for the fiscal year 2012/13 to the fiscal year 2018/19 for further seven years. Thus, from the above trend analysis it is clear that SCBNL, NABIL and NIBL are showing decreasing total investment.
- There is increasing trend in net profit in all the three sampled banks. The trend analysis has projected net profit for the fiscal year 2012/13 to the fiscal year 2018/19 for further seven years. Thus, from the above trend analysis it is clear that SCBNL, NABIL and NIBL are showing increasing trend.

4.11.4 Findings from Primary Data Analysis:

- Cent percentage of the total respondents said that the status of outstanding loan is in the increasing trend. And 60% of the respondents said that the reserve ratios create problem in financing.
- 80% of the respondents said that the NRB's regulation is favorable to operate the banking activities. Similarly, 53% of the respondents said that the NRB's regulation of existing 7% reserve ratio on current and saving deposit is favorable to operate the banking activities while 53% of the respondents said reserve ratio of less than 45% of fixed deposit will be applicable. Likewise, 53% of the respondents said that 2% of the cash vault is applicable.
- The majority of the respondents, 67% affirmed that the investment in real assets is the best new sector of investment. Similarly, 80% of the respondents stated that the government securities is the most secured sector of investment.

- In addition, 80% of the respondents said that by increasing interest rate on deposit, the volume of business can be increased. And 47% of the respondents said that the banking policy of NRB is the major problem.
- Finally, the majority of the respondents agreed that the earning rate, interest rate, control over activities, market condition, dividend payout ratio and goodwill truly reflect the financial strength of the bank. As only these indicators are common in the responses of each of the bank.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary:

A bank is an institution which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. To the greater extent, economic growth rate is based on the banks and other financial institutions' performance in an economy. Many researches have revealed that banks and economic condition are two wheels of one chariot. Nowadays, banking activities are spreading internationally. In the beginning of this thesis, there were thirty one commercial banks operating in Nepal, liscensed by NRB up to mid-July 2012. Besides some other development banks are in the process of their conversion into commercial banks and few other commercial banks are emerging too. This has led to the intense competition in the banking business. Only those banks, providing better performance and services and also having maximum profit margin would survive in the long run. The primary objective of this study is to examine the financial performance of the sampled commercial banks on the basis of liquidity, profitability, stability and market value. This analysis will also help providing package of suggestions and possible guideline to improve the banking operation in order to maximize the value of its shareholders based on the findings of the study.

The research identified the research problem of the joint venture banks taking into consideration three top most banks of Nepal namely Standard Chartered Bank Nepal Ltd., NABIL Bank Ltd, and Nepal Investment Bank Ltd. The objectives are determined on the basis of the research problem and related literatures are reviewed on the base of purposive study. The data have been collected from different sources available mentioned primary and secondary data. The analysis of the data have been done according to the available data and objectives of the study. The seven years of financial statements, covering the fiscal years 2005/06 till 2011/12 have been examined of the three mentioned JVBs. And the analysis and interpretation of the data have been done by applying wide varieties of methodology as stated in earlier chapters. The objective of the study also identifies as to come up with the conclusion of the financial performance of mentioned JVBs with regards to key financial variables providing them with beneficial suggestions.

Financial analysis is done to determine the bank's financial position in order to identify its current strength and weaknesses by using financial and statistical tools using Tables and graphs for more clarification and also showing Mean, Standard Deviation and Coefficient of Variables of ratios from tables.

5.2 Conclusion:

From the data analysis and the major findings drawn, it can be concluded that none of the selected banks have good liquidity position, as the current ratio of each bank in each fiscal year was comparatively lower than the benchmark 2:1. However, the current ratio of NIBL was highest comparing to that of SCBNL and NABIL. Similarly, it can be concluded that the sampled banks are in the position to pay the debt as the cash and bank balance on cash vault i.e; 2% of total deposit. Likewise, on the basis of fixed deposit to total deposit, and saving deposit to total deposit, it can be concluded that the liquidity position of NIBL was stronger than that of SCBNL and NABIL. Hence, in aggregate it is worthwhile to say that the liquidity position of NIBL is far much better than that of SCBNL and NABIL.

Further, on the basis of interest expenses to total deposit, it can be concluded that SCBNL, was more efficient in controlling cost than NABIL and NIBL. Also, the loans and advances to total deposit ratio indicates that NABIL was most efficient in utilizing the deposit collected in disbursing loan and advances. However, SCBNL remained most successful in mobilizing the fixed deposit collection in loan and advances, in contrast, NIBL showed its sufficiency in mobilizing total assets in loan and advances.

Besides these, on the basis of debt-equity and debt-assets ratio it can be concluded that the total assets of NIBL was most risky than that of SCBNL and NABIL as NIBL financed highest proportion of the total assets through debt financing. Although the capital adequacy ratio of all the banks met the standard set by NRB, the capital base of SCBNL was strongest. In addition, NABIL was most successful to optimally utilize the worth in financing the total assets.

Similarly, on the basis of analysis of profitability ratio, it can be concluded that the net profit margin and generating net profit from net worth of the shareholders of SCBNL was most

praiseworthy. However, the capacity of generating return from optimally utilizing total assets and total deposits, and earning interest through mobilizing total assets of NABIL was superior.

Eventually, the miscellaneous ratios analyzed helps to conclude that SCBNL has highest control over the interest expenses as compared to the interest earned. Also, the capacity of making earning per share, the extent of satisfying shareholders through distributing highest amount of dividend, and the scheme of disbursing highest dividend payout ratio of SCBNL was highest compared to that of NABIL and NIBL.

The coefficient of correlation of all three sampled banks move together very closely but not proportionately on the basis of deposit and loan and advances. Thus, all the banks bear significant relationship between total deposit and loan and advances. Also, all the banks bear significant relationship between total deposit and investment and total deposit and net profit respectively.

The primary data analysis aids to conclude loan of the sampled banks is in increasing trend and the reserve ratios creates problem in financing. However, the overall NRB regulations are favorable for the bank to operate and the reserve rate kept on current and saving deposit and in cash vault is appropriate. On the basis of the opinion of the respondents, it can be concluded that the reserve rate kept on the fixed deposit is higher than the exceptions of the bankers. It can also be concluded that the real assets is the alluring new sector of investment for the bank, while the government securities is the secured existing investment sector. Further, the volume of business can be increased by increasing the interest rate on total deposit. Finally, it can be concluded that the earning rate, interest rate, control over activities, market condition, dividend payout ratio and goodwill truly reflect the financial strength of the bank.

5.3 Recommendations:

After the analysis of financial performance of Standard Chartered Bank Nepal Ltd., NABIL Bank Ltd, and Nepal Investment Bank Ltd., and conclusions drawn, the following recommendations are given to the banks to overcome the weaknesses and inefficiency and improve the financial performance in better way.

- The current ratio of each sampled banks is below the benchmark, i.e; 2:1, which can create problem while paying the debt. Hence, it would be secured from bankruptcy, if all the sampled banks meet the standard set out.
- Both SCBNL and NABIL should increase the utilization of fixed deposit amount while mobilizing loan and advances rather than keeping idle and thus earn more profit.
- It would be better if NABIL and NIBL recognize the unnecessary interest expenses on the total deposit and try to minimize such expenses to increase profit.
- Also, NABIL bank remained more successful in mobilizing the total deposit in disbursing loan and advances. Hence, it would be better if SCBNL and NIBL also trace out the fruitful investment sector and try to increase the mobilization of deposit in disbursing loan and advances.
- NIBL has followed aggressive policy of financing the total assets through debt finance, which might be the cause of lower profit because of higher interest expenses. Hence, NIBL should decrease the ratio of debt financing and mobilize the internal financing to increase profit.
- Both SCBNL and NIBL should focus on optimally utilizing the total deposit and total assets to generate return. While, NABIL and NIBL should concentrate on generating return from utilizing net worth.
- The EPS, DPS and dividend payout ratio of SCBNL was highest than that of NABIL and NIBL. So, it is recommended that both NABIL and NIBL should increase the EPS by tracing out the fruitful and secured sector of investment and thus increase DPS and dividend payout ratio to retain the existing shareholders as well as fascinate the potential shareholders.
- The capacity of flowing highest amount of loan is not shrewd if the bank remains unable to collect the principal in the same speed that the loan has been disbursed. So, it is recommended that the sampled bank, SCBNL, NABIL and NIBL, introduce the efficient loan collection policy to decrease the amount of outstanding loan.

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APPENDICES

APPENDIX – I

Calculation of Correlation of Coefficient between Loan and Advances to Total Deposit of SCBNL

(Rs. In Million)

Fiscal Year	Total Deposits (X)	Loan & Advances (Y)	XY	X^2	Y^2
2005/2006	23,061	8,935	206,050,035	531,809,721	79,834,225
2006/07	24,647	10,502	258,842,794	607,474,609	110,292,004
2007/08	29,744	13,719	408,057,936	884,705,536	188,210,961
2008/09	35,183	13,680	481,303,440	1,237,843,489	187,142,400
2009/10	35,351	15,957	564,095,907	1,249,693,201	254,625,849
2010/11	35,966	18,427	662,745,482	1,293,553,156	339,554,329
2011/12	37,999	19,576	743,868,424	1,443,924,001	383,219,776
N = 7	$\sum X$ = 221951	$\sum Y$ = 100796	$\sum XY$ = 3324964018	$\sum X^2$ = 7249003713	$\sum Y^2$ = 1542879544

We have,

$$\text{Correlation coefficient}(r) = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{7 \text{ X } 3324964018 - 221951 \text{ X } 100796}{\sqrt{7 \text{ X } 7249003713 - (221951)^2} \text{ X } \sqrt{7 \text{ X} 1542879544 - (100796)^2}}$$

=0.927

Then,

Coefficient of Determination (r^2) = r x r = 0.860

Again,

Probable Error (PE) = $0.6745 \text{ X } \frac{1 - r^2}{\sqrt{N}}$

$$= 0.6745 \text{ X } \frac{1 - 0.860}{\sqrt{7}}$$

$$= 0.04$$

Calculation of Correlation of Coefficient between Loan and Advances to Total Deposit of NABIL

(Rs. In Million)

Fiscal Year	Total Deposits (X)	Loan & Advances (Y)	XY	X^2	Y^2
2005/2006	19,347	12,923	250,021,281	374,306,409	167,003,929
2006/07	23,342	15,546	362,874,732	544,848,964	241,678,116
2007/08	31,915	21,365	681,863,975	1,018,567,225	456,463,225
2008/09	37,348	27,590	1,030,431,320	1,394,873,104	761,208,100
2009/10	46,341	32,269	1,495,377,729	2,147,488,281	1,041,288,361
2010/11	49,608	38,034	1,886,790,672	2,460,953,664	1,446,585,156
2011/12	55,024	41,606	2,289,328,544	3,027,640,576	1,731,059,236
N = 7	$\sum X$ = 262925	$\sum Y$ = 189333	$\sum XY$ = 7996688253	$\sum X^2$ = 10968678223	$\sum Y^2$ = 5845286123

We have,

$$\text{Correlation coefficient}(r) = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{7 \text{ X } 7996688253 - 262925 \text{ X } 189333}{\sqrt{7 \text{ X } 10968678223 - (262925)^2} \text{ X } \sqrt{7 \text{ X } 5845286123 - (189333)^2}}$$

= 0.995

Then,

Coefficient of Determination (r^2) = r x r = 0.990

Again,

Probable Error (PE) = $0.6745 \text{ X } \frac{1 - r^2}{\sqrt{N}}$

$$= 0.6745 \text{ X } \frac{1 - 0.990}{\sqrt{7}}$$

= 0.01

Calculation of Correlation of Coefficient between Loan and Advances to Total Deposit of NIBL

(Rs. In Million)

Fiscal Year	Total Deposits (X)	Loan & Advances (Y)	XY	X^2	Y^2
2005/2006	18,927	12,776	241,811,352	358,231,329	163,226,176
2006/07	24,489	17,286	423,316,854	599,711,121	298,805,796
2007/08	34,452	26,996	930,066,192	1,186,940,304	728,784,016
2008/09	46,698	36,241	1,692,382,218	2,180,703,204	1,313,410,081
2009/10	50,095	40,318	2,019,730,210	2,509,509,025	1,625,541,124
2010/11	50,138	41,096	2,060,471,248	2,513,819,044	1,688,881,216
2011/12	57,011	41,637	2,373,767,007	3,250,254,121	1,733,639,769
N = 7	$\sum X$ = 281810	$\sum Y$ = 216350	$\sum XY$ = 9741545081	$\sum X^2$ = 12599168148	$\sum Y^2$ = 7552288178

We have,

$$\text{Correlation coefficient}(r) = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{7 \text{ X } 9741545081 - 281810 \text{ X } 216350}{\sqrt{7 \text{ X } 12599168148 - (281810)^2} \text{ X } \sqrt{7 \text{ X } 7552288178 - (216350)^2}}$$

= 0.990

Then,

Coefficient of Determination (r^2) = r x r = 0.980

Again,

Probable Error (PE) = $0.6745 \text{ X } \frac{1 - r^2}{\sqrt{N}}$

$$= 0.6745 \text{ X } \frac{1 - 0.98}{\sqrt{7}}$$

= 0.01

Appendix – II

1) Trend Analysis of Total Deposit:

(A) Trend Analysis of SCBNL

Fiscal Year (x)	Total Deposit (Y)	X = x - 2008/09	X^2	XY
2005/2006	14,597,674	-3	9	-43793022
2006/07	15,244,385	-2	4	-30488770
2007/08	17,856,134	-1	1	-17856134
2008/09	19,146,004	0	0	0
2009/10	12,430,009	1	1	12430009
2010/11	11,619,815	2	4	23239630
2011/12	15,502,306	3	9	46506918
N = 7	∑Y = 106396327	∑X = 0	$\sum X^2 = 28$	∑XY = -9961369

Source: Annual Report of SCBNL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x …… (I)

Where

x = X – Middle year ie; average year

Then,

$a = \frac{\sum Y}{N} = \frac{1063396327}{7} = 151913761$

$b = \frac{\sum XY}{\sum X^2} = \frac{-9961369}{28} = -355763.18$

Where as;

$Y_d = 151913761 - 355763.18 \text{ X x}$……. of SCBNL

(B) Trend Analysis of NABIL

Fiscal Year (x)	Total Deposit (Y)	X = x - 2008/09	X^2	XY
2005/2006	19,347,399	-3	9	-58042197
2006/07	23,342,285	-2	4	-46684570
2007/08	31,915,047	-1	1	-31915047
2008/09	37,348,256	0	0	0
2009/10	46,340,701	1	1	46340701
2010/11	49,608,376	2	4	99216752
2011/12	55,023,695	3	9	165071085
N = 7	∑Y = 262925759	∑X = 0	$\sum X^2 = 28$	∑XY = 173986724

Source: Annual Report of NABIL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

$Y = a + b x$ …… (I)

Where

x = X – Middle year ie; average year

Then,

$a = \frac{\sum Y}{N} = \frac{262925759}{7} = 37560822.71$

$b = \frac{\sum XY}{\sum X^2} = \frac{173986724}{28} = 6213811.571$

Where as;

Y_d = 37560822.71 + 6213811.571 X x……. of NABIL

(C) Trend Analysis of NIBL

Fiscal Year (x)	Total Deposit (Y)	X = x - 2008/09	X^2	XY
2005/2006	18,927,306	-3	9	-56781918
2006/07	24,488,856	-2	4	-48977712
2007/08	34,451,726	-1	1	-34451726
2008/09	46,698,100	0	0	0
2009/10	50,094,725	1	1	50094725
2010/11	50,138,122	2	4	100276244
2011/12	57,010,604	3	9	171031812
N = 7	∑Y = 281809439	∑X = 0	$\sum X^2 = 28$	∑XY = 181191425

Source: Annual Report of NIBL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x …… (I)

Where

x = X – Middle year ie; average year

Then,

$a = \frac{\sum Y}{} = \frac{281809439}{} = 40258491.29$

N 7

b = $\sum XY$ = 181191425 = 6471122.3211

$\sum X^2$ 28

Where as;

Y_d = 40258491.29 + 6471122.321 X x……. of NIBL

2) Trend Analysis of Total Loan and Advances:

(A) Trend Analysis of SCBNL

Fiscal Year (x)	Loan and Advance (Y	X = x - 2008/09	X^2	XY
2005/2006	8,935,418	-3	9	-26806254
2006/07	10,502,637	-2	4	-21005274
2007/08	13,718,597	-1	1	-13718597
2008/09	13,679,757	0	0	0
2009/10	15,956,955	1	1	15956955
2010/11	18,427,270	2	4	36854540
2011/12	19,575,968	3	9	58727904
N = 7	∑Y = 100796602	∑X = 0	$\sum X^2$ = 28	∑XY = 50009274

Source: Annual Report of SCBNL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x …… (I)

Where

x = X – Middle year ie; average year

Then,

$a = \frac{\sum Y}{N} = \frac{100796602}{7} = 14399514.57$

$b = \frac{\sum XY}{\sum X^2} = \frac{50009274}{28} = 1786045.5$

Where as;

Y_{LA} = 14399514.57 + 1786045.5 X x……. of SCBNL

(B) Trend Analysis of NABIL

Fiscal Year (x)	Loan and Advance (Y)	X = x - 2008/09	X^2	XY
2005/2006	12,922,543	-3	9	-38767629
2006/07	15,545,779	-2	4	-31091558
2007/08	21,365,053	-1	1	-21365053
2008/09	27,589,933	0	0	0
2009/10	32,268,873	1	1	32268873
2010/11	38,034,097	2	4	76068194
2011/12	41,605,683	3	9	124817049
N = 7	∑Y = 189331961	∑X = 0	$\sum X^2 = 28$	∑XY = 141929876

Source: Annual Report of NABIL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x …… (I)

Where

x = X – Middle year ie; average year

Then,

$a = \frac{\sum Y}{} = \frac{189331961}{} = 27047423$

N 7

b = $\frac{\sum XY}{\sum X^2}$ = $\frac{141929876}{28}$ = 5068924.14

Where as;

Y_{LA} = 27047423 + 5068924.14 X x……. of NABIL

(C) Trend Analysis of NIBL

Fiscal Year (x)	Loan and Advance (Y)	X = x - 2008/09	X^2	XY
2005/2006	12,776,208	-3	9	-38328624
2006/07	17,286,428	-2	4	-34572856
2007/08	26,996,652	-1	1	-26996652
2008/09	36,241,207	0	0	0
2009/10	40,318,308	1	1	40318308
2010/11	41,095,515	2	4	82191030
2011/12	41,636,999	3	9	124910997
N = 7	∑Y = 216351317	∑X = 0	$\sum X^2$ = 28	∑XY = 147522203

Source: Annual Report of NIBL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x …… (I)

Where

x = X – Middle year ie; average year

Then,

a = $\frac{\sum Y}{}$ = $\frac{216351317}{}$ = 30907331

$$b = \frac{\sum XY}{\sum X^2} = \frac{147522203}{28} = 5268650.11$$

Where as;

Y_{LA} = 30907331 + 5268650.11 X x……. of NIBL

3) Trend Analysis of Total Investment:

(A) Trend Analysis of SCBNL

Fiscal Year (x)	Investment (Y)	X = x - 2008/09	X^2	XY
2005/2006	12,847,536	-3	9	-38542608
2006/07	13,553,233	-2	4	-27106466
2007/08	13,902,819	-1	1	-13902819
2008/09	20,236,121	0	0	0
2009/10	19,847,511	1	1	19847511
2010/11	17,258,882	2	4	34517764
2011/12	12,938,216	3	9	38814648
N = 7	∑Y = 110584318	∑X = 0	$\sum X^2$ = 28	∑XY = 13628030

Source: Annual Report of SCBNL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x …… (I)

Where

x = X – Middle year ie; average year

Then,

$a = \frac{\sum Y}{N} = \frac{110584318}{7} = 15797759.71$

$b = \frac{\sum XY}{\sum X^2} = \frac{13628030}{28} = 486715.36$

Where as;

$Y_I = 15797759.71 + 486715.36$ X x……. of SCBNL

(B) Trend Analysis of NABIL

Fiscal Year (x)	Investment (Y)	X = x - 2008/09	X^2	XY
2005/2006	7,913,430	-3	9	-23740290
2006/07	8,945,311	-2	4	-17890622
2007/08	9,939,771	-1	1	-9939771
2008/09	10,826,379	0	0	0
2009/10	13,600,917	1	1	13600917
2010/11	13,003,205	2	4	26006410
2011/12	14,076,850	3	9	42230550
N = 7	∑Y = 78305863	∑X = 0	$\sum X^2 = 28$	∑XY = 30267194

Source: Annual Report of NABIL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x …… (I)

Where

x = X – Middle year ie; average year

Then,

$a = \frac{\sum Y}{N} = \frac{78305863}{7} = 11186551.86$

$b = \frac{\sum XY}{\sum X^2} = \frac{30267194}{28} = 1080971.21$

Where as;

$Y_I = 11186551.86 + 1080971.21 X$ x……. of NABIL

(C) Trend Analysis of NIBL

Fiscal Year (x)	Investment (Y)	X = x - 2008/09	X^2	XY
2005/2006	5,672,870	-3	9	-17018610
2006/07	6,505,680	-2	4	-13011360
2007/08	8,874,024	-1	1	-8874024
2008/09	7,399,812	0	0	0
2009/10	8,635,530	1	1	8635530
2010/11	7,423,107	2	4	14846214
2011/12	10,438,487	3	9	31315461
N = 7	∑Y = 54949510	∑X = 0	$\sum X^2 = 28$	∑XY = 15893211

Source: Annual Report of NIBL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x …… (I)

Where

x = X – Middle year ie; average year

Then,

$a = \frac{\sum Y}{N} = \frac{54949510}{7} = 7849930$

$b = \frac{\sum XY}{} = \frac{15893211}{} = 567614.68$

$\sum X^2$ 28

Where as;

Y_I = 7849930 + 567614.68 X x……. of NIBL

4) Trend Analysis of Net Profit:

(A) Trend Analysis of SCBNL

Fiscal Year (x)	Net Profit(Y)	X = x - 2008/09	X^2	XY
2005/2006	658,756	-3	9	-1976268
2006/07	691,668	-2	4	-1383336
2007/08	318,921	-1	1	-318921
2008/09	1,025,115	0	0	0
2009/10	1,085,872	1	1	1085872
2010/11	1,119,171	2	4	2238342
2011/12	1,168,967	3	9	3506901
N = 7	∑Y = 6068470	∑X = 0	$\sum X^2$ = 28	∑XY = 3152590

Source: Annual Report of SCBNL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x …… (I)

Where

x = X – Middle year ie; average year

Then,

$a = \frac{\sum Y}{N} = \frac{6068470}{7} = 866924.29$

$b = \frac{\sum XY}{\sum X^2} = \frac{3152590}{28} = 112592.5$

Where as;

Y_{NP} = 866924.29 + 112592.5 X x……. of SCBNL

(B) Trend Analysis of NABIL

Fiscal Year (x)	Net Profit(Y)	X = x - 2008/09	X^2	XY
2005/2006	635,264	-3	9	-1905792
2006/07	673,959	-2	4	-1347918
2007/08	746,468	-1	1	-746468
2008/09	1,031,053	0	0	0
2009/10	1,138,571	1	1	1138571
2010/11	1,344,179	2	4	2688358
2011/12	1,700,376	3	9	5101128
N = 7	∑Y = 7269870	∑X = 0	$\sum X^2 = 28$	∑XY = 4927879

Source: Annual Report of NABIL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x …… (I)

Where

x = X – Middle year ie; average year

Then,

$a = \frac{\sum Y}{} = \frac{7269870}{} = 1038552.86$

N 7

$b = \frac{\sum XY}{\sum X^2} = \frac{4927879}{28} = 175995.68$

Where as;

Y_{NP} = 1038552.86 + 175995.68 X x……. of NABIL

(C) Trend Analysis of NIBL

Fiscal Year (x)	Net Profit(Y)	X = x - 2008/09	X^2	XY
2005/2006	350,536	-3	9	-1051608
2006/07	501,398	-2	4	-1002796
2007/08	696,732	-1	1	-696732
2008/09	900,619	0	0	0
2009/10	1,265,950	1	1	1265950
2010/11	1,176,641	2	4	2353282
2011/12	1,039,276	3	9	3117828
N = 7	∑Y = 5931152	∑X = 0	$\sum X^2 = 28$	∑XY = 3985924

Source: Annual Report of NIBL

Where,

Y = dependent variable,

a = Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time period

Let, the trend line be;

Y = a + b x …… (I)

Where

x = X – Middle year ie; average year

Then,

$a = \frac{\sum Y}{N} = \frac{5931152}{7} = 847307.43$

$b = \frac{\sum XY}{\sum X^2} = \frac{3985924}{28} = 142354.43$

Where as;

Y_{NP} = 847307.43 + 142354.43 X x……. of NIBL

Appendix – III

Questionnaire survey on

Financial strength of the banks

The aim of this questionnaire is to select informats for the study on "A Comparative Study on Financial Performance Analysis of Commercial Banks in Nepal." as QUESTIONNAIRE SURVEY ON FINANCIAL STRENGTH OF THE BANK

Should you choose to fill out this questionnaire, every details about yourself in the questionnaire will be regarded as strictly confidential, this means that only one researcher (and their supervisors) of the thesis will have access to your information, and no one else.

Scheduled and Structural Questionnaire to the officials:

Respondents Name: _____

Designation: _____

Department: _____

1) Do you think NRB's regulation is favorable for your bank?

( ) Yes
( ) No

2) Does your bank have any problems related to finance?

( ) Reserve Ratios
( ) Security

3) In your opinion, what should be reserve rate in NRB on current and saving deposits?

( ) Less than 7%
( ) Exactly 7%
( ) More than 7%

4) In your opinion, what should be the reserve rate in NRB for fixed deposit ?

( ) Less than 4.5%
( ) Exactly 4.5%
( ) More than 4.5%

5) As per the NRB directives, the bank should keep 2% of the total deposit on cash vault. In your, opinion, what should be the reserve rate?

( ) Less than 2%
( ) Exactly 2%
( ) More than 2%

6) What are the new sectors of investment?

( ) Share and Debenture
( ) Loans and Advances
( ) Government Securities
( ) Other (specify) .....

7) In which sector of investment, you would feel more secured to invest?

( ) Share and Debenture
( ) Loans and Advances
( ) Government Securities
( ) Other (specify) .....

8) What are your special programs to increase the volume of business?

( ) Launch New Services
( ) Higher interest rates on Deposit
( ) Quest new sector for investment

9) What are the present problems for your bank?

( ) Unclear Government Rules & Regulations
( ) Financial Problem
( ) Human Resource Problem
( ) Banking Policy of NRB

10) Please choose how much you agree or disagree with the following statenents about truly representing the financial strength of your bank?

Attributes	Strongly Agree	Agree	Indifferent	Strongly Disagree	Disagree
Earning rate					
Operating Leverage					
Firm Size					
Interest rate					
Flexibility					
Control					
Growth Opportunities					
Debt service Capacity					
Market Condition					
Dividend Payout					
Goodwill					

Thank you for participating the survey. Your response is appreciated.

_____

Respondent's Signature

Appendix –IV

A) Summary of responses for Q.N. 1 to Q.N. 9

Q.No.	Items	Responses	SCBNL		NABIL		NIBL		Total	
			No.	%	No.	%	No.	%	No.	%
1	a.	Reserve Ratios	3	60	4	80	2	40	9	60
	b.	Security	2	40	1	20	3	60	6	40
		Total	5	100	5	100	5	100	15	100
2	a.	Yes	4	80	5	100	3	60	12	80
	b.	No	1	20	0	0	2	40	3	20
		Total	5	100	5	100	5	100	15	100
3	a.	Less than 7%	1	20	2	40	3	60	5	40
	b.	Exactly 7%	3	60	3	60	2	40	8	53
	c.	More than 7%	1	20	0	0	0	0	1	7
		Total	5	100	5	100	5	100	15	100
4	a.	Less than 4.5%	2	40	3	60	3	60	8	53
	b.	Exactly 4.5%	3	60	2	40	1	20	6	40
	c.	More than 4.5%	0	0	0	0	1	20	1	7
		Total	5	100	5	100	5	100	15	100
5	a.	Less than 2%	1	20	0	0	1	20	2	13
	b.	Exactly 2%	3	60	3	60	2	40	8	53
	c.	More than 2%	1	20	2	40	2	40	5	34
		Total	5	100	5	100	5	100	15	100

6	a.	Corporate Bond	2	40	1	20	1	20	4	27
	b.	Real Assets	3	60	4	80	3	60	10	67
	c.	Derivative Securities	0	0	0	0	1	20	1	6
	d.	Others	0	0	0	0	0	0	0	0
		Total	5	100	5	100	5	100	15	100
7	a.	Share and Debentures	0	0	1	20	0	0	1	7
	b.	Loan and Advances	1	20	1	20	0	0	2	13
	c.	Government Securities	4	80	3	60	5	100	12	80
	d.	Others	0	0	0	0	0	0	0	0
		Total	5	100	5	100	5	100	15	100
8	a.	Launch New Serives	1	20	1	20	0	0	2	13
	b.	Higher Interest rate	3	60	2	40	4	80	9	60
	c.	Quest New Sector	1	20	2	40	1	20	4	27
		Total	5	100	5	100	5	100	15	100
9	a.	Unclear Govt. Rules & Regulations	2	40	1	20	3	60	6	40
	b.	Finance Problem	0	0	0	0	0	0	0	0
	c.	Human Resource Problem	1	20	1	20	0	0	2	13
	d.	Banking Policy of NRB	2	40	3	60	2	40	7	47
		Total	5	100	5	100	5	100	15	100

B) Summary of responses for Q.No.10

Q.No. 10	Items	Responses	SCBNL		NABIL		NIBL		Total	
			No.	%	No.	%	No.	%	No.	%
a.	Earning rate	SA	2	40	3	60	1	20	6	40
		A	3	60	1	20	3	60	7	47
		Ind.	0	0	1	20	1	20	2	13
		DA	0	0	0	0	0	0	0	0
		SD	0	0	0	0	0	0	0	0
		Total	5	100	5	100	5	100	15	100
b.	Operating Leverage	SA	1	20	0	0	0	0	1	7
		A	1	20	1	20	1	20	3	20
		Ind.	0	0	1	20	2	40	3	20
		DA	2	40	2	40	1	20	5	33
		SD	1	20	1	20	1	20	3	20
		Total	5	100	5	100	5	100	15	100
c.	Firm Size	SA	0	0	1	20	1	20	2	13
		A	2	40	2	40	2	40	6	40
		Ind.	0	0	1	20	0	0	1	7
		DA	2	40	1	20	1	20	4	27
		SD	1	20	0	0	1	20	2	13
		Total	5	100	5	100	5	100	15	100

d.	Interest rate	SA	1	20	1	20	2	40	4	27
		A	3	60	2	40	1	20	6	40
		Ind.	0	0	0	0	0	0	0	0
		DA	0	0	1	20	1	20	2	13
		SD	1	20	1	20	1	20	3	20
		Total	5	100	5	100	5	100	15	100
e.	Flexibility	SA	0	0	0	0	2	40	2	13
		A	1	20	1	20	1	20	3	20
		Ind.	1	20	0	0	0	0	1	7
		DA	3	60	2	40	0	0	5	33
		SD	0	0	2	40	2	40	4	27
		Total	5	100	5	100	5	100	15	100
f.	Control	SA	1	20	2	40	1	20	4	27
		A	2	40	2	40	2	40	6	40
		Ind.	0	0	0	0	0	0	0	0
		DA	2	40	0	0	2	40	4	27
		SD	0	0	1	20	0	0	1	7
		Total	5	100	5	100	5	100	15	100

Continue….

Q.No. 10	Items	Responses	SCBNL		NABIL		NIBL		Total	
			No.	%	No.	%	No.	%	No.	%
g.	Growth Opportunities	SA	2	40	1	20	1	20	4	27
		A	1	20	3	60	1	20	5	33
		Ind.	0	0	0	0	0	0	0	0
		DA	1	20	1	20	2	40	4	27
		SD	1	20	0	0	1	20	2	13
		Total	5	100	5	100	5	100	15	100
h.	Debt Service Capacity	SA	0	0	1	20	0	0	1	7
		A	1	20	1	20	1	20	3	20
		Ind.	0	0	1	20	0	0	1	7
		DA	2	40	2	40	3	60	7	47
		SD	2	40	0	0	1	20	3	20
		Total	5	100	5	100	5	100	15	100
i.	Market Condition	SA	2	40	1	20	1	20	4	27
		A	2	40	4	80	3	60	9	60

		Ind.	0	0	0	0	0	0	0	0
		DA	1	20	0	0	1	20	2	13
		SD	0	0	0	0	0	0	0	0
		Total	5	100	5	100	5	100	15	100
j.	Dividend Payout	SA	3	60	1	20	2	40	6	40
		A	2	40	4	80	3	60	9	60
		Ind.	0	0	0	0	0	0	0	0
		DA	0	0	0	0	0	0	0	0
		SD	0	0	0	0	0	0	0	0
		Total	5	100	5	100	5	100	15	100
k.	Goodwill	SA	2	40	1	20	2	40	5	33
		A	3	60	3	60	3	60	9	60
		Ind.	0	0	0	0	0	0	0	0
		DA	0	0	1	20	0	0	1	7
		SD	0	0	0	0	0	0	0	0
		Total	5	100	5	100	5	100	15	100