CHAPTER I
INTRODUCTION

1.1Back ground of the Study

Banking sector is the backbone for the economic development to developing country like Nepal which collects the small unit of amount to huge and accelerates them to productive sector. Complex geographical region, lack of infrastructure development, lack of industrialization development, poor political situation of country, increasing unemployment rate has forced Nepal to be listed under LDCs. Nepal is one of the poorest countries in the world where 31 percentages of the people live below the poverty line. Nepal's GNP is very low and has produced an average per capital income of us $ 1004. Nepal is an agrarian country. It remains as the backbone of the country's economic development. The majority of the country's population is dependent of agriculture. Since this sector is the basis of income and employment Generation and the major sources of population.Liquidity means allocation of funds in close relation to their respective sources.Liquidity is the status and part of the assets which can be used to meet the obligation inthe commercial banks. Liquidity can be viewed in terms of liquidity stored in thebalance sheet and in terms of liquidity available through purchased funds.Liquidity is the ability of a bank to pay cash to depositors on demand. It is thearrangement and the allocation of funds in such a way that can be drawn immediatelywithout any loss of principle.At present, there is no secured investment opportunity for the Nepalese commercialbanks. The banks are facing the problem of vague liquidity in term of monetary firm.The idle money does not make any return. Therefore, the high liquidity may cause oflow profitability and inefficient performance of the overall Banking sector. It maycause failure of banking performance in long term (Pandey, 1999).

Industrialization is an important factor to achieving the basic objective of country's economic and social progress. Industrialization not only provides necessary products and services to the community but also create employment opportunities. If facilitates an effective mobilization of resources of capital and skill, which might otherwise remain unutilized. It also acts as achieve for fostering innovation and technological improvement. Industrial development thus has a multiplier effective on the economy.

Banking industries is also regarded as one component of economy. It transfers the scattered funds collected from saving of the public into various productive sectors. Economic activities remains halt in absence of banking industries. It plays the role of catalyst for economic development of the country in the developing country where there prevail unorganized transactions. It helps to enhance economic activities of the country by providing capital funds for the smooth operation of business activities, create employment opportunities, investing agriculture industry. At present there are altogether twenty eight commercial banks operating in the country among which Nepal bank limited (NBL) and RastriyaBanijaya Bank RBB) has occupied wide range of the business due to access to most of the corner of the country. Slowly private banks are also initiating to move toward every corner of the country but due to prevailing political crisis they are not being able to meet their objects to reach to every corner of the country. Due to increasing competition banks are forced to innovate new products to their customer and they are also shifting from traditional services like Automatic Teller Machine (ATM) cards, debit cards housing loan education loans, vehicle financing. People deposits their saving in trust of banks repays their deposits promptly when they demand for it. If one bank fails to repay the deposited amount to the public then there will be run in the banks and it leads to insolvency of the banks. So as the regulator, supervisor and inspector NRB always dictate the activities of the banks in the country. It chances its directives from time to time in order to have fair competition between the banks and to safeguards the deposits of the public. As number of banks in the country increase NRB has to be more active towards its regulative and supervising role.To depict the performance of any firm financial analysis is essential. Past performance often use a good indicator of future performance. Therefore, all parties are interested know the trend of past variable such as sales, expenses, net income, cash flow and return on investment and so on. Financial analysis is the process of critical judgment of detail accounting information given in the financial statement. Financial analysis is the process of determining the significant operation and financial characteristics of a firm accounting data. It shows the relationship between the various components, which can be found in balance sheet and profit and loss statement. The analyze statement contain those information which is useful for management, shareholder, creditors, investor, depositors etc.

The modern phase of banking development

The process of the Development of Banking system in Nepal was not satisfied up to 2040. Not a single Bank was opened during this period except expanding the branches of the banks, which were established in the earlier period. Nepal was observing the event that takingNepal was deeply studying and searching what sorts of programs, policies, law and regulation should be brought into the practice. The country can't change it status by using only its own capital in the country without importing the new technology from foreign country. Accordingly, law, and policy have been enacted by the state to encourage the foreign investment on banking sector. As a result of it the Development of the Banking system started in Nepal. The competition began to grow the banks began to offer their valuable service to the people through new technology. This was the great significant event. After the restoration of democracy in Nepal, there is tremendous development in banking sector. Different types of banking activities are being operated. It has played positive role in economic activities. Till now apart from commercial banks have five rural development banks are in operation in Nepal places in the world also. Nepal was deeply studying and searching what sorts of programs

1.2 Role of commercial banks in economic development

It has already been stated that commercial banks are the most effective means for mobilizing the country's resources efficiently and effectively to accelerate the development of the national economy. The commercial banks therefore are called the engine of economic growth in the modern age of liberalization and privatization and they play as such as important role for capital formation as the heart plays in the circulation of blood in the human body. The main objectives of commercial bank are to mobilize idle resources for productive use after collection them form scattered resources. The essence of commercial banking is the financial inter mediation between the ultimate savers and borrowers. In other words, main functions of bank are to act as an intermediary between the surplus and deficit units in the economy. A bank as any other firm is in business to make profit for its shareholders it draws its profit mainly from the different of interest on deposits and lending. Commercial banks have become in hearts of financial system as they hold the deposits of millions of people, government and business units, and make fund available through their lending and investing activities of individual business firms and government. So, the commercial banks are the most important institutions for capital formation .Economic development of country as "the low income underdeveloped countries are not only ones that have recently awakened to the possibility of growth and low attach unprecedented important to promoting it. The highest income most highly developed countries in the world are also giving unprecedented attention to these objectives" (Paul, 2000). "Economic development is a process whereby an economy's real income increases over a long period of time.

Some of the important roles of the commercials bank are mentioned below.

1. Commercial bank is important of the country for the further development of the country so for this commercial banks are established to provide loan by taking the different kinds of collaterals
2. To facilitate the citizen of the country and outside the country for sending and receiving the money form different places easily and reliably.
3. To collect the unutilized funds from the different parts of the country and to mobilize this capital.
4. For the comfort of the traveler banks also provide the travelers cheque facilities etc.
5. For the promotion of businessman bank provides letter of credit facilities.

These services help to run the business and other economic activities rapidly as well as smoothly.

Brief profiles of these two banks are given below:

Brief profile of sample banks

Everest Bank Limited (EBL)

Everest bank limited was established in 1994 in joint venture with pan jab national bank limited of India. Despite the cut-throat competition in the Nepalese banking sectors, Everest bank has been able to maintain a lead in the primary banking activities loans and deposits. Legacy of Everest lives on in an institution that is known throughout Nepal for its innovative approaches to merchandising and customer services. Products such as premium saving account, EBL proprietary card and millionaire deposit scheme besides services such as ATM and Tele banking were first introduced by EBL. Therefore, the banks stand for the innovations that we bring about in this country to help our customers besides modernizing the banking sector. Hence, it is celebrating its 24 th anniversary successfully in the competitive marketing to more than 9 lacs customers, Everest Bank Limited (EBL) is a name you can depend on for professionalized & efficient banking services. Founded in 1994, the Bank has been one of the leading banks of the country and has been catering its services to various segments of the society. With clients from all walks of life, the Bank has helped develop the nation corporately, agriculturally & industrially.

Network: severest Bank Limited (EBL) provides customer-friendly services through its wide Network connected through ABBS system, which enables customers for operational transactions from any branches. The bank has 80 Branches, 113 ATM Counters, 7 extension counter & 28 Revenue Collection Counters across the country making it a very efficient and accessible bank for its customers, anytime, anywhere.

Nepal Bank Ltd. (NBL)

Nepal Bank Ltd. (NBL), The first bank of Nepal was established in November 15,1937 A.D (Kartik 30,1994).It was formed under the principle of joint venture (joint venture between govt. & general public). NBL's authorized capital was Rs. 10 million & issued capital Rs. 2.5 million of which paid of capital was RS.842 thousand with 10 shareholders. The bank has been providing banking through its branch offices in the different geographical locations of the country. Nepal Bank Limited has focus on building positive net worth and minimum capital requirement over the coming five years, focus on increasing the sustainable profit and maximize the efficiency of bank staff.

1.3Statement of the problem

This government effort in not able to contribute the socio-economic development of the country` wherearound80% people live inruraland75% of the population depends upon agriculture. These banks should expand their operation in rural areas.NRB, the central bank, has rule that joint venture banks should invest10% of their total investment in the rural areas .These banks are inclined to pay fines rather than investing their resources to such less profitable sector. The main objective of the bank is to collect deposits as much as possible from the customer and to mobilize in to them most profitable and preferable sector. The present study basically focused on the financial performance of NBL and EBL. In Nepal many banks and financial companies have opened up within a span of few years. Although joint venture bankshave managed to perform better than other commercial banks with in the short period of times they have been facing a neck competition against one another. Therefore, it is necessary to analyze the profitability position of NBL and EBL. Thus the present study seeks to explore the efficiency and comparativefinancial performance of NBL and EBL. Liquidity management therefore involves the strategic supply or withdrawal from the market or circulation the amount of liquidity consistent with a desired level of short-term reserve money without distorting the profit making ability and operations of the bank. It relies on the daily assessment of the liquidity conditions in the banking system, so as to determine its liquidity needs and thus the volume of liquidity to allot or withdraw from the market. The liquidity needs of the banking system are usually defined by the sum of reserve requirements imposed on banks by a monetary authority.

In Nepal, the profitability rate, operating expenses and dividend distribution rate among the shareholders has been found different in the financial performance of the two joint venture banks in different period of time. The problem of the study will ultimately find out the reason about difference in financial performance. A comparative analysis of financial performance of the banks would be highly beneficial for pointing out their strength and weakness. Although joint venture banks are considered efficient, but how far are they efficient? This question does emerge in banking sector. At present we have twenty-six eight commercial banks. In spite of rapid growth, some indicators show performance is not much encouraging towards the service coverage. In such a situation the study tries to analyze the present performance of banks, which would give the answers of following queries.

1. What is the liquidity position of NBL and EBL banks?
2. What is the leverage situation of NBL and EBL banks?

3. What is the profitability performance of NBL and EBL banks?
4. What are the impact of liquidity, leverage,activities on profitability of NBL and EBL banks?

1.4Purposes of the study

The main objective of the study is to evaluate and analysis the financial performance of these two banks i.e. NBL and EBL and to recommend the suitable suggestion for improvement.

1. To analyze the liquidity position of NBL and EBL banks.
2. To explore the situation of NBL and EBL banks.
3. To analyze the profitability performance of NBL and EBL banks.
4. To explore the impact of liquidity, leverage, activities on profitability of NBL and EBL banks.

1.5. Significance of the study

Commercial banks are not one of the major core components of modern economy. They give greater contribution to GDP too. The production of finance and real–estate sub sector is increasingly comparatively. The slowdown in the economic segments has a definite impact on the banking sector too. The slowdown in the economics segments has a definite impact on the banking sector too. Globalization and accession to WTO, South Asia Free Trade Area (SAFTA) and Bay of Bengal Initiative for Multi-sectored Technical and Economic Cooperation (BIMSTEC) membership has invited more challenges as well as opportunities. In addition, Branches of foreign companies will be allowed insurance services and wholesale banking after January1, 2010. At this situation,the commercial banks should be more competitive. They should become financially strength/ healthy and must have growth potentially. And they have to shape their plans and strategies accordingly .In such a situation, this study tried to analyze and indicate the over all financial health whether they are capable to compete the challenges and grape to opportunities or not.

So, the study basically covered the commercial banks falling in the same strategic group to be more meaningful. No single measure can tell much. Thus, a case study was conducted on based on top five private–sector commercial banks ranking by NEPSE according to their market capitalization ratio. Thus the study may be more fruitful and rationale to their stakeholders at present situation, where the commercial bank becomes advancing through IT –integration.

1.6Limitations of the study

The following are the limitations of the present study:-

1. This study is limited to the comparative study of financial performance of joint venture and Government banks NBL and EBL.
2. This study is based on secondary data.
3. This study has analyzed and evaluated of data to the latest five years periods. e. since2013/2014to 2017/2018
4. This study follows with specific tools: - such as ratio analysis, Profitability ratios,statistical tools etc.
5. This study is concerned with fulfilling in partial requirement in MBS.

1.7 Organization of the Study

This study has organized into the following five chapters:

Chapter – I: Introduction

This chapter includes background of the study, focus of the study, statement of the problems, objectives of the study, significance of the study and limitations of the study.

Chapter - II: Review of Literature

This chapter reviews the existing literature on the concept of financial performance analysis. It also contains reviews of journals and articles, and earlier thesis related to the subject.

Chapter - III: Research Methodology

This chapter expresses the way and technique of the study applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and method of analysis.

Chapter - IV: Result and Discussion

In this chapter collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools.

Chapter - V: Summary, Conclusion and implications

In this chapter, summary of whole study, conclusions and implications are made.

CHAPTER II

LITERATURE REVIEW

Literature Review

This chapter includes the review of literature which includes review of books, journals, bulletins and annual reports published by the banks and other related authorities, review of related articles and studies and previous thesis as well.

2.1 ConceptualReview

The modern financial evaluation has greatly affected the role and importance of financial performance. Nowadays, finance is best characterized as ever changing with new ideas and techniques. Only efficient manager of the company can achieve the set up goals. If a bank does not maintain adequate equity capital, it makes the bank more risky. If a bank has inadequate equity capital, it must be used more debt that has high fixed cost. So any firm must have adequate equity capital in their capital structure. The main objectives of the bank are to collect deposits as much as possible from the customers and to mobilize into the most profitable sector. If a bank fails to utilize it's collected resources than it can not generate revenue. Resource mobilization management of bank includes resource collection, investment portfolio, loans and advances, working capital, fixed assets management etc. It measures the extent to which bank is successful to utilize its resources. To measure the bank performance in many aspects, we should analyze its financial indicator with the help of financial statements .Financial analysis is the process of identifying the financial strength and weakness of the concerned bank. It is the process of finding strength and weakness of the concerned bank. It is the process of finding details accounting information given in the financial statement. It is performed to determine the liquidity, solvency, efficiency and profitability position of an organization. The function or the performance of finance can be broken down into three major decisions i.e. the investment decision, the financing decision, and the dividend decisions. An optional combination of the three decisions will maximize the value of the firm.

2.1.2 Anticipated Income Theory

This theory holds that a bank's liquidity can be managed through the proper phasing and structuring of the loan commitments made by a bank to the customers. Here the liquidity can be planned if the scheduled loan payments by a customer are based on the future of the borrower. The doctrine of anticipated income, as formalized by Herbert V. Prochnow in 1949, embodied these ideas and equated intrinsic soundness of term loans, which were of growing importance, with appropriate repayment schedules adapted to the anticipated income or cash flow of the borrower. The credit demands of business were well accommodated under this system of banking policy, and the use of loan commitments was freely pursued. Changing economic conditions, however, placed extra demands on the banking system that resulted in a new approach to balance sheet management, and businesses faced new financial challenges. Under this emerging state of affairs, bank loan commitment policies would come to play a more important part in the credit process. This theory has encouraged many commercial banks to adopt a ladder effects in investment portfolio.

2.1.3Suitability Theory

This theory posits that a bank's liquidity is maintained if it holds assets that could be shifted or sold to other lenders or investors for cash. This point of view contends that a bank's liquidity could be enhanced if it always has assets to sell and provided the Central Bank and the discount Market stands ready to purchase the asset offered for discount. Thus this theory recognizes and contends that suitability, marketability or transferability of a bank's assets is a basis for ensuring liquidity. This theory further contends that highly marketable security held by a bank is an excellent source of liquidity. The Shiftibability theory liquidity replaced the commercial loan theory and was supplemented by the doctrine of anticipated income. Formally developed by Harold G, Moulton in 1915, the suitability theory held that banks could most effectively protect themselves against massive deposit withdrawals by holding, as a form of liquidity reserve, credit instruments for which there existed a ready secondary market. Included in this liquidity reserve were commercial paper, prime bankers' acceptances and, most importantly as it turned out, Treasury bills. Under normal conditions all these instruments met the tests of marketability and, because of their short terms to maturity, capital certainty.

A major defect in the Suitability theory was discovered similar to the one that led to the abandonment of the commercial loan theory of credit, namely that in times of general crisis the effectiveness of secondary reserve assets as a source of liquidity vanishes for lack of a market (Casu et al (2006)). The role of the central bank as lender of last resort gained new prominence, and ultimately liquidity was perceived to rest outside the banking system. Further- more, the soundness of the banking system came to be identified more closely with the state of health of the rest of the economy, since business conditions had a direct influence on the cash flows, and thus the re-payment capabilities, of bank borrowers. The suitability theory survived these realizations under a modified form that included the idea of ultimate liquidity in bank loans resting with suitability to the Federal Reserve Banks. Under this institutional scheme, the liquidity concerns of banks were partially returned to the loan portfolio, where maintenance of quality assets that could meet the test of intrinsic soundness was paramount (Allen and Gale (2004)).

2.1.4 Commercial Loan Theory

This theory has been subjected to various criticisms by Dodds (1982) and Nwankwo (1992). From the various points of view, the major limitation is that the theory is inconsistent with the demands of economic development especially for developing countries since it excludes long term loans which are the engine of growth. The theory also emphasizes the maturity structure of bank assets (loan and investments) and not necessarily the marketability or the shiftability of the assets.

Adam Smith provided the first systematic exposition of the doctrine in his Wealth of Nations (1776)). Basically, it is a theory of asset management that emphasized liquidity; the doctrine held that banks should restrict their earning assets to “real” bills of exchange and short-term, self-liquidating advances for commercial purposes. In this way, it was argued, individual banking institutions could maintain the liquidity necessary to meet the requirements of deposit withdrawals on demand. Under a somewhat modified character this basic doctrine came to be known in the U. S. as the commercial loan theory of credit. The commercial loan theory of credit became obsolete both because of its conceptual flaws and its impracticality. A critical underlying assumption of the theory held that short-term commercial loans were desirable because they would be repaid with income resulting from the commercial transaction financed by the loan. It was realized that this assumption would certainly not hold during a general financial crisis even if bank loan portfolios did conform to theoretical standards, for in most commercial transactions the purchaser of goods sold by the original borrower had to depend to a significant extent on bank credit. Without continued general credit availability, therefore, even short-term loans backing transactions involving real goods would turn illiquid. Rigid adherence to the orthodox doctrine was, furthermore, a practical impossibility if banks were to play a role in the nation's economic development (Casu (2006)). Moreover, the practice of continually renewing short- term notes for the purpose of supporting long-term capital projects proved unacceptable. The failure or inability of banks to tailor loan arrangements to the specific conditions encountered with longer-term uses in fact contributed to the demise of the practice.

2.2 Review of Related Studies

Fredrick (2012) analyzed the impact of credit risk management on the financial performance of commercial banks in Kenya. The study has used CAMEL model as a proxy for credit risk management. The author found that the strong impact of CAMEL (credit risk components) on the financial performance of commercial banks.

Funsoet. al. (2012) examined the effect of credit risk on the performance of commercial banks in Nigeria over the period of 11 years (2000-2010). Panel model analysis was used to estimate the determinants of the profit function. The results showed that the effect of credit risk on bank performance measured by the Return on Assets of banks is cross-sectional invariant. That is the effect is similar across banks in Nigeria, though the degree to which individual banks are affected is not captured by the method of analysis employed in the study. Based on our findings, it is recommended that banks in Nigeria should enhance their capacity in credit analysis and loan administration while the regulatory authority should pay more attention to banks' compliance to relevant provisions of the Bank and other Financial Institutions Act (1999) and prudential guidelines

Hoseininassab et al. (2012) examinedeffects of risk parameters (credit, operational, liquidity and market risk) on banking system efficiency (studying 15 top banks in Iran) recognizing the importance of efficiency and risk as two fundamental important categories in banking industry, seeks to review the effectiveness of two popular models: parametric (SFA) method with economic basis and nonparametric (MEA) method with mathematical optimization basis to evaluate bank efficiency and rank and select an optimal model and also to identify the impact of credit, operational, market and liquidity risks on banking system efficiency. The 15 banks were selected as statistical research community over the last six years (2005-2011). Using average performance provided by the above two methods, banks were ranked with Deap and Frontier software, and then to examine the presence or absence of significant correlation between the rankings provided by these two methods, the Pearson correlation coefficient was used. The results suggest differences in the two methods with regard to performance evaluation and ranking of banks, and show a relative superiority of SFA method, compared to MEA method. In addition, to examine the impact of efficiency on risk, for the four studied risks based on selected indicators, four models were estimated using econometric methods and the ordinary least squares (OLS). The results showed that each of the studied risks and their related indicator and their specific coefficient, significantly affect on efficiency.

Kumar & Yadav (2013) assessed onliquidity risk management in bank that Liquidity is a bank’s capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses. In the context of banking, liquidity, or the ability to fund increases in assets and meet obligations as they come due, is critical to the ongoing viability of the banking institution. Since there is a close association between liquidity and solvency of banks, sound liquidity management reduces the probability of banks becoming insolvent, thus reducing the possibilities of bankruptcies and bank runs. Ultimately, prudent liquidity management as part of the overall risk management of the banking institutions ensures a healthy and stable banking sector. Effective liquidity risk management helps ensure a bank’s ability to meet its obligations as they fall due and reduces the probability of an adverse situation developing. They examined the sound practices for the liquidity risk management in banks. They went along with the suggestions of the Basel Committee and Reserve Bank of India on management of liquidity risk. They explained the meaning of liquidity, liquidity risk and liquidity risk management. It also discussed the process of building up of a liquidity risk management system.

Kaitibi .B. et al (2018) assessed the impacts of efficient credit management on profitability of commercial bank in sierra leone.For this purpose , the rowel commercial bank was selected as case study.Relevent data were collected from five years financial statements and annual reports of the bank. The analysis of the data was quantatitativelyas well as qualitatively done using ratio analysis and charts. Results showed that profitability of commercial banks in Sierra Leone is significantly influenced by the efficiency of credit management.

Noor .A. et al (2018) examined the impact of credit risk management on financial performance of banks. This study was descriptive and analytical natured based on secondary data of 4 different sample commercial bank. The analysis of data was based on simple regression analysis of percentage of classified loan on ROI, ROE, ROA and so on financial indicators .The study concluded that there is significant relationship between the variables during short run.

Ibe O.S. (2013) **i**nvestigated the impact of liquidity management on the profitability of banks in Nigeria. The work is necessitated by the need to find solution to liquidity management problem in Nigerian banking industry. Three banks were randomly selected to represent the entire banking industry in Nigeria. The proxies for liquidity management include cash and short term fund, bank balances and treasury bills and certificates, while profit after tax was the proxy for profitability. Elliot Rothenberg Stock (ERS) stationary test model was used to test the run association of the variables under study while regression analysis was used to test the hypothesis. The result of this study has shown that liquidity management is indeed a crucial problem in the Nigerian banking industry. The study therefore recommends that banks should engage competent and qualified personnel in order to ensure that right decisions are adopted especially with the optimal level of liquidity and still maximize profit.

Abdullah &Jahan (2014)focused on two important issues of main stakeholders of bank which are liquidity and profitability. The shareholders desire maximum profitability as a return on their investment, while the depositors opt for a maximum liquidity as a guarantee for safety and ability to pay their money on demand. Statistical significance of liquidity on profitability can be a great factor for existing and potential stakeholders. Therefore, this study had attempted to investigate the impact of liquidity and profitability of the private commercial banks of CSE-30 in Bangladesh by focusing on certain ratios over a period of five years. Five private commercial banks have been selected to undertake the research. Profitability measures - ROA and ROE are dependent variables and liquidity measures - Loan Deposit Ratio, Deposit Asset Ratio and Cash Deposit Ratio are selected as independent variables. The research carried out simple regression analysis to test the hypotheses. However, the null hypothesis is accepted in this study indicating that there is no significant relationship between liquidity and profitability.

Smail (2016) reverted the mounting importance of liquidity and profitability as a key concern in today's competitive business environment to generate funds internally. This study has examined the impact of the liquidity management on the performance of the 64 Pakistani non-financial companies constituting Karachi Stock Exchange (KSE) 100 Index for the period of 2006-2011. To derive the results of the study; descriptive statistical analysis, correlation analysis and multivariate regression tools of analysis were applied. According to the results of analyses, it is found that liquidity variables current ratio and the cash conversion cycle have significant positive impact on profitability (ROA). Further, results indicate that high current ratio and longer cash conversion cycle lead firms towards better performance. This study suggested firms to relax their credit sales policies, and devise inventory & collection turnover system in a wise manner to be more accessible to a large number of customers.

Begum(2016) Investigated the relationship between banks' liquidity and profitability and the impact of liquidity on bank's profitability. The paper applies the ordinary least square (OLS) method for the sample period from 1997 to 2014 to examine the impact of liquidity on banks' profitability. The paper finds that the advance deposit ratio positively impacts banks' profitability while profitability is defined as return on asset (ROA). Call money rates, non performing loans (NPLs), and excess liquidity impact banks' profitability in a negative fashion. The negative relationship between NPLs and ROA has been a major concern for the policymakers in the banking industry of

Bangladesh since NPLs in the banking sector have increased during the last three years in the post 2011 period.

Ali etc. al (2011) examined the profitability indicators of public and private commercial banks of Pakistan explored in 2006-2009. The return on assets (ROA) and return on equity (ROE) are used as profitability measures to determine the affect of bank-specific and macroeconomic indicators on profitability. The descriptive, correlation and regression analysis results are derived with the help of SPSS. The efficient asset management and economic growth establish positive and significant relation with profitability in both models (measured by ROA & ROE). The high credit risk and capitalization lead to lower profitability measured by return on assets (ROA). The operating efficiency tends to exhibit the higher profitability level as measured by return on equity.

Olwenyand Shipho (2011)determined and evaluate the effects of bank-specific factors; Capital adequacy, Asset quality, liquidity, operational cost efficiency and income diversification on the profitability of commercial banks in Kenya. The second objective was to determine and evaluate the effects of market structure factors; foreign ownership and market concentration, on the profitability of commercial banks in Kenya. This study adopted an explanatory approach by using panel data research design to fulfill the above objectives. Annual financial statements of 38 Kenyan commercial banks from 2002 to 2008 were obtained from the CBK and Banking Survey 2009. The data was analyzed using multiple linear regressions method. The analysis showed that all the bank specific factors had a statistically significant impact on profitability, while none of the market factors had a significant impact. Based on the findings the study recommends policies that would encourage revenue diversification, reduce operational costs, minimize credit risk and encourage banks to minimize their liquidity holdings. Further research on factors influencing the liquidity of commercials banks in the country could add value to the profitability of banks and academic literature.

Ibe (2013) investigated the impact of liquidity management on the profitability of banks in Nigeria. The work was necessitated by the need to find solution to liquidity management problem in Nigerian banking industry. Three banks were randomly selected to represent the entire banking industry in Nigeria. The proxies for liquidity management include cash and short term fund, bank balances and treasury bills and certificates, while profit after tax was the proxy for profitability. Elliot Rothenberg Stock (ERS) stationary test model was used to test the run association of the variables under study while regression analysis was used to test the hypothesis. The result of the study shows that liquidity management is indeed a crucial problem in the Nigerian banking industry. The study therefore recommends that banks should engage competent and qualified personnel in order to ensure that right decisions are adopted especially with the optimal level of liquidity and still maximize profit.

Abiola and Olausi (2014) investigated that the impacts of credit risk management on the performance of commercial banks in Nigeria. Financial reports of seven commercial banking firms were used to analyze for seven years (2005–2011). Panel regression model was employed for the estimation of the model. In the model, return on equity (ROE) and return on assets (ROA) were used as the performance indicators while non-performing loans (NPL) and capital adequacy ratio (CAR) as credit risk management indicators. The study revealed that credit risk management has a significant impact on the profitability of commercial banks‟ in Nigeria. The results of the study revealed that there was a significant relationship between credit management and bank profitability and there was a significant relationship between bank liquidity and profitability among deposit money banks in Nigeria.

Danjuma (2015) examined out a conceptual review of credit risk management and customers’ satisfaction in Deposits Money Banks (DMBs) in Nigeria. It examined concepts of credit and credit risk management based on credit and credit risk, credit management and risk assessment tools The Credit Appraisal Process was also examined from the corporate strategy and portfolio strategy perspectives. Conceptual issues relating to customer satisfaction, consumer behaviour and dimensions of customer satisfaction: emotional, behavioural affective, cognitive and intention to repurchase were discussed. The study proposes a conceptual framework for measuring link between credit risk management and customer satisfaction in DMBs. Also, the framework proposes that perceptions of customers about satisfaction can be determined based on their gender, age and occupation.

Alshatti (2015) examined the effect of credit risk management on financial performance of the Jordanian commercial banks during the period 2005-2013 using capital adequacy ratio, credit interest/credit facilities ratio, provision for facilities loss/ net facilities ratio, leverage ratio and non-performing loans/gross loans ratio as independent variables. The dependent variables represent the profitability measured by ROA and ROE. The author concludes that all the credit risk management indicators used in the study have significant effect on the financial performance of the Jordanian commercial banks.

Onuko et al. (2015) investigated the effect of credit risk management on loan portfolio quality of tier one commercial banks in Kenya. The study used loan pricing as the independent variable while loan portfolio quality as the dependent variable. The quality of the loan portfolio was measured by use of non performing assets (NPA).The study employed descriptive research design. Five tier one commercial banks in Kenya were analyzed. Financial reports for the five banks were analyzed between the years 2009-2013. Data was collected through both primary and secondary methods. The findings indicated loan pricing had significant positive effect on the level of NPA and it accounted for 57.4% change in level of NPA. It is therefore recommended that financial institutions charge affordable interest rates that will attract more creditors hence increasing their revenue from interest earned. Further studies should carried out on other factors not included in this study such as loan exposure limits.

Ugoani (2015) examined the relationship of poor credit risk management and bank failures in Nigeria using survey research design. The results from the Chi-square statistics revealed that weak corporate governance accelerates bank failures and the credit risk management function is to the greatest extent the most diverse and complex activity in banking business. The author concludes that poor credit risk management influences bank failures.

Michael et al. (2015) developed an effective credit risk management that the credit management starts with the sales and does not stop until the full and final payment has been received. The central bank annual supervision report 2015 indicated high incidence of credit risk reflected in the rising levels of non-performing loans by the commercial banks in the last 10 years. This results in loan losses when ultimately loan recovery flops and also creation of provision for doubt debts thus affecting overall profitability. Therefore, this study aims at assessing the effectiveness of credit appraisal on loan performance in commercial banks in Kenya. It was intended to be of significance to various parties namely the banks management, customers, investors and even the government. It was suffered difficulties due confidentially of credit information but the researcher obtained an introductory letter from the university and assured responds of confidentiality. Descriptive research design was used. The population comprised of 86 respondents. Data was collected using a self-administered questionnaire through drop and pick later method. The questionnaire was both open and closed ended. Test retest method was used to ensure reliability while piloting was used to check the validly of the research instrument .data was analyzed using to frequencies, percentages and means. Correlation was used to compute the degree of association between variable. The hypotheses were tested using chi square. Data was thereafter presented using table and pie charts. Credit appraisal was found to be very important in influencing performance of commercial banks. Findings revealed that lending placed much reliance on use of past information and thus credit referencing and credit history were applied more in credit appraisal. It was recommended that credit appraisal should be carried out by the technical people who are experienced and competent credit officers. Use of a multi-variety approach to credit risk appraisal was also recommended.

Shing&Shahid (2016) investigated that how well the banking sector of Oman is managing their liquidity risk by comparing them with some of the leading multinational banks. The liquidity ratios are used to compare the liquidity risk of domestic banks with the multinational banks. Frequently used liquidity ratios were calculated and compared for the period of three years from 2012 to 2014 using descriptive and analytical approach. On the basis of liquidity ratios the two domestic banks of Oman are weak in liquidity management as compared to their international counterpart .However, Central bank of Oman monitors the liquidity reports of each bank, policies are reviewed and approved by the risk committee of banks. Moreover, the Omani local banks also frequently conduct stress testing based on the market situations and bank conditions as per the standard laid down by the Basel Committee.

Bassey (2016) examined the liquidity management and the performance of banks in Nigeria within the period 2000-2010. It investigated the relationship between the variables of bank performance and those of liquidity management using bank deposit, cash reserve requirement, bank investment, and cash ratio as indicators. Data were mainly collected from CBN's statistical bulletin. Data were analyzed using simple percentages and simple regression model. Findings indicated that a strong relationship exists between bank deposit and bank reserve requirement, and bank investment and cash ratio. Thus, these finding which had re-echoed results from similar studies re-emphasize the fact that successful operations and survival of banks anchored on efficient and effective liquidity management. Therefore, it was recommended that banks should not concentrate purely on deposits but rather other measures be adopted to reduce illiquidity in this sector.

Wambui&Wanjim (2016) determined the effect of credit risk on corporate liquidity of deposit taking microfinance institutions (DTMs) in Kenya. The population of the study comprised all the nine DTMs in Kenya. The data for the study was collected from secondary sources for the period between 2011 and 2013. Regression analysis was used to determine the strength of the relationship between the variables. The findings of the study indicated that credit risk has a strong and a statistically significant effect on corporate liquidity of deposit taking microfinance institutions in Kenya.

Davronov (2016) studied the existing mechanisms of liquidity management in practice of commercial banks in Uzbekistan. In addition, it presents description and grouping of theoretical approaches to the liquidity management in commercial banks. He also formulated main requirements to the mechanism of liquidity management process. Moreover, it proposes and demonstrates the results of testing mathematical model of analysis and forecast of bank cash flows which is based on ARIMA method. It should be noted that the model, proposed in the article, cannot entirely optimize the activity of the bank and minimize risks of liquidity management. On the one hand, it is connected with the fact that the forecast for future cash flows of the bank is made with the certain probability. Thus if we raise the time series, the reliability of the results will be decreased.

Coleman et al. (2017) explained the patterns of internal liquidity management and their effect on bank lending, using a novel branch-level dataset of Brazilian banks. The results suggest that internal liquidity management increases during times of financial stress. Privately owned banks are most affected by a liquidity shock, and increase the level of internal funding to maintain their branch lending, while their government-owned competitors react strategically. Private and government banks increase the funding of branches in concentrated and riskier areas. This funding translates into more lending, as the sensitivity of lending to internal funding remains high after the liquidity shock. Altogether, the paper provided branch-level evidence of the way that banks ration internal liquidity, both in normal times and in times of stress, and the effect this has on bank lending.

Ejong et al. (2014) examined the impact of credit risk and liquidity risk management on the profitability of deposit money banks in Nigeria with particular reference to First bank of Nigeria Plc. Descriptive research design was used for the study where questionnaires were administered to a sample size of eighty (80) respondents. The data obtained were presented in tables and analyzed using simple percentages. The formulated hypotheses were tested using the Pearson product moment correlation.

2.2.2 Review Article in the National Context

Koirala (2010) assessed the record of accomplishment of potential borrowers and innocent characters termed as the best borrower. The bank, on the other hand is an institution established have been responsible for the existence of huge volume of NPA in state-owned commercial banks. In order to improve the situation, there is a need to evolve a more acceptable working system backed by cooperation and realization by the banks employees as well as the politicians and stakeholders, who can influence in banks operation.

Gautam (2011) analyzed financial performance of commercial banks using both descriptive and diagnostic approach.It was concluded the following points:

- The structural ratio of commercial banks shows that banks invest on the average of 75% of their total deposit on the government securities and the shares.

- The analysis of resource position of commercial banks should quit high percentage of deposit as cash reserve.
- Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.
- The debt – equity ratios of commercial banks are more than 100% in most of the time period under studies period. It led to conclude that the commercial banks are highly leveraged and highly risk.
- In case of the analysis of the management achievement, foreign banks have comparatively higher total management achievement index.

Shrestha (2012) conducted the role of deposit mobilization and its problems and prospects in context of Nepal using descriptive and diagnostic approach for the study of banks andhas presented that following problems in the context of Nepal:

- People do not have knowledge and proper education for institutional manner. They so do not know financial organizational process, withdraw system, depositing system etc.
- Financial institutions do not want to operate and provide their services in rural areas.
- He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas and by adding various services.
- By operating rural banking programs and unit, mobilize the deposit collection by the financial institutions by rendering their service in rural areas, by adding various services.
- Nepal Rastra Bank must organize training programs to develop the skill human resources.
- By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public in deposit collection to the rural areas.

Poudel (2012) examined the impact of credit risk management on the financial performance of commercial banks in Nepal using the financial report of 31 banks for eleven years (2001-2011). The methods of data analysis in the study were descriptive, correlation and multiple regressions. The financial performance indicator used in the study was return on assets (ROA). The predictors of the banks‟ financial performance used in the study were: default rate, cost per loan assets and capital adequacy ratio. The author asserts that all these parameters have an inverse impact on banks‟ financial performance. However, among the risk management indicators, default rate (NPLR) is the single most influencing predictor of bank financial performance in Nepal whereas cost per loan assets is not significant predictors of bank performance. The author concludes that credit risk management is crucial on the bank performance since it have a significant relationship with bank performance ,examined the effect of credit risk on performance of Nepalese commercial banks. The descriptive and causal comparative research designs have been adopted for the study. The pooled data of 14 commercial banks for the period 2010 to 2015 have been analyzed using regression model. The regression results revealed that 'non-performing loan ratio' has negative effect on bank performance whereas 'cost per loan assets' has positive effect on bank performance. In addition to credit risk indicators, bank size has positive effect on bank performance. Capital adequacy ratio and cash reserve are not considered as the influencing variables on bank performance. This study concludes that there is significant relationship between bank performance and credit risk indicators

2.2.3 Review of Theses

Prior to this study, the several researchers have found various studies regarding financial performance of commercial banks. In this study, only relevant subject maters are reviewed which are as follows: -

Sakya.,S (2010) in “Financial Performance of Nepal SBI Bank Limited and Everest Bank Limited.” analyzed different ratio of NSBIBL and EBL for the period of five years till fiscal year 2008.(50,Page) Here, in some cases the liquidity position of EBL is slightly stronger where as in some cases the ratio of NSBIBL is higher. It concludes that liquidity position of these two banks is sound. NBBL has better utilization of resource in income generating activity than EBL. They are on decreasing trends while interest earned to total assets and return or net worth ratio of EBL is better than NSBIBL. It seems overall profitability position of EBL is better than NSBIBL and both banks are highly leveraged.”

Regmi.s (2007) thesis "A Comparative Study of the Financial Performance of HBL and NBBL" 30, he suggested NBBL to increase its current assets because the bank is not maintaining adequate liquidity position in comparison with HBL. As capital structures of both the bank are highly levered both the banks are recommended to maintain and improve mix at debt and owner's equity by increasing equity share. He further suggests to HBL to improve the efficiency in utilizing the deposits in loan and advance for generating the profit NBBL should try to maintain present position on this regards. Profitability position of HBL is comparatively better than the same of NBBL. So, NBBL is recommended to utilize its resources more efficiently for generating more profit margins. If resources held idle, bank faces high cost and causes the low profit margin. An ideal dividend payout ratio is based upon shareholders expectations and the growth requirement of the banks. NBBL is suggested to increase its dividend payout ratio. (Regmi, 2001, p.29)

The two banks should extend their resources to rural areas and promote the development of poor and disadvantaged group. In order to do so banks should open their branches in the remote areas with objectives of providing cheaper banking services especially HBL should initiated an this regard because it has few branches in comparison to NBBL. Because of the start competition between banking, sectors both the banks are suggest to formulate and implement some sound and effective financial and non-financial strategies to minimize operational expenses to meet required level of profitability. The banks are further suggested to adopt modern banking technologies to enhance their better and wide market.

Adhikari. 00000 (2008) thesis" A Comparative Study of Financial Performance of NSBIBL and EBL" conclude that EBL is found superior regarding the liquidity, quality assets they possessed and capital adequacy overall capital structure of NSBIBL appears more levered than that on EBL. But NSBIBL is found superior in terms of profitability and turnover comparatively interest remained more dominant in the total income and expenses of NSBIBL than that of EBL. Regarding the test of hypothesis is (at 5% level of significance) the performance of the sampled banks significantly different with respect to the ratios, loans and advances to saving deposits. Loan loss provision to total deposit interest earned to total assets and tax per share correlation analysis signifies that EBL is successful to utilize its resources more efficiently than NSBIBL. (Adhikari, 2001, p.28)

The review of the above mention bunch of research writes have definitely enriched my vision to elaborate analysis to come to the meaningful conclusion in realistic term and thereby come with some conclusion, few key suggestions that help in improvement of commercial banks.

- To highlight various aspects of relating to financial performance of Nepal
- Bangladesh bank and Nepal SBI bank.
- To analyze various aspects of relating to financial performance through the use of appropriate financial tools.
- To show the cause of change in cash position of the two banks. Through her research she has presented the following findings of the study: -

2.3 Research Gap

In this study, the major areas are to disclose the financial performance relates to Nepalese commercial banks (Joint venture).This type of research were done rarely. This study shows that the unique feature of findings. Previous researches on the basis of financial performance of commercial banks in Nepal.But this research is about financial performance of joint venture bank of Nepal with sample of Nepal Bank Limited and Everest Bank Limited. In the previous research, there is no clear-cut accounting and financial performance of joint venture banks. The research can help the people who wanted to know about the overall financial standard and accounting procedure of joint venture bank in Nepal. There are two-selected banks to find out the problem and prospects of study. Therefore, this topic may be new as well as the researches efforts may be appreciable.

CHAPTER III

RESEARCH METHODOLOGY

The main objective of this study to examine the major components of portfolio of the balance sheet of bank as well as to evaluate financial performance of the bank to achieve that objective the study require an appropriate research methodology therefore this chapter highlights about the methodology adopted in the process of present study.

3.1Research design

The research is basically the comparative evaluation of financial performance between Everest Bank Limited and Nepal Bank Limited. Descriptive research design has been are used to evaluate the financial performance of the bank.

3.3 Sources of data

This study based on secondary data. Secondary data have been collected from their respective annual report especially from profit and loss account, balance sheet and other publications made by the banks. Also some data has been gathered from Nepal Stock Exchange's Website. Similarly, articles, journals related to the financial performance study, previous research report etc., have also taken into account while collecting information.

3.4 Populations and Sample

At present there are 28 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank. For the purpose of convenience only, two commercial banks viz. Nepal Bank Ltd and Everest Bank Ltd. have been taken as sample of this study and rest of the commercial banks are considered as population. Five years data are taken to conduct the study from FY i.e. 2014/2015 to 2017/2018 Following commercial banks have been selected for the study. They are:

1. Everest Bank Limited
2. Nepal Bank Limited

Convenience sampling was used to select the sample banks.

3.5 Data collecting procedure

Besides the above stated sources of data, a detailed review of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from Central Library of Tribhuvan University and Library of Nepal Rastra Bank. Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then, results to be concluded and interpretations are to be made.

3.6 Method of data analysis

For the purpose of the study, financial statements of the selected JVBs are analyzed by using financial with the statistical tools.

3.6.1 Financial tools

In this study, the following financial tools have been used to measure the strength and weakness of the sample banks.

3.6.1.1 Ratio

Financial analysis is the process of identifying the financial strength and weakness of firm establishing relationship between times of balance sheet and profit and loss account *(Van Horne, 1979)*. Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating results and growth *(Poudel, 2053; 67).*

I. Liquidity ratio

Liquidity ratios are used to judge a firm's ability to meet short-term obligation. It is the comparison between the short-term obligations and short-term resources available to meet these obligations. The liquidity ratio measures the ability of a firm to meet its short-term obligation. In order to ensure short-term solvency, the JVBs must maintain adequate liquidity. Liquidity ratio should neither be inadequate nor high. If the liquidity ratio of the bank is not enough, it will result in bad credit ratings, less creditors, confidence, eventually may lead to the bankruptcy. If the company has high degree of liquidity funds, it wills unnecessary tied up in current assets. Thus the banks should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding the risk of insolvency. The following ratios are used to find out the short-term solvency of the banks.

a. Current ratio

The current ratio indicates bank's liquidity and short-term debt paying ability. It shows the relationship between current assets and current liabilities. It is calculated dividing the current assets by current liabilities. Thus;

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

Current assets are those assets, which can be converted into cash with in short period of time normally, not exceeding one-year. Cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivable, debtors, bills purchased and discounted and miscellaneous are the examples of current assets. Similarly, current liabilities are those obligation which are payable with a short period. Sometimes it is called working capital ratio. Deposit and other short-term loan, bills payable, tax provision, staff bonus, dividend payables and miscellaneous are the examples of current liabilities.

Generally, the current assets of the company should be twice than current obligation to be technically solvent. For many types of business, 2:1 is considered to be an adequate ratio. If the current ratio of the firm less than 2:1, the solvency position of the firm is not good. A relatively high value of the current ratio is liquid and has the ability to pay its bill and vice-versa. Lastly, the widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstance incase of seasonal business ratio and the nature of business.

b) Cash and bank balance to total deposits

This ratio shows ability of bank's fund to cover their current margin call and saving deposits. It is calculated in order to see the position of cash and bank balance to make the payment of deposits when demanded. This ratio is calculated by the following formula:

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

Here, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, saving deposits, fixed deposits, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits and vice-versa. Moreover, too high ratio is unfit as capital will be tied-up and opportunity cost will be higher

II) Leverage ratio

Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of debt and equity in financing. Long-term creditors like debenture holders, financial institutions etc. are more interested to the firm's long-term financial strength. The capital structure ratios mainly highlight on the long-term financial health, debt servicing capacity and strength and weaknesses of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary, debt ratios tell us the relative proportions of capital contribution by creditors and by owners. The following ratios are used for analyzing long-term financial health debt servicing capacity and strengths and weakness of JVBs.

a) Debt-equity ratio

Debt-equity ratio examines the relative claims of creditors and owners against the banks' assets. Alternatively, the debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is computed by using the following formula:

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

Here, equity funds comprise shareholders capital, general reserve, general loan loss provisions, inappropriate profit and loss balance etc. This ratio helps to ascertain the measure stake in commercial bank between lenders and owner. If debt portion is too high, there is danger-tempting irresponsibility in the part of the owners.

b Debt-assets ratio

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. This ratio is calculated by using the following formula:

Debt-Assets Ratio $= \frac{Total\ Debts}{Total\ Assets} x100$

The numerator consists of short-term and long-term debt. Debt is that sum of money that must be payable. Creditors, bills payable debentures are the examples of debt. A high debt to total assets ratio represents a greater risk to creditors and shareholders and vice-versa. This ratio implies a commercial bank success in exploiting debt to be more profitable.

II. Activity ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratio is employed to evaluate the efficiency with the bank manages and utilizes funds. The following ratios are calculated under the activity ratio.

a) Loan and advance to total deposits ratio

This ratio is used to see extent to which the banks are successful to mobilize the outsider's funds. It is calculated to measure the percentage of total deposit invested in loan, advance and overdraft. It is the proportion of efficiency i.e. loan the advance among the total deposit of the commercial banks. This ratio is calculated by using the following formula:

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

Higher ratio shows the finance companies ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the sign of efficient commercial bank and better mobilization of collected deposits and vice-versa.

b) Loan and Advances to total working fund ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of commercial bank are successful in mobilizing their loan and advances on working fund ratio for the purpose of income generation. This ratio is computed by dividing loan and advance by total working fund. This is stated as,

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

Here, the denominator includes all assets of on balance sheet items. In other words, this includes current assets, net fixed assets, loans for development bands and other investment in share, debenture and other etc. A high ratio indicates a better mobilization of fund as loan and advances and vice-versa.

III. Profitability ratio

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn profit. This ratio is regarded as the most essential element for the commercial bank growth and survival. The different between total revenues and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay and adequate return to different parties depend upon firm's profit. It is regarding as the most essential element for commercial bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio, better the financial performance of the commercial bank and vice-versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

a) Net profit to total assets ratio

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks in utilizing its overall resources. This is found by using the following formula :

Net Profit to Total Assets Ratio= $\frac{Net\,\mathrm{Pr}\,ofit}{Total\ Assets} \times 100$

The numerator indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. Total assets comprise those assets, which appear on the assets side of the balance sheet. The high return on total assets ratio usually indicator that high profit margin and high turnover of total assets and vice-versa.

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

This ratio enables to evaluate what extent the management has been successful to mobilize the deposits in generating profit. Higher ratio represents better utilization of profit. It is calculated by using the following formula.

Net Profit to total deposits= $\frac{Net\,\mathrm{Pr}\,ofit}{Total\ Deposits} \times 100$

Here, net profit means profit after interest and taxes and total deposit means that total amount deposited in various accounts i.e. current, saving, fixed, call and short deposits and other. Generally, higher ratio indicates better utilization of total deposits and vice-versa.

eral reserve, capital reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend.

Total working fund and vice-versa.

3.6.2 Statistical tools

The statistical tools selected for the comparative study of two banks (Nepal Investment Bank and Himalayan Bank Ltd.) are as follows.

3.6.2.1 Arithmetic Mean

Average is the typical values around which other items of distribution congregate. Arithmetic mean of a given set of observation is their sum divided by the number of observation (Gupta, S.C. 1995:331).

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

Where,

$\overline{X}$ = Arithmetic Mean
$x_1 + x_2 + \ldots x_n$ = Values of Variable
$\sum x$ = Sum of the values of variables x
n = Number of observation.

3.6.2.2 The Coefficient of Variation

For comparing the variability of two distributions, we compute the coefficient of variation. A distribution with smaller C.V. is said to be more homogenous or uniform or less variable than other and the series with greater C.V. is said to be more heterogeneous or more variable than others. The coefficient of variation is a relative measure which is useful in comparing the amount of variation in data group with different means :

Mathematically,

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

S.D. = $$\sqrt{\frac{1}{n}\sum\left(X - \overline{X}\right)^2}$$

Where,

S.D. = Standard Deviation

$\overline{X}$ = Mean

C.V. = Coefficient of variation

3.6.2 Statistical Tools

The statistical tools selected for the comparative study of two banks (Nepal Investment Bank and Himalayan Bank Ltd.) are as follows.

3.6.1.3 Coefficient of Correlation

The Coefficient of correlation is an important measure to describe how well one variable is explained by another. It measures the degree of relationship between the two casually related variables. Karl person's coefficient of correlation between two variables X and Y is usually devoted by 'r' which is the numerical measure of linear association between the variables.

Where,

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

n	=	No. of observation of X and Y.
$\sum x$	=	Sum of the observations in series X.
$\sum y$	=	Sum of the observations in Series Y.
$\sum x^2$	=	Sum of square observations in series X.
$\sum y^2$	=	Sum of square observations in series Y.
$\sum xy$	=	Sum of product of the observations in series X and Y.

3.6.2.5 Coefficient of Determination

The coefficient of determination is the primary way we can measure the extent, or strength of the association the exists between two variables X and Y, It is worked out by squaring the coefficient of correlation.

Where,

R = r^2

r = Coefficient of correlation

R = Coefficient of determination

3.6.2.6 Trend analysis

Trend analysis enables to compare two or more companies over different period of time and draw important conclusion about them. It helps in business forecasting and planning future operation.

3.6.2.7 Least Square Linear Trend

Straight-line trend implies that irrespective of the seasonal and cyclical swings and irregular fluctuations, the trend values increase or decrease by a constant absolute amount 'b' per unit of time. Hence, the linear trend values from 'a' series in arithmetic progression, the common difference being 'b' the slope of the trend line.

Mathematically,

The straight line trend is given by the following formula:

Y = a+bx

Where,

3.7 Analytical Procedure

For the purpose of the study, financial statements of the selected JVBs are analyzed by using financial tool along with the statistical tool.

Financial tools have been used to measure strength and weakness of the two selected joint venture bank. Then, the selected banks have been compared and analysis according to the various ratios findings.

Statistical tools have been used to analysis the study for finding which bank have more homogenous or uniform than the other, according to the co-efficient of variation.

CHAPTER IV

RESULT AND DISUSSION

This section we are going to analyze and interpret the various financial variables in order to evaluate the financial performance to the selected banks for the study. Data collected from secondary sources are presented and analyzed by using financial and statistical tools. The available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. To evaluate the financial performance of selected joint venture banks, ratio analysis, correlation analysis and trend analysis are used in this study.

4.1 Financial Analysis

Financial statement analysis in an analysis that highlights the important relationships in the financial statements. It focuses on evaluation of past performance of the business firms in terms of the liquidity, leverage, activities ratio and profitability ratio. The various financial ratios related to the investment management and the fund mobilizations are studied to evaluate and analyze the performance of Nepal bank limited and EBL. The important ratios which are studied for this purpose are given below:

I) Liquidity ratio
II.**)** Leverage e ratio
III.**)** Profitability ratio
IV) Activity ratio

I) Liquidity ratio

Liquidity ratio is a pre-requisite for every survival of a firm. The short-term creditors of the firm are interested in the short-term solvency or liquidity of a firm but liquidity implies, from the view point of utilization of the fund of the firm that funds are idle or they earn very little. A proper balance between the two contradictory requirements i.e. liquidity ratios measures the ability of a firm to meet its short term obligation and reflect the short term financial strength or solvency of a firm.

a. Current ratio

Current assets include cash and those assets, which can be converted into cash within a year. These include cash and bank balance, investment in government securities, loans and advances, money at call and short notice, bills for collection, interest receivables. All obligations maturing within year are included in current liabilities. These consist of current, saving and short term deposit, fixed deposit maturing in that year, borrowing, accrued expenses, bills for collection, dividend payable, customers acceptances etc.Generally, the current assets of the company should be twice than current obligation to be technically solvent. For many types of business, 2:1 is considered to be an adequate ratio. If the current ratio of the firm less than 2:1, the solvency position of the firm is not good. A relatively high value of the current ratio is liquid and has the ability to pay its bill and vice-versa. Lastly, the widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstance increase of seasonal business ratio and the nature of business.

a) Current assets to current liability ratio

Table no: 4.1

Current assets to current liability ratioRs In. (million)

	EBL			NBL		
Years	Current Assets	Current liability	Ratio	Current Assets	Current Liabilities	Ratio
2013/2014	10,364	7,320	1.41	14,063	34,972	O.40
2014/2015	11,215	12,370	0.9	14,484	41,233	0.35
2015/2016	13,173	12,910	1.2	66,607	46,326	1.43
2016/2017	25,117	49,100	0.51	92,621	70,590	1.31
2017/2018	23,117	14,710	1.57	156,140	84,111	1.85
MEAN	16,597		**1.118**			**1.354**
S.D			**0.42234**			**0.6338**
C V			**0.51**			**0.45**

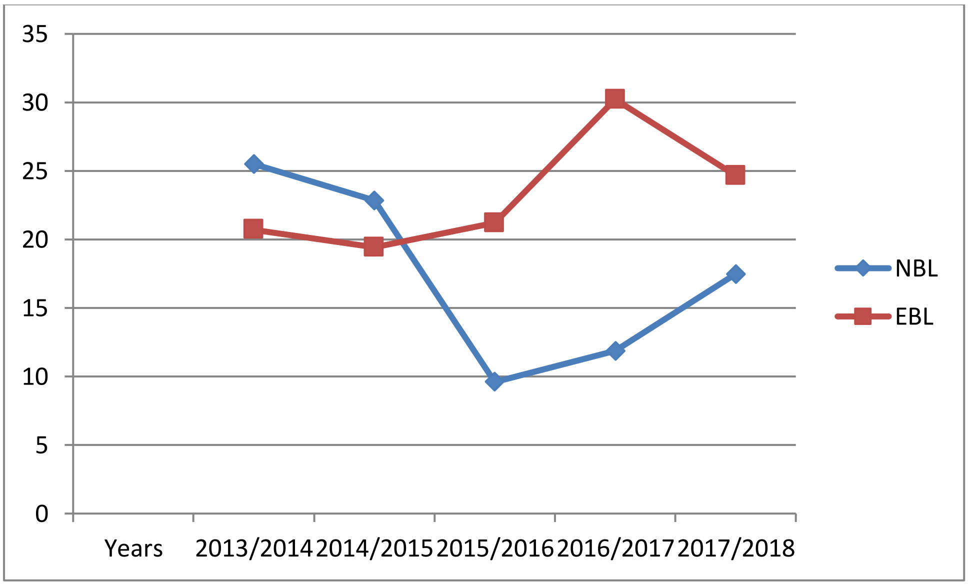
Source: NBL & EBL Report (2013/14 to 2017/18)

Table NO 4.1 show CA of EBL has adopted an increase tread except in last years .C.L of EBL has also adopted an increasing tread except in the last year. The ratio of EBL has earned between 1.57and 0.51,which in small gap. C A of NBL has adopted a continuous increase tread expect in last years.C L of NBL has adopted a continuous increase tread expect in last year.

The ratio of NBL has earned between 0.35and 1.85, which, which in a big gap also. The mean ratio of NBL is about 1.118 and c v 0.4223 in greater than EBL.This indicates that Liquidity of NBL higher. The c v of NBL is less mean the mean of EBL. The means of NBL is more consistent compared.

Figure no: 4.1

Current assets to current liability



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

b)Cash and bank balance to total deposit ratio

This ratio indicates the ability of banks immediately funded to cover their current margin call, saving, fixed, call deposit and other deposits.

Cash and bank balance to deposit ratio reflects the ability of bank immediate fund to meet / cover their current deposits margin call and saving deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa

Table no: 4.2

Cash and bank balance to total deposit ratio

Rs In (million)

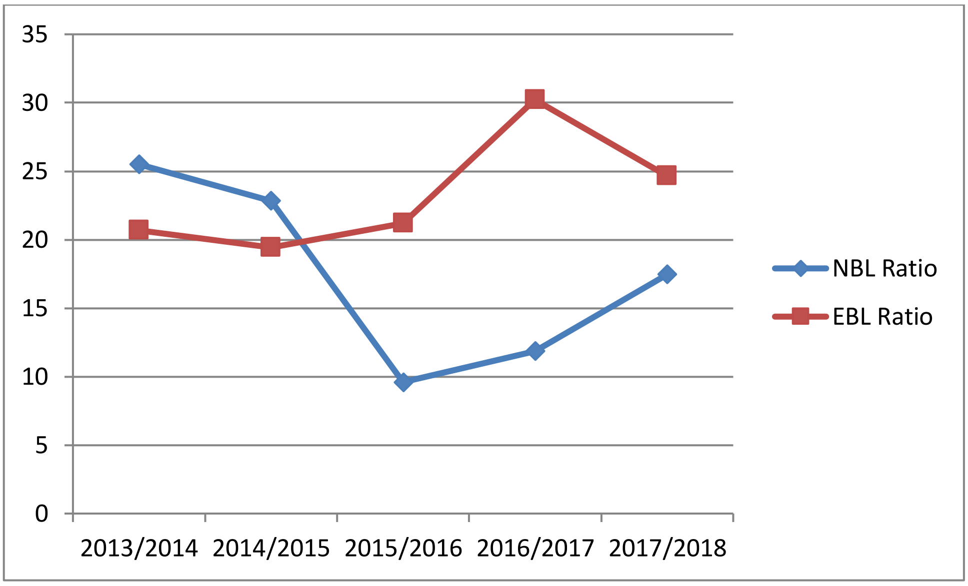
Bank	NBL			EBL		
Years	cash and bank blz	Current deposit	Ratio	Cash and bank blz	Current deposit	Ratio
2013/2014	14063	56052	25.5	10364	50006	20.7
2014/2015	14384	62988	22.83	11215	57720	19.43
2015/2016	6660	69337	9.6	13173	62108	21.2
2016/2017	9262	77999	11.87	25117	83094	30.22
2017/2018	15614	89410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

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

Table no 4. 2 show the total mean, standard deviation and co-coefficient of variance of cash and bank balance to total deposit ratio of two banks. NBL cash and bank balance adopted an increase trend expect in the last year total deposit al so increase every year .The ratio of NBL has large between 9.6and 25.6 which is very big gap. EBL cash and bank balance adopted an increase trend expect in the last year the deposit also increase. The ratio of EBL has largerbetween 19.43 and 30.22 which is very big gap. The ratios of both the banks revealed fluctuation trend over the period. The means ratio of EBL appeared greater than that of NBL, which indicates that the former is more efficient in paying the immediate obligation. Higher CV of ratio in EBL as compared to NBL signifies greater variation in the ratios.

Figure no: 4.2

Cash and bank balance to total current deposit



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

II)Leverage ratio

Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of debt and equity in financing. Long-term creditors like debenture holders, financial institutions etc. are more interested to the firm's long-term financial strength. The capital structure ratios mainly highlight on the long-term financial health, debt servicing capacity and strength and weaknesses of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary, debt ratios tell us the relative proportions of capital contribution by creditors and by owners. The following ratios are used for analyzing long-term financial health debt servicing capacity and strengths and weakness of JVBs.

a) Debt-equity ratio

Debt-equity ratio examines the relative claims of creditors and owners against the banks' assets. Alternatively, the debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment.

Here, equity funds comprise shareholders capital, general reserve, general loan loss provisions, inappropriate profit and loss balance etc. This ratio helps to ascertain the measure stake in commercial bank between lenders and owner. If debt portion is too high, there is danger-tempting irresponsibility in the part of the owners

a) Debt –equity ratio

Table no: 4.3

Debt equity ratio

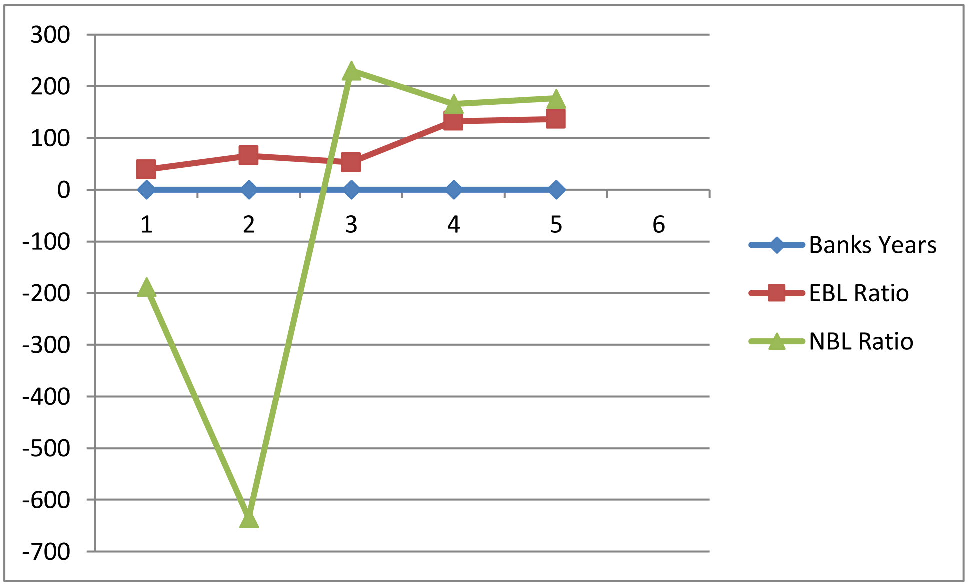
Rs In(million)

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

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

Table no 4. 3 show the total mean, standard deviation and co-coefficient of variance of debt to equity ratio of two banks. EBL debt and equity adopted an increase trend expect in the last year. NBL debt has fluctualy tread. Equityalso factually. The ratio of NBL has large between -635and 230.65 which is very big gap. The ratio of EBL has largebetween 38.99 and 136.55 which is very big gap. The ratios of both the banks revealed fluctuation trend over the period. The means ratio of EBL appeared greater than that of NBL; the c v of NBL is less means the means of NBL is more consistent. Mean of the ratio seemed -49.96% and CV seemed 0.50%. The ratio reflected inconsistent policy of the banks in financing the equity proportion of interest- bearing debt for the purpose. Mean of the ratio came greater in NBL as compared to that in EBL, which signifies that the former followed more aggressive policy in raising the capital. On the other hand capital structure of NBL seems less risky. Form the CV analysis, it can be noticed that the ratios of EBL varionsiderably throughout the review period.

Figure no:4.3Debt to equity ratio



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

b Debt-assets ratio

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider

The numerator consists of short-term and long-term debt. Debt is that sum of money that must be payable. Creditors, bills payable debentures are the examples of debt. A high debt to total assets ratio represents a greater risk to creditors and shareholders and vice-versa. This ratio implies a commercial bank success in exploiting debt to be more profitable.

Table no:4.4

Debt to assets ratio

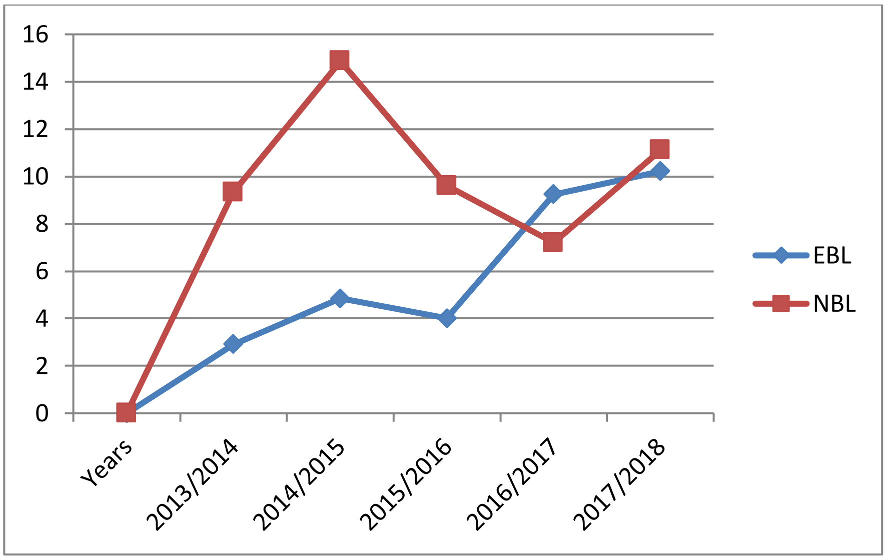
In Rs (million)

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

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

Table no 4.4show the total mean, standard deviation and co-coefficient of variance of debt to equity ratio of two banks. EBL debt and assets adopted an increase trend expect in the last year. NBL debt has fluctualy tread. Assets also factually. The ratio of NBL has large between 7.2and 14.86 which is very big gap. The ratio of EBL has large between 2.91 and 10.11which is very big gap.The mean of NBL is greater than EBL.This indicatesNBLis good position, theCV of NBL is less than EBL, The means of NBL is more consistent compared. Which signifies that the former followed more aggressive policy in raising the capital On the other hand capital structure of NBL seems less risky?

Figure no: 4.4 Debt to equity



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

III Activity ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratio is employed to evaluate the efficiency with the bank manages and utilizes funds. The following ratios are calculated under the activity ratio.

a) Loan and advance to total deposits ratio

This ratio is used to see extent to which the banks are successful to mobilize the outsider's funds. It is calculated to measure the percentage of total deposit invested in loan, advance and overdraft. It is the proportion of efficiency i.e. loan the advance among the total deposit of the commercial banks. Higher ratio shows the finance companies ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the sign of efficient commercial bank and better mobilization of collected deposits and vice-versa

Table no: 4 .5

Loan and advances to total deposit ratio (million)

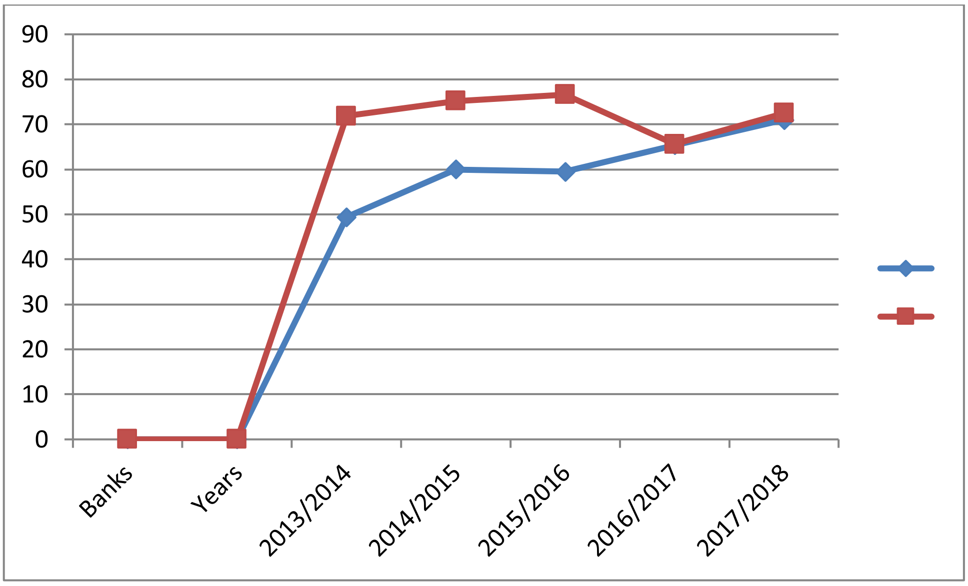
		Loan and advances to total deposit ratio				
Banks	NBL			EBL		
Years	Loan and advances	Total deposit	Ratio	Loan and advances	Total deposit	Ratio
2013/2014	27670	56052	49.36	35911	50006	71.81
2014/2015	37855.28	62988	60.43	43393	57720	75.17
2015/2016	41218.3	69337	59.44	47572	62108	76.59
2016/2017	50971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

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

Table no 4.5 Loan and advance of NBL has adopted an increase tread except in last yearsTotal deposit of NBL has also adopted an increasing tread except in the last year. Loan and advance of EBL has also adopted an increase tread except in the last year .Total deposit of EBL has also adopted an increase tread except in the last years .The ratio of NBL has earned between 71.and 49.36which in big gap. The ratio of EBL has earned between 65.56and 75.17, which in a big gap also. The mean ratio of NBL greater than EBL.The c v of EBL is less than NBL is more consistent compared.

Figure no: 4.5

Loan and advance to total deposit



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

b Total Investment to total deposits ratio

Banks invest money in different forms. They are loans, overdraft, cash credit, discounting bills of exchange, investment in government securities, investment in share of well – established industrial concerns and money at call and short notice. In this analysis investment in government scurrilities, shares and also investment in foreign banks is included to calculate the ratio. Total deposits include saving, current, fixed and call deposit of the respective banks. The ratio of total investment to total deposit has been stated as below

Table no:4.6

Investment to total deposit ratio

In Rsin(million)

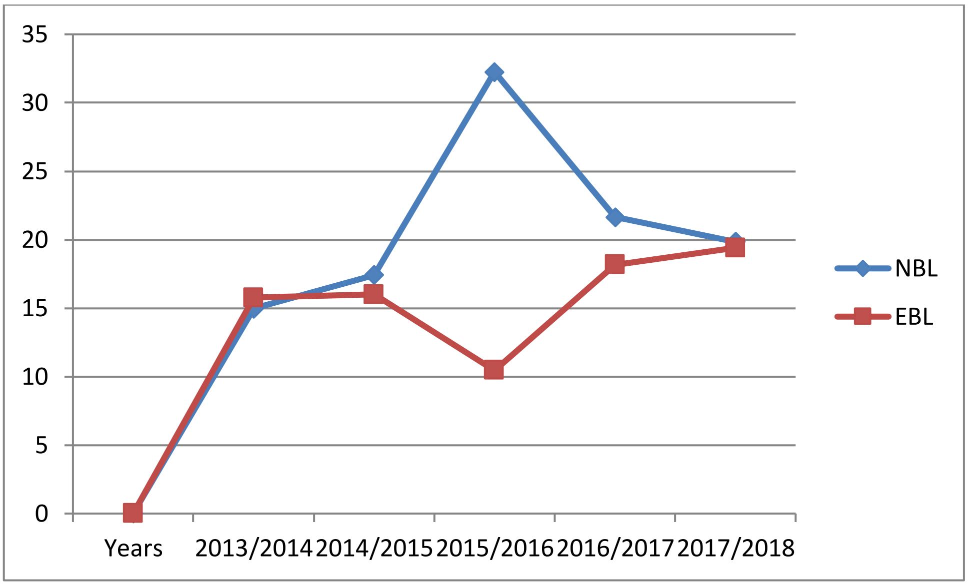
Banks	NBL			EBL		
Years	Investment	Total deposit	Ratio	Investment	Total deposit	Ratio
2013/2014	8391.73	56052	14.97	7864	50006	15.76
2014/2015	10976.67	62988	17.42	9264	57720	16
2015/2016	22664	69337	32.26	6504	62108	10.47
2016/2017	16902	77999	21.66	15103	83094	18.17
2017/2018	17739	89410	19.84	18199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

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

Table 4.6 Investment of NBL has adopted on increase trend except last years. Deposit of NBL also adopted an increase trend in the last years. The ratio of NBL has largebetween 14.97and 32.22, which big gap.Investment of EBL has adopted on increase trend except last years. Deposit of EBL also adopted an increase trend in the last years. The ratio of EBL has large between 10.47 and 19.4, which big gap. The mean ratio of NBL is about 21.23and cv is 0.614,The mean ratio of EBL is about 15.962 and c v is o.937, Mean of NBL greater than EBL. This indicates shows that NBL is more consistent compared.

.Figure no: 4.6

Investment to total deposit



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

IV) Profitability ratio

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn profit. This ratio is regarded as the most essential element for the commercial bank growth and survival. The different between total revenues and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay and adequate return to different parties depend upon firm's profit. It is regarding as the most essential element for commercial bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio, better the financial performance of the commercial bank and vice-versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

a) Net profit to total assets ratio

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks in utilizing its overall resources. The numerator indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. Total assets comprise those assets, which appear on the assets side of the balance sheet. The high return on total assets ratio usually indicator that high profit margin and high turnover of total assets and vice-versa.

Table no: 4.7

Net profit to total assets ratio

In Rs (million)

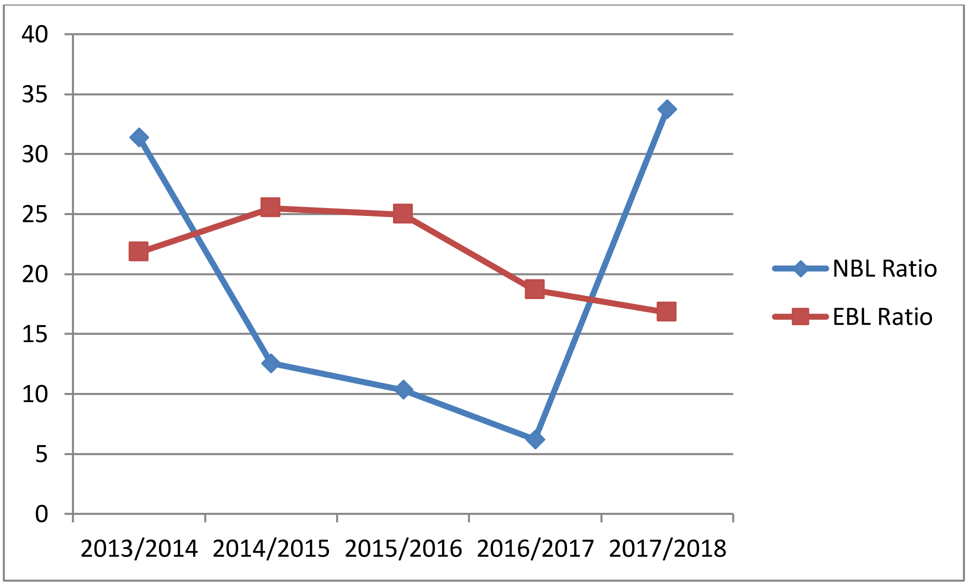
Banks	NBL			EBL		
Years	Net profit	Total asset	Ratio	Net profit	Total asset	Ratio
2013/2014	176	58615	3	1091	55813	19.5
2014/2015	791	73782	10	1471	65741	22.37
2015/2016	716.96	80405	8.91	1550	70445	22
2016/2017	484	88211	5.48	1574	99153	15.87
2017/2018	3018	108368	2.7	1730	113885	15.19
Mean			6.018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

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

Table no 4.6 shows Net profit of NBL has fluctuation tread .Total assets of NBL has adopted an increase tread expect in the year. The ratio of NBL has large between 2.7and 10,which very big gap.Net profit of EBL has increase tread expect in the year, total assets of EBL has increase tread expect in the year. The ratio of EBL has large between 15.19and 22.37. The mean of EBL is greater than NBL. This indicates EBL has higher profit earned, The mean of EBL is more consistent compared which signifies that the profitability position of the bank in relation to this ratio is far better than that of EBL. CV of the ratios in NBL exceeded the same in EBL large amount, which indicates that the variability of the ratios in NBL was much higher.

Figures no: 4.7

Net profit to total assets



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

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

This ratio enables to evaluate what extent the management has been successful to mobilize the deposits in generating profit. Higher ratio represents better utilization of profit.

Here, net profit means profit after interest and taxes and total deposit means that total amount deposited in various accounts i.e. current, saving, fixed, call and short deposits and other. Generally, higher ratio indicates better utilization of total deposits and vice-versa.

real reserve, capital reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend. Total working fund and vice-vic

Table no : 4.8

Net profit to total deposit ratio

In Rs (million)

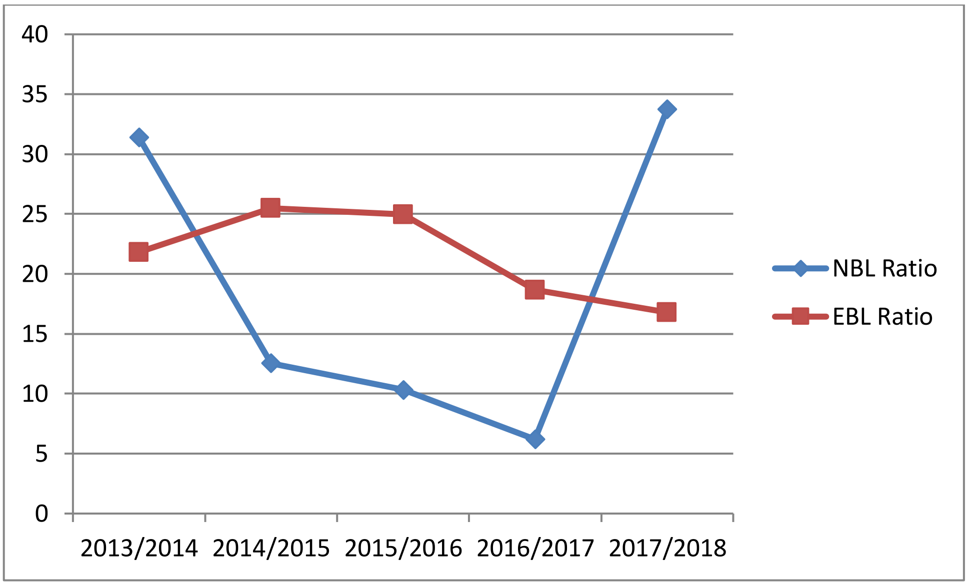
Bank	NBL			EBL		
Years	Net profit	Total deposit	Ratio	Net profit	Total deposit	Ratio
2013/2014	176	56052	31.39	1091	50006	21.81
2014/2015	791	62988	12.55	1471	57720	25.48
2015/2016	716.96	69337	10.34	1550	62108	24.95
2016/2017	484	77999	6.2o	1550	83094	18.65
2017/2018	3018	89410	33.75	1574	93735	16.79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

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

Table No 4.8show net profit of NBL has factuating tread .Total deposit of NBLhas adopted a continues increasing every year. The ratio of NBL has large between 6.2and 31.39, which is very big gap. Total deposit of EBL has adopted a continues increasing tread of every year, net profit has adopted continues increasing tread of every year.The mean of EBL is greater than NBL. CV of NBL is also higher than EBL but ratio is in increasing trend, so it is satisfactory. This ratio enables to evaluate what extent the management has been successful to mobilize the deposits in generation profit. Higher ratio represents better utilization of profit. EBL higher ratios.

Figure no: 4.8

Net profit to total deposit



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

4.2 Coefficient of Correlation

The Coefficient of correlation is an important measure to describe how well one variable is explained by another. It measures the degree of relationship between the two casually related variables. Karl person's coefficient of correlation between two variables X and Y is usually devoted by 'r' which is the numerical measure of linear association between the variables.

Where,

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

n = No. of observation of X and Y.

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

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

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

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

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

a) Correlation between Net Worth and Net Profit

Annex 4.9 shows that the correlation coefficient and probable error of correlation coefficient between net worth and net profit in NBL remained 0.976 and 0.0140 respectively. Correlation coefficient appeared higher than six times of probable error. Hence it implies that the relation between net worth and net profit the bank is highly positive and seem specific relationship. Same as in EBL seems 0.9756 and 0.0122respectively. Coefficient of correlation appeared greater than six times the probable error i.e. 0.9645>6x 0.0181 it implies that the correlation between the stated components is positive at significant level. Net profit in the bank seems to rise almost to the same degree as rise in the net worth.

On comparing two banks, net profit in both Banks seemed rises continuously with increase in the amount of net worth. In other words, EBL is slightly more successful to utilize the investors fund more prudently and effectively to realize the return.

b) Correlation between Total Deposit and net profit

Annex 4.10 depicts that the coefficient of correlation and probable error of correlation coefficient between total deposit and investment in NBL remained 0.95 and 0.017inthe study period. Since correlation coefficient is negative and in low degree,it shows that increase in deposit will not decrease investment in same proportion.Thecoefficient of correlation and probable error of coefficients between the variable in EBL are seen 0.9945 and 0.0023 respectively. Coefficient of correlation came greater than six times the probable

i.e. 0.99445<6 x 0.0023 It indicates that the correlation between total deposit and investment of the bank are correlated at significant level.

With the increase in the amount of deposit, investment of the bank seems to increase between the two banks, it seems that HBL allocated greate portion of the fund collected form depositors in investment. In contrast, it seems that investment of EBL increased or decreased in slow pace with respect to the increase or decrease in the deposit.

4.3Least Square Liner Trend Analyses

Trend analysis is very useful to predict the future events on the basis of the past tendencies. This method is based on the assumption that past tendency continues in the future.

The future trend of any variable is forecasted using the equation,

Where,

Yc = the dependent variable

a = Y-intercept

b = the slope of trend hue

X = Year 20013/14 (with regard to the date used in the study). The normal equations onfitting the trend equation are;

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

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

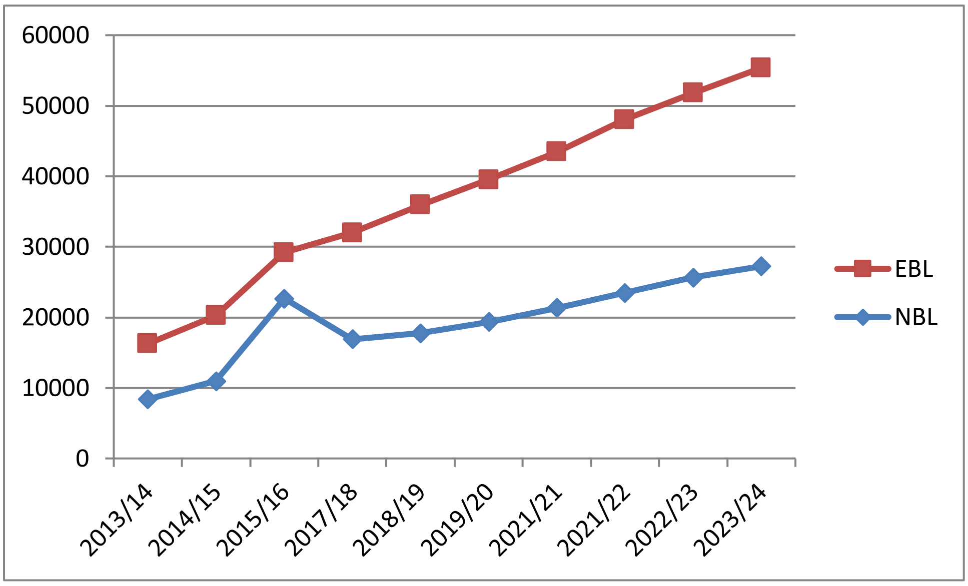
$$\sum X = 0,\ a = \frac{\sum y}{\sum n},\quad b = \frac{\sum XY}{\sum X^2}$$

With the help of trend equation, future value of the following variable for coming fiveyear, have been predicated.

1. Total deposit

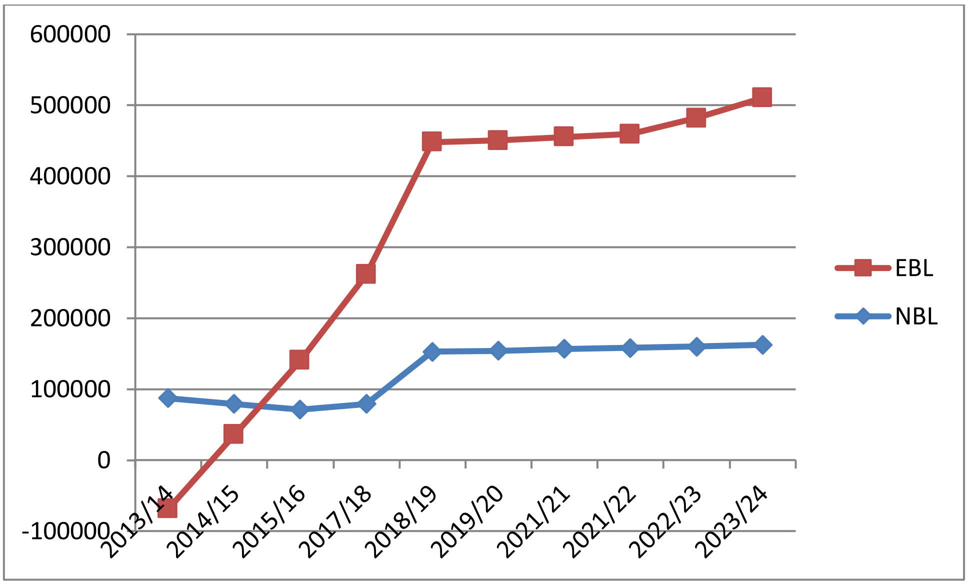
2. Net worth
3. Total investment

a) Lest Square Linear Trend of investment



Annex 4.11The above chart shows the trend behavior of total deposits in NBL and EBL along with a actual line for past five years and trend line of average of these two banks. In the first year of trend HBL line has possess the highest area but due to the lowest degree of slope in its trend line. EBL has nearly equalized the deposit in 20014/2015Between two banks, average deposit and rate of the increase in total deposit both seem higher in EBL. In other words, total deposit if EBL will increase in higher rate for coming five year if the post trend continues.

b) Lest Square Linear Trend of Net Worth



Annex 4.12The above chart shows the trend behaviors of investment NBL and EBL along with a trend line of average of these two banks. Between two banks average investment and rate on increase the increase both seem higher in EBL. Inother words, investment will increase with higher rate in EBL for coming fiveyears if the past trend continues

4.3Major findings of the study

The major findings of the study are derived on the basis analysis of selected JVBs, which are given below.

4.4.1 Liquidity ratio

The liquidity position of selected reveals that:

- The average current ratio of NBL bank and EBL are1.2and 1.7 respectively. It shows that the current ratio of all the sample banks is below the standard ratio 2:1. It is clear that EBL bank has slightly more liquid than NBL bank. But it can't be concluded that both the banks are in poor condition with low current ratio.

- The average ratio of cash and bank balance to total deposit of NBL and EBL are 1.71and 2.23 percentage respectively. It reveals that on an average basis EBL has more liquid to serve its depositors in time with enough cash in hand. And NBL bank is found to be holding less cash in hand that its deposits.

4.4.2 Leverage ratio

The leverage ratio of sampled reveals that:

- The average ratio of total debt to net worth of NBL and EBL are -49.91 and 85.50 times respectively. It implies that EBL has highly Positives leverage 85.50 times means, debt capital financing is more than 85.50 times of its shareholder equity over the study period where as NBL bank has lowest ration (i.e. time85.50) of total debts of net worth.
- The average ratio of total debt to total assets of NBL and EBL are 10.42% and 6.42% respectively. It indicates that NBL has highest ratio (i.e. 10.42%) of total debt into total assets. over the study period, on an average basis EBL has highly debt financing means, this bank, and borrowed outsider's funds by 6.42% and NBL has borrowed only 10.42%.

4.4.3 Activity ratio

The activity ratio of selected reveals that:

- The average ratio of loan and advances to total deposit of NBL and EBL are 61.80% and 72.91% respectively. It implies that EBL has used highest percentage (i.e. 72.91%) of total deposit into loan and advances than other sampled banks over the study period. Similarly, NBL has used lowest percentage (i.e. 61.80%) of total deposit into loan and advances over the study period.
- The average ratio of total investment to total deposit of NBL and EBL are 21.23% and 15.96% respectively. It implies that on an average NBL bank has used 21.23% of total deposit into investment in other projects than regular loans. Similarly, on an average EBL has used 15.96% of total deposit into investment. In term of investment against total deposit, NBL has used highest

percentage (i.e. 21.23%) of its total deposit into non-risky ventures and is ahead of all the sample banks

4.4.4 Profitability ratio

The profitability ratio of selected

- The average ratio of net profit to total assets of NBL and EBL are 6.018% and 18.98% respectively. It implies that, on an average basis, EBL bank has earned highest percentage (i.e. 18.983%) of net profit by utilizing its total assets among the sampled banks. Similarly, on an average basis, NBL has earned 6.O1% of net profit against the use of total assets over the entire study period. The above ratio shows how efficiently the sample banks have utilized their available assets over the study period. In average, NBL has the lowest ratio i.e. 6.O1%. It means that NBL has not mobilized its assets into profit generating projects than EBL bank.

- The average ratio of net profit to total deposit of NBL and EBL are 12.76% and 21.54 % respectively. It implies that, on an average basis, EBL bank has earned the highest percentage (i.e. 21.538%) of net profit by utilizing its total deposit than other sampled bank. Like wise, NBL has earned the lowest percentage (i.e. 12.768%) of net profit by utilizing its total deposit over the entire study period. The above ratio shows low efficiently the sample banks have utilized their available deposit into profit generating project. On the other hand, EBL bank with highest ratio has been successful in the earning more net profit by the proper use of its available deposits than NBL.

4.4.5Trend Analysis

The trend analysis of NBL and EBL reveal that:

- The deposits of both banks have the increasing trend. The total deposit of NBL will be e 2017/2018 that is the highest deposit among the study period. Similarly, the total deposit of EBL will be 20017/2018 It is found that the deposit collection position of NBL is not better in compare to EBL.

- The loan and advances of both banks have the increasing trend. The total loan and advances of NBL will be 14142285.90 thousand in 2017/2018that is the highest among the study period. Similarly the total loan and advances of EBL will be 15878767.00 thousand in 2017/18. It is found that the lending position of NBL is not better in compare to EBL.
- The total investments of NBL and EBL have the increasing trend. The total investment of NBL will be 1618010.70 thousand in 2017/2018 that is the highest among the study period. Similarly, the total investment of EBL will be 6512012.20 thousand for the 2017/2018. It is found that the investment position of NBL is not better in compare to EBL.

4.4.6 Co-efficient of Correlation Analysis

Co-efficient of correlation analysis between different variables of NBL and HBL reveals that .It is found that there is significant relationship between deposit and investment, in case of NBL and EBL. However, NBL has the highest value of co-efficient of correlation between deposit and loan and advances than that of other two banks. It indicates that the better position of it in mobilizing deposits as loan and advances in compare to EBL.

- Co-efficient of correlation between deposit and total investment of EBL is lower than that of NBL. It indicates that EBL has adopted the policy of minimum investment of their deposits.
- The value of co-efficient of correlation between outside assets and net profit of both banks is positive. EBL has highest value than NBL, it means it is successful in mobilizing of fund and earns return i.e. net profit from such mobilized funds. It indicates that EBL has better position in this regard in compare to NBL.

From the above results, it can be concluded that there is significant relationship between deposit and loan and advances' and outside assets and net profit' of NBL and EBL.

CHAPTER- V

SUMMARY, CONCLUSION IMPLICATION

This chapter highlights some selected actionable conclusion and implications on the basis of the major findings of the study derived from the analysis. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation is made for improving the presence situation to the concerned partied as well as further research. Two sample bank NBL and EBL.

5.1 Summary

Commerce and industry is the backbone of the country and it is the main indicator of development. The role of commercial banks in the economic growth of nation can be estimated to be prominent. The very challenging job of commercial banks is to collect the scattered idle resources from the small savers. Actually, commercial banks pool the fund in the sizable volume in order to feed the fund requirement of productive sector promote trade and industrialization in the country there by raising the employment opportunity and earned to the labors and materials suppliers to such industries and traders. Commercials banks of course contribute a lot to the development of the economy of the country. Thus, to remain in the front line of the great contributor of the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must reasonable profitability.

Under this study, the researcher has tried to cover the various aspects of selected joint venture banks covering the period of five years from 2013/2014, 2014/2015, 2015/2016, 2016/2017 and 2017/2018. For this study, the researcher has gathered the required data basically from annual reports published by the concerned joint venture banks for the last five years. And also internet website of Nepal Stock Exchange is used for necessary data analyze the financial performance of selected banks (1) Financial ratios to calculate various ratios (2) Statistical tools such as mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination and probable error etc are followed for this research work in third chapter titled

“Research Methodology". Finally, the summary, conclusion and the impletion made by the research are presented in the current chapter titled “Summary, Conclusion and. "implication

The main objective of the study is to evaluate and analysis the financial performance of these two banks i.e. NBL and EBL and to recommend the suitable suggestion for improvement. Analyze the liquidity position of NBL and EBL banks, To explore the situation of NBL and EBL bank To examine the activity of NBL and EBL banks. To analyze the profitability performance of NBL and EBL banks. Commercial banks are not one of the major core components of modern economy. They give greater contribution to GDP too. The production of finance and real–estate sub sector is increasingly comparatively. The slowdown in the economic segments has a definite impact on the banking sector too. The slowdown in the economics segments has a definite impact on the banking sector too. Globalization and accession to WTO, South Asia Free Trade Area (SAFTA) and Bay of Bengal Initiative for Multi-sectored Technical and Economic Cooperation (BIMSTEC) membership has invited more challenges as well as opportunities. In addition, Branches of foreign companies will be allowed insurance services and wholesale banking after January1, 2010. At this situation, the commercial banks should be more competitive. They should become financially strength/ healthy and must have growth potentially. And they have to shape their plans and strategies accordingly .In such a situation, this study tried to analyze and indicate the overall financial health whether they are capable to compete the challenges and grape to opportunities or not.

So, the study basically covered the commercial banks falling in the same strategic group to be more meaningful. No single measure can tell much. Thus, a case study was conducted on based on top five private–sector commercial banks ranking by NEPSE according to their market capitalization ratio. Thus the study may be more fruitful and rationale to their stakeholders at present situation, where the commercial bank becomes advancing through IT –integration. This study is limited to the comparative study of financial performance of joint venture and Government banks NBL and EBL.This study is based on secondary data. This study follows with specific tools: - such as ratio analysis, Profitability ratios, statistical tools etc.In this study, the major areas are to disclose the financial performance relates to Nepalese commercial banks (Joint venture).This type of research were done rarely. This study shows that the unique feature of findings. Previous researches on the basis of financial performance of commercial banks in Nepal .But this research is about financial performance of joint venture bank of Nepal with sample of Nepal Bank Limited and Everest Bank Limited. In the previous research, there is no clear-cut accounting and financial performance of joint venture banks. The research can help the people who wanted to know about the overall financial standard and accounting procedure of joint venture bank in Nepal. There are two-selected banks to find out the problem and prospects of study. Therefore, this topic may be new as well as the researches efforts may be appreciable. The research is basically the comparative evaluation of financial performance between Everest Bank Limited and Nepal Bank Limited. Descriptive approach has been are used to evaluate the financial performance of the bank. This study based on secondary data. Secondary data have been collected from their respective annual report especially from profit and loss account, balance sheet and other publications made by the banks. Also some data has been gathered from Nepal Stock Exchange’s Website. Similarly, articles, journals related to the financial performance study, previous research report etc., have also taken into account while collecting information. At present there are 28 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank. For the purpose of convenience only, two commercial banks viz. Nepal Bank Ltd and Everest Bank Ltd. have been taken as sample of this study and rest of the commercial banks are considered as population. Five years data are taken to conduct the study from FY i.e. 2014/2015 to 2017/2018: Convenience sampling was used to select the sample banks. Besides the above stated sources of data, a detailed review of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from Central Library of Tribhuvan University and Library of Nepal Rastra Bank. Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then, results to be concluded and interpretations are to be made.

5.2 Conclusions

Based on the major findings of this study some conclusion has been drawn. This study reveals that the average current ratio of both banks i.e. NBL and EBL are greater than 1 but EBL has the highest current ratio. It means EBL bank's solvency position is better than NBL. The cash and bank balance of EBL with respect to total deposit is more liquidity than other EBL banks. It indicates that EBL is able to make immediate payments to its depositor.

Between the two sample banks, EBL has the lowest ratio of net profit to total assets. It means EBL has not mobilized its assets into profit generating projects. EBL bank has been successful in earning more net profit by the proper use of its available assets. Similarly, NBL has not mobilized its deposit into profit generating project and EBL bank with the highest ratio has been successful in the earning more net profit by the proper use of its available deposit than others. In case of mobilized the funds of shareholders efficiently into profit generating projects also, NBL does not mobilized and EBL has been successful in providing more rate of return to its shareholders by the proper use of their available funds than others. Between the two sample banks, EBL has not mobilized its assets into interest generating projects (i.e. income from loans, advances, cash credit and overdrafts, government securities, inter commercial banks other investment). NBL bank with the highest ratio has been successful in generating more interest income by the proper use of its available assets

.In term of loan and advances against total deposits, EBL have used more percentage of its total deposits into loan and advances than EBL bank. From all the sample banks, NBL has mobilized highest percentage of its total deposit into total investment (i.e. investment into government securities, debentures and bonds, shares in subsidiary commercial bank, companies and other investments). From leverage ratio, NBL has high debt to total assets ratio represents a greater risk to creditor and shareholders than other EBL bank.

Earning per share of NBL has the highest than EBL bank. Similarly, with the highest dividend payout ratio of NBL refers that the bank provides maximum amount of dividend to its shareholders than EBL bank. From income analysis, NBL has highest net interest income to total income ratio than EBL bank. Similarly, exchange income to total income ratio of NBL is greater than other selected. Likewise, commission and discount income of NBL is higher than EBL banks. From expenditure analysis, an interest expense of EBL is highest than NBL. Similarly, NBL bank has been paying highest amount of staff expenses as salary, allowance and gratuity funds to its staff. From correlation and regression analysis, EBL and NBL have positive coefficient of correlation between net profit and total deposit. It means net profit is depended on the nature of deposit. From trend analysis, loan and advances of each bank have increased trend but average growth of NBL bank is higher than EBL bank.

5.3 Implications

Based on the analysis, interpretation & conclusions, some of the major implication is mentioned as below:

1 Based on liquidity ratio analysis it is found that selected joint venture banks so not have the standard current ratio (1:1). However, from aggressive working capital point of view it is not considered so bad. NBL seem to have held more cash and bank balance rather than EBL bank. To maintain liquidity in perfect, all commercial banks have to follow the midway i.e. they should invest the idle deposit in productive sector and on the other hand they have enough cash balance to meet current requirement.

2 The profitability ratio increase of NBL, it has lowest with the result of lower profit before tax. So, this bank should reduce operating costs to achieve the operational efficiency. Since by decreasing costs, profit of any bank can grow considerably, they must search for loopholes in their operations where unnecessary costs are being incurred and should eliminate them.

3 Based on activity ratio analysis it is found that all the EBL bank was emphasized in issuing loan and advances in compare to NBL. However, as we know that the increasing bottleneck competition and worsening economic condition has attributing this area to be very sensitive and risky. Therefore, it is suggested them to investments non-risky assets to increase the level of profit.

4 In case of two sample bank, debt financing has always almost exceeded 90% of the total assets over the review period, which indicates the excessively use of debt finance to total assets. Nevertheless, extensive use of debts capital with the failure in advancing good loans can jeopardize the solvency position of

these banks. Therefore, it is suggested to the sample bank to assess the risk assets portfolio cautiously before accepting higher volumes of deposits.

5 Expenses are the vital determinations to increase or decrease the profitability of the banks. Interest expenses on deposits also affect the profitability of the banks. Thus, it is recommended that banks should try to reduce the amount of high interest bearing deposits like fixed deposits, saving deposit and others. Instead they should concentrate of non-interest bearing deposit like current deposit, margin deposit etc. At the same time, bank should try to reduce the operating expenses to increase the profitability.

6 Shareholders are the real owners of the organization. But they do not seem to be happy with the rate of return on equity provided by the banks. Thus, it is recommended that the management team should put emphasis on the maximizing the wealth of the shareholders. Low market price of share and less earning per share of commercial banks indicated the poor performance in the market. Similarly low dividend payout ratio also discourages the shareholders. Reviewing the study, therefore, it is suggested to the management team of EBL to improve their performance.

ANNEXES

Correlation between investmentsto Totaldeposit

	NBL						EBL				
Y EARS	Investment(Y)	Years(X)	x2	xy	Yc=a+bx	Y EARS	Investment(Y)	Years(X)	x2	xy	Yc=a+bx
2013/2014	8391	-2	4	-16782	10410	2011/12	7864	-2	4	-15728	2380
2014/2015	10976	-1	1	-10976	4358	2012/13	9264	-1	1	9264	6883
2015/2016	22664	0	0	0	15334	2013/14	6504	0	0	0	11386
2017/2017	16902	1	1	16902	17796	2014/15	15103	1	1	15103	15889
2017/2018	17739	2	4	35478	20258	2015/16	18199	2	4	36398	20392
	∑y= 76672	∑X =0	$\sum X^2 = 10$	∑XY = 24622			∑y= 56934	∑X =0	$\sum X^2 = 10$	∑XY = 45037	
a=15334			b=2462				a= 11386		b=4503		

Net worth to net profit

Correlation analysis between Net worth and Net Profit

	NBL					EBL				
Years	Net worth(x)	Net profit(Y)	x2	Y2	Xy	Net worth(x)	Net profit(Y)	X2	y2	Xy
2013/201	-2908	176	-	30976	-51808	1629	1091	2653641	1190281	1777239

4			8456464							
2014/2015	-172	791	29584	625681	-156052	3192	1471	10188864	2163841	4695432
2015/2016	3347	716	11202409	512656	2396452	2880	1550	8294400	2402500	4464000
2016/2017	3831	484	14676561	234256	1854204	9169	1574	84070561	2477476	14432006
2017/2018	6850	3018	46922500	9108324	20673300	11635	1730	11233508	2992900	20128550
	∑X= 10948	∑Y=5185	12063590	10511893	∑XY=24716096	25362		241567808	32849498	45497227
correlation					0.976					0.9756
P E					0.014					0.0122

Correlation analysis between Total Deposit and Net Profit

Rs in (million)

Banks	NBL					EBL			
Years	Deposit(X)	Net profit(Y)	x2	Y2	XY	Deposit (x)	Net profit(Y)	x2	y2
2013/14	56052	176	3.14E+09	30976	9865152	50006	1091	2.5E+09	1190281
2014/15	62988	791	3.97E+09	625681	49823508	57720	1471	3.33E+09	2163841
2015/16	69337	716	4.81E+09	512656	49645292	62108	1550	3.86E+09	2402500
2016/17	77999	484	6.08E+09	234256	37751516	83094	1574	6.9E+09	2477476
2015/16	89410	3018	7.99E+09	9108324	2.7E+08	93735	1730	8.79E+09	2992900
2017/18	∑X 355786	∑Y=5185	∑X2=2599492652	∑Y2=10511893	∑XY= 416924848	∑X=346663	∑Y2=7416	$\sum X^2$=253804651	∑Y2=3284949
					0.95				0.9945
P E					0.017				0.0023

Trend Value of Total Deposit

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

Least Square Linear Trend of investment

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

Least Square Linear Trend of Total Deposit of EBL

Y EARS	Deposit (y)	Years(x)	x2	Xy	Yc=a+bx
2013/2014	50006	-2	4	-100012	-156324
2014/2015	57720	-1	1	-57720	-43496
2015/2016	62108	0	0	0	69332
2O16/2017	83094	1	1	83094	182160
2017/2018	93733	2	4	187466	294988
a= 69332	∑y= 346661	∑X =0	∑X2 ⁼10		

			b=112828		

Least Square Linear Trend of Total Deposit of NBL

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

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